

OFS Capital Corp  
Form 10-Q  
May 06, 2016

**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 March 31, 2016**

**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) 734-2060**

**(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   Smaller reporting company

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

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

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of May 3, 2016 was 9,692,324.

**OFS CAPITAL CORPORATION**

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**PART I. FINANCIAL INFORMATION****Item 1. Unaudited Financial Statements****OFS Capital Corporation and Subsidiaries****Consolidated Balance Sheets (unaudited)****(Dollar amounts in thousands, except per share data)**

	March 31, 2016	December 31, 2015
<b>Assets</b>		
Investments, at fair value		
Non-control/non-affiliate investments (amortized cost of \$154,429 and \$175,529, respectively)	\$ 151,976	\$ 177,290
Affiliate investments (amortized cost of \$76,632 and \$63,113, respectively)	80,180	66,393
Control investment (amortized cost of \$13,247 and \$13,613, respectively)	13,251	13,613
Total investments at fair value (amortized cost of \$244,308 and \$252,255 respectively)	245,407	257,296
Cash and cash equivalents	42,230	32,714
Interest receivable	839	789
Prepaid expenses and other assets	4,209	3,877
Total assets	\$ 292,685	\$ 294,676
<b>Liabilities</b>		
SBA debentures (net of deferred debt issuance costs of \$3,324 and \$3,420, respectively)	\$ 146,556	\$ 146,460
Interest payable	404	1,548
Management and incentive fees payable	1,987	2,238
Administration fee payable	428	488
Accrued professional fees	464	433
Other liabilities	835	497
Total liabilities	150,674	151,664
<b>Commitments and Contingencies (Note 8)</b>		
<b>Net Assets</b>		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	\$ - 97	\$ - 97

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Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 9,692,324 and 9,691,170 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively

Paid-in capital in excess of par	134,478	134,446
Accumulated undistributed net investment income	4,985	4,612
Accumulated undistributed net realized gain (loss)	1,352	(1,184 )
Net unrealized appreciation on investments	1,099	5,041
Total net assets	142,011	143,012
Total liabilities and net assets	\$292,685	\$294,676
Number of shares outstanding	9,692,324	9,691,170
Net asset value per share	\$ 14.65	\$ 14.76

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Investment income		
Interest income		
Non-control/non-affiliate investments	\$4,736	\$5,815
Affiliate investments	1,686	1,343
Control investment	341	-
Total interest income	6,763	7,158
Dividend income		
Non-control/non-affiliate investments	28	80
Affiliate investments	529	249
Total dividend income	557	329
Fee income		
Non-control/non-affiliate investments	478	105
Affiliate investments	32	29
Control investment	13	-
Total fee income	523	134
Total investment income	7,843	7,621
Expenses		
Interest expense	1,308	1,777
Management fees	1,115	1,555
Incentive fee	733	375
Professional fees	314	315
Administration fee	428	541
General and administrative expenses	290	309
Total expenses	4,188	4,872
Net investment income	3,655	2,749
Net realized and unrealized gain (loss) on investments		

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Net realized gain on non-control/non-affiliate investments	2,566	90
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(4,092 )	(353 )
Net change in unrealized appreciation/depreciation on affiliate investments	146	746
Net change in unrealized appreciation/depreciation on control investment	4	-
Net gain (loss) on investments	(1,376 )	483
Net increase in net assets resulting from operations	\$2,279	\$3,232
Net investment income per common share - basic and diluted	\$0.38	\$0.28
Net increase in net assets resulting from operations per common share - basic and diluted	\$0.24	\$0.33
Dividends and distributions declared per common share	\$0.34	\$0.34
Basic and diluted weighted average shares outstanding	9,691,183	9,650,969

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Increase in net assets resulting from operations:		
Net investment income	\$3,655	\$2,749
Net realized gain on investments	2,566	90
Net change in unrealized appreciation/depreciation on investments	(3,942 )	393
Net increase in net assets resulting from operations	2,279	3,232
Distributions to shareholders from:		
Net investment income (2015 revised - Note 2)	(3,295 )	(3,281 )
Net realized gain (2015 revised - Note 2)	-	-
Total distributions to shareholders	(3,295 )	(3,281 )
Common stock transactions:		
Reinvestment of shareholder distributions	15	148
Net increase in net assets resulting from capital transactions	15	148
Net increase (decrease) in net assets	(1,001 )	99
Net assets:		
Beginning of period	\$143,012	\$137,471
End of period	\$142,011	\$137,570
Accumulated undistributed net investment income (2015 revised - Note 2)	\$4,985	\$1,941
Common stock activity:		
Shares issued from reinvestment of shareholder distributions	1,154	12,106
Shares issued and outstanding at beginning of period	9,691,170	9,650,834
Shares issued and outstanding at end of period	9,692,324	9,662,940

See Notes to Unaudited Consolidated Financial Statements.



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

	Three Months Ended March 31,	
	2016	2015
<b>Cash Flows From Operating Activities</b>		
Net increase in net assets resulting from operations	\$2,279	\$3,232
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized gain on investments	(2,566 )	(90 )
Net change in unrealized appreciation/depreciation on investments	3,942	(393 )
Amortization and write-off of deferred debt issuance costs	121	547
Amortization of discounts and premiums, net	(257 )	(306 )
Amortization of deferred loan fee revenue	(119 )	(79 )
Amortization of intangible assets	49	49
Cash collection of deferred loan fee revenue	23	12
Payment-in-kind interest and dividends	(593 )	(593 )
Purchase and origination of portfolio investments	(6,502 )	(24,588 )
Proceeds from principal payments on portfolio investments	15,868	10,986
Proceeds from sale or redemption of portfolio investments	2,115	18,257
Changes in operating assets and liabilities:		
Interest payable	(1,144 )	(573 )
Management and incentive fees payable	(251 )	820
Administration fee payable	(60 )	268
Other assets and liabilities	(109 )	(540 )
Net cash provided by operating activities	12,796	7,009
<b>Cash Flows From Financing Activities</b>		
Distributions paid	(3,280 )	(3,133 )
Borrowings under revolving line of credit	-	1,200
Repayments under revolving line of credit	-	(9,464 )
Draw down on SBA debentures	-	13,585
Change in other liabilities	-	(14 )
Deferred financing closing costs paid	-	(329 )
Deferred common stock offering costs paid	-	(4 )
Net cash (used in) provided by financing activities	(3,280 )	1,841
Net increase in cash and cash equivalents	9,516	8,850

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Cash and cash equivalents — beginning of period	32,714	12,447
Cash and cash equivalents — end of period	\$42,230	\$21,297
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$2,331	\$1,803
Reinvestment of shareholder distributions	\$15	\$148

See Notes to Unaudited Consolidated Financial Statements.

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments (unaudited)

March 31, 2016

(Dollar amounts in thousands)

Industry Portfolio Company Investment Type	Industry	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<u>Non-control/Non-affiliate Investments</u>								
Accurate Group Holdings, Inc. (3)	Offices of Real Estate Appraisers	12.50%	N/A	8/23/18	\$ 10,000	\$ 10,046	\$ 9,848	6.9 %
Subordinated Loan								
A.C.T. Lighting, Inc. (3)	Electrical Apparatus and Equipment, Wiring Supplies, and Related	12.0% cash / 2.0% PIK	N/A	7/24/19	3,592	3,578	3,754	2.6
Subordinated Loan								
AssuredPartners, Inc. (3)	Insurance Agencies and Brokerages	10.00%	(L +9.00%)	10/20/23	3,000	2,887	2,664	1.9
Senior Secured Term Loan								
BCC Software, LLC (3)	Custom Computer Programming Services	9.00%	(L +8.00%)	6/20/19	6,426	6,364	6,250	4.4
Senior Secured Term Loan								

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Senior Secured Revolver (12)		N/A	(L +8.00%)	6/20/19	-	(11 )	(30 )(2)	-
					6,426	6,353	6,220	4.4
Community Intervention Services, Inc. (3)	Outpatient Mental Health and Substance Abuse Centers							
Subordinated Loan (8)		10.0% cash / 3.0% PIK	N/A	1/16/21	6,722	6,664	6,376	4.5
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages							
Senior Secured Term Loan		10.25%	(L +9.00%)	5/8/19	4,000	3,968	3,630	2.6
C7 Data Centers, Inc. (3)(7)	Other Computer Related Services							
Senior Secured Term Loan		13.16%	(L +8.50%)	6/22/20	11,850	11,829	11,624	8.2
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing							
Senior Secured Term Loan		6.25%	(L +5.00%)	8/27/18	4,495	4,484	4,447	3.1
Inhance Technologies Holdings LLC	Other Basic Inorganic Chemical Manufacturing							
Senior Secured Term Loan A		5.50%	(L +4.50%)	2/7/18	2,218	2,213	2,176	1.5
Intelli-Mark Technologies, Inc.(3)	Other Travel Arrangement and Reservation Services							
Senior Secured Term Loan (11)		13.00%	N/A	11/23/20	8,750	8,669	8,679	6.1
Common Equity (2,553,089 shares) (12)						1,500	1,612	1.1
					8,750	10,169	10,291	7.2
Intrafusion Holding Corp. (3) (6)	Other Outpatient							

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Senior Secured Term Loan B	Care Centers	12.85% (P +5.75%)	9/25/20	14,250	14,198	13,950	9.8
Jobson Healthcare Information, LLC (3)	Other Professional, Scientific, and Technical Services	10.13%					
Senior Secured Term Loan (8)		cash / 2.795% (L +10.925%)	7/21/19	14,597	14,336	14,117	9.9
Warrants (1,056,428 member units) (12)		PIK			454	358	0.3
Maverick Healthcare Equity, LLC (3)	Home Health Equipment Rental			14,597	14,790	14,475	10.2
Preferred Equity (1,250,000 units) (12)					900	1,405	1.0
Class A Common Equity (1,250,000 units) (12)					-	276	0.2
				-	900	1,681	1.2

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments (unaudited) - Continued

March 31, 2016

(Dollar amounts in thousands)

Industry Portfolio Company Investment Type	Industry	Interest Rate (1)	Spread Above Index (1)	Mat
Non-control/Non-affiliate Investments - Continued				
My Alarm Center, LLC (3)	Security Systems Services (except Locksmiths)	12.00%	(L +11.00%)	7/9/
Senior Secured Term Loan Class A Preferred Equity (100 units) (12)				
MYI Acquiror Limited (4)	Insurance Agencies and Brokerages	5.75%	(L +4.50%)	5/2/
Senior Secured Term Loan A				
NHR Holdings, LLC	Other Telecommunications	5.50%	(L +4.25%)	11/3/
Senior Secured Term Loan A		5.50%	(L +4.25%)	11/3/
Senior Secured Term Loan B				
Phoenix Brands LLC (5)	Soap and Other Detergent Manufacturing	9.25%	(L +7.75%)	1/2/
Senior Secured Term Loan A (12)				
Quantum Spatial, Inc. (f/k/a Aero-Metric, Inc.)	Other Information Services	6.75%		
Senior Secured Term Loan		cash / 2.0% PIK	(L +7.00%)	8/2/
Ranpak Corp.	Packaging Machinery Manufacturing			

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Senior Secured Term Loan		8.25%	(L +7.25%)	10/3
Riveron Consulting, LLC (3)	Administrative Management and General Management Consulting			
Subordinated Loan (10)		16.50%	N/A	3/2
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services			
Senior Secured Loan		12.12%	(L +11.50%)	7/2
smarTours, LLC (3)	Tour Operators			
Senior Secured Loan		9.25%	N/A	10/3
Preferred Equity A (500,000 units) (12)				
Southern Technical Institute, LLC (3)	Colleges, Universities, and Professional Schools			
Subordinated Loan		9.0% cash / 4.0% PIK	(L +8.00%)	12/2
1,764,720 Class SP-1 Units in Southern Technical Holdings, LLC, 15.75% PIK (12)				
Class A Warrants (2,174,905 units) (12)				
Stancor, L.P. (3)	Pump and Pumping Equipment Manufacturing			
Senior Secured Term Loan		8.75%	(L +8.00%)	8/19
1,250,000 Class A Units in SCT Holdings, LLC, 8% PIK (12)				
TravelCLICK, Inc.	Computer Systems Design and Related Services			
Senior Secured Term Loan		8.75%	(L +7.75%)	11/8
United Biologics Holdings, LLC (3)	Medical Laboratories			
Subordinated Loan		12.0% cash / 2.0% PIK	N/A	3/5
Class A-1 Units (2,686 units) and Kicker Units (2,015 units) (12)				
Class A-1 Warrants (2,272 units) and Kicker Warrants (1,704 units) (12)				
Class A Warrants (10,160 units) (12)				
Class B Warrants (15,238 units) (12)				
VanDeMark Chemical Inc.	Other Basic Inorganic Chemical			

	Manufacturing			
Senior Secured Term Loan		6.50%	(L +5.25%)	11/3
Total Non-control/Non-affiliate Investments				



## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments (unaudited) - Continued

March 31, 2016

(Dollar amounts in thousands)

Industry Portfolio Company Investment Type	Industry	Interest Rate (1)	Spread Above Index (1)	Maturity
Affiliate Investments				
All Metals Holding, LLC (3)	Metal Service Centers and Other Metal Merchant Wholesalers	11.00%	N/A	3/31/21
Senior Secured Term Loan		14.0%	N/A	11/15/16
Subordinated Loan		PIK		
Common Equity (166,049 member units) (12)				
Contract Datascan Holdings, Inc. (3)	Office Machinery and Equipment Rental and Leasing	12.00%	N/A	2/5/21
Subordinated Loan				
Preferred Equity A (2,463 shares, 10% PIK) (12)				
Common Equity (9,069 shares) (12)				
Malabar International (3)	Other Aircraft Parts and Auxiliary Equipment Manufacturing	12.5%		
Subordinated Loan		cash / 2.5%	N/A	5/21/17
Preferred Stock (1,644 shares, 6% cash)		PIK		

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Master Cutlery, LLC (3)	Sporting and Recreational Goods and Supplies Merchant Wholesalers			
Subordinated Loan 3,723 Preferred Equity A units in MC Parent, LLC, 5% cash, 3% PIK (12) 15,564 Common Equity units in MC Parent, LLC (12)		13.00%	N/A	4/17/20
NeoSystems Corp. (3)	Other Accounting Services			
Subordinated Loan		10.50% cash / 1.25% PIK	N/A	8/13/19
Convertible Preferred Stock (521,962 shares, 10% PIK) (12)				
Pfanstiehl Holdings, Inc. (3)	Pharmaceutical Preparation Manufacturing			
Subordinated Loan (9) Class A Common Equity (400 shares)		13.50%	N/A	9/29/18
Strategic Pharma Solutions, Inc. (3)	Other Professional, Scientific, and Technical Services			
Senior Secured Term Loan 1,191 Class A Units in Strategic Pharma Solutions Holdings, LLC, 6% PIK (12)		11.00%	(L +10.00%)	12/18/20
TRS Services, LLC (3)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance			
Senior Secured Term Loan		10.25%	(L +9.25%)	12/10/19
Delayed Draw Senior Secured Term Loan		10.25%	(L +9.25%)	12/10/19
3,000,000 Class A Units in IGT Holdings, LLC, 11% PIK (12)				
3,000,000 Common Units in IGT Holdings, LLC (12)				
Total Affiliate Investments				

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Control Investment

Mirage Trailers LLC (3)

Travel Trailer  
and Camper  
Manufacturing

Senior Secured Term Loan  
554 common equity shares in MTE Holding Corp.) (12)

12.50% (L +11.50%) 11/25/20

Total Control Investment

Total Investments

9

- The majority of investments bear interest at a variable rate that is indexed to the London Interbank Offered Rate ("LIBOR") (L) or Prime (P), and are reset monthly or quarterly. Substantially all of the Company's LIBOR
- (1) referenced investments are subject 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 March 31, 2016. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.
    - (2) The negative fair value is the result of the unfunded commitment being valued below par.
  - (3) Investments held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility. Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 ("1940 Act"), as amended. Qualifying assets must represent at least 70% of the Company's
  - (4) assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of March 31, 2016, 98.4 % of the Company's assets were qualifying assets.
  - (5) Non-accrual loan.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain
  - (6) lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the reported interest rate of 12.85% at March 31, 2016 includes interest of 3.60% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan, to receive its payment after the repayment of certain lenders
  - (7) pursuant to a payment waterfall. With respect to C7 Data Centers, Inc., the reported interest rate of 13.16% at March 31, 2016 includes interest of 3.66% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest
  - (8) 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 interest rate includes a 1.5% PIK provision, whereby the issuer has the option to make interest payments in
  - (9) 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.

The interest rate includes a 2.5% PIK provision, whereby the issuer has the option to make interest payments in
  - (10) 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.

The interest rate includes a 2.0% PIK provision, whereby the issuer has the option to make interest payments in
  - (11) 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.
  - (12) Non-income producing.

See Notes to Unaudited Consolidated Financial Statements.

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments

December 31, 2015

(Dollar amounts in thousands)

Industry Portfolio Company Investment Type	Industry	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Accurate Group Holdings, Inc. (3)	Offices of Real Estate Appraisers	12.50%	N/A	8/23/18	\$10,000	\$10,050	\$9,940	7.0%
Subordinated Loan								
A.C.T. Lighting, Inc. (3)	Electrical Apparatus and Equipment, Wiring Supplies, and Related	12.00%	N/A	7/24/19	3,574	3,558	3,559	2.5
Subordinated Loan		cash / 2.0% PIK						
All Metals Holding, LLC (3)	Metal Service Centers and Other Metal Merchant Wholesalers	10.50%	N/A	12/30/19	9,900	9,765	9,697	6.8
Senior Secured Term Loan								
Common Equity (69,464 member units) (12)						69	259	0.2
					9,900	9,834	9,956	7.0
AssuredPartners, Inc. (3)	Insurance Agencies and Brokerages							

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Senior Secured Term Loan		10.00%	(L +9.00%)	10/22/23	3,000	2,883	2,894	2.0
B+B SmartWorx Inc. (f/k/a B&B Electronics Manufacturing Company)	Communications Equipment Manufacturing							
Senior Secured Term Loan A		6.50%	(L +5.00%)	3/31/16	2,257	2,257	2,257	1.6
BCC Software, LLC (3)	Custom Computer Programming Services							
Senior Secured Term Loan		9.00%	(L +8.00%)	6/20/19	6,573	6,504	6,355	4.4
Senior Secured Revolver (12)		N/A	(L +8.00%)	6/20/19	-	(11 )	(36 )(2)	-
					6,573	6,493	6,319	4.4
Community Intervention Services, Inc. (f/k/a South Bay Mental Health Center, Inc.) (3)	Outpatient Mental Health and Substance Abuse Centers							
Subordinated Loan (9)		10.0% cash / 3.0% PIK	N/A	1/16/21	6,672	6,610	6,456	4.5
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages							
Senior Secured Term Loan		10.25%	(L +9.00%)	5/8/19	4,000	3,965	3,893	2.7
C7 Data Centers, Inc. (3)(7)	Other Computer Related Services							
Senior Secured Term Loan		13.25%	(L +8.50%)	6/22/20	11,850	11,828	11,508	8.0
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing							
Senior Secured Term Loan		6.00%	(L +4.75%)	8/27/16	4,551	4,534	4,506	3.2
HealthFusion, Inc. (3)(8)	Software Publishers							
Senior Secured Loan		13.00%	N/A	10/7/18	4,750	4,711	4,893	3.4
Common Stock Warrants (2,007,360 shares) (12)						-	2,560	1.8

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					4,750	4,711	7,453	5.2
Inhance Technologies Holdings LLC	Other Basic Inorganic Chemical Manufacturing							
Senior Secured Term Loan A		5.50%	(L +4.50%)	2/7/18	2,248	2,242	2,180	1.5
Intelli-Mark Technologies, Inc.(3)	Other Travel Arrangement and Reservation Services							
Senior Secured Term Loan		13.00%	N/A	11/23/20	8,750	8,664	8,664	6.1
Common Equity (2,553,089 shares) (12)						1,500	1,500	1.0
					8,750	10,164	10,164	7.1

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued

December 31, 2015

(Dollar amounts in thousands)

Industry Portfolio Company Investment Type	Industry	Interest Rate (1)	Spread Above Index (1)	Ma
Non-control/Non-affiliate Investments - Continued				
Intrafusion Holding Corp. (3) (6) Senior Secured Term Loan B	Other Outpatient Care Centers	12.84%	(P +5.75%)	9/2
Jobson Healthcare Information, LLC (3) Senior Secured Term Loan (9)	Other Professional, Scientific, and Technical Services	10.13% cash / 2.795%	(L +10.925%)	7/2
Warrants (1,056,428 member units) (12)		PIK		
Maverick Healthcare Equity, LLC (3) Preferred Equity (1,250,000 units) (12) Class A Common Equity (1,250,000 units) (12)	Home Health Equipment Rental			
My Alarm Center, LLC (3) Senior Secured Term Loan	Security Systems Services (except Locksmiths)	12.00%	(L +11.00%)	7/9
MYI Acquiror Limited (4) Senior Secured Term Loan A	Insurance Agencies and Brokerages	5.75%	(L +4.50%)	5/2
NHR Holdings, LLC Senior Secured Term Loan A	Other Telecommunications	5.50%	(L +4.25%)	11/



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Senior Secured Term Loan B		5.50%	(L +4.25%)	11/
Phoenix Brands LLC (5)	Soap and Other Detergent Manufacturing			
Senior Secured Term Loan A (12)		9.25%	(L +7.75%)	1/2
Physiotherapy Associates Holding, Inc.	Other Outpatient Care Centers			
Senior Secured Term Loan		9.50%	(L +8.50%)	6/4
Quantum Spatial, Inc. (f/k/a Aero-Metric, Inc.)	Other Information Services			
Senior Secured Term Loan		6.75% cash / 2.0% PIK	(L +7.50%)	8/2
Ranpak Corp.	Packaging Machinery Manufacturing			
Senior Secured Term Loan		8.25%	(L +7.25%)	10/
Riveron Consulting, LLC (3)	Administrative Management and General Management Consulting			
Subordinated Loan		13.25%	N/A	3/2
Sentry Centers Holdings, LLC (3)	Other Professional, Scientific, and Technical Services			
Senior Secured Loan		14.00%	N/A	5/2
smarTours, LLC (3)	Tour Operators			
Senior Secured Loan		9.25%	N/A	10/
Preferred Equity A (500,000 units) (12)				
Southern Technical Institute, LLC (3)	Colleges, Universities, and Professional Schools			
Subordinated Loan		10.75% cash / 2.0% PIK	(L +11.75%)	12/
Stancor, L.P. (3)	Pump and Pumping Equipment Manufacturing			
Senior Secured Term Loan		8.75%	(L +8.00%)	8/1

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1,250,000 Class A Units in SCT Holdings, LLC, 8% PIK (12)

TravelCLICK, Inc.	Computer Systems Design and Related Services	8.75%	(L +7.75%)	11/
Senior Secured Term Loan				
United Biologics Holdings, LLC (3)	Medical Laboratories	12.0%		
Subordinated Loan (9)		cash / 2.0% PIK	N/A	3/5
Class A-1 Units (2,686 units) and Kicker Units (2,015 units) (12)				
Class A-1 Warrants (2,272 units) and Kicker Warrants (1,704 units) (12)				
Class A Warrants (10,160 units) (12)				
Class B Warrants (15,238 units) (12)				
VanDeMark Chemical Inc.	Other Basic Inorganic Chemical Manufacturing	6.50%	(L +5.25%)	11/
Senior Secured Term Loan				
Total Non-control/Non-affiliate Investments				

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued

December 31, 2015

(Dollar amounts in thousands)

Industry Portfolio Company Investment Type	Industry	Interest Rate (1)	Spread Above Index (1)	Maturity
Affiliate Investments				
Contract Datascan Holdings, Inc. (3)	Office Machinery and Equipment Rental and Leasing	12.00%	N/A	2/5/21
Subordinated Loan Preferred Equity A (2,463 shares, 10% PIK) (12) Common Equity (9,069 shares) (12)				
Malabar International (3)	Other Aircraft Parts and Auxiliary Equipment Manufacturing	12.5% cash / 2.5% PIK	N/A	5/21/17
Subordinated Loan Preferred Stock (1,644 shares, 6% cash)				
Master Cutlery, LLC (3)	Sporting and Recreational Goods and Supplies Merchant Wholesalers	13.00%	N/A	4/17/20
Subordinated Loan 3,723 Preferred Equity A units in MC Parent, LLC, 5% cash, 3% PIK (12) 15,564 Common Equity units in MC Parent, LLC (12)				

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NeoSystems Corp. (3)	Other Accounting Services	10.5%		
Subordinated Loan		cash / 1.25% PIK	N/A	8/13/19
Convertible Preferred Stock (521,962 shares, 10% PIK) (12)				
Pfanstiehl Holdings, Inc. (3)	Pharmaceutical Preparation Manufacturing			
Subordinated Loan (10) Class A Common Equity (400 shares)		13.50%	N/A	9/29/18
Strategic Pharma Solutions, Inc. (3)	Other Professional, Scientific, and Technical Services			
Senior Secured Term Loan 1,191 Class A Units in Strategic Pharma Solutions Holdings, LLC, 6% PIK (12)		11.00%	(L +10.00%)	12/18/20
TRS Services, LLC (3)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance			
Senior Secured Term Loan		10.25%	(L +9.25%)	12/10/19
Delayed Draw Senior Secured Term Loan 3,000,000 Class A Units in IGT Holdings, LLC, 11% PIK (12) 3,000,000 Common Units in IGT Holdings, LLC (12)		10.25%	(L +9.25%)	12/10/19
Total Affiliate Investments				
Control Investment				
Mirage Trailers LLC (3)	Travel Trailer and Camper Manufacturing			
Senior Secured Term Loan 554 common equity shares in MTE Holding Corp. (12)		12.50%	(L +11.50%)	11/25/20
Total Control Investment				
Total Investments				



- The majority of investments bear interest at a variable rate that is indexed to the London Interbank Offered Rate ("LIBOR") (L) or Prime (P), and are reset monthly or quarterly. All of the Company's LIBOR referenced investments are subject 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, 2015. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.
- (1) The negative fair value is the result of the unfunded commitment being valued below par.
- (2) Investments held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility. Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 ("1940 Act"), as amended. 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, 2015, 96.3 % of the Company's assets were qualifying assets.
- (3) Non-accrual loan. SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the reported interest rate of 12.84% at December 31, 2015 includes interest of 3.59% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
- (4) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to C7 Data Centers, Inc., the reported interest rate of 13.25% at December 31, 2015 includes interest of 3.75% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
- (5) In January 2016, HealthFusion, Inc. was purchased, at which time the Common Stock Warrants were redeemed and the Senior Secured Loan was repaid at par. In connection with the loan repayment, the Company received a prepayment penalty of \$143. The Common Stock Warrants were redeemed for total consideration of \$2,385, which included a cash payment of \$2,115 and an additional amount held in escrow valued at \$270 to be released 50% in one year and the remaining amount in approximately two years. In addition, the Company could receive an earnout payment of up to approximately \$230 to \$460 in 2017.
- (6) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash 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.
- (7) The interest rate includes a 1.5% 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.
- (8) The interest rate includes a 2.0% 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.
- (9) Non-income producing.

See Notes to Unaudited Consolidated Financial Statements.



## **OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

### **Note 1. Organization**

OFS Capital Corporation (the “Company”) is a Delaware corporation formed on November 7, 2012, as an externally managed, closed-end, non-diversified management investment company. The Company has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). In addition, for income tax purposes, the Company has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

The Company’s strategic investment focus is primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies in the United States. The Company has entered into an investment advisory and management agreement with OFS Capital Management, LLC (“OFS Advisor”), under which OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company.

The Company may make investments directly or through OFS SBIC I, LP (“SBIC I LP”), its investment company subsidiary licensed under the Small Business Administration (“SBA”) Small Business Investment Company program (the “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 Small Business Investment Act of 1958 (“SBIC Act”), limitations on the financing terms of investments, and capitalization thresholds that limit distributions to the Company; and is subject to periodic audits and examinations of its financial statements. As of March 31, 2016, SBIC I LP was in compliance with its SBA regulatory requirements.

### **Note 2. Correction of Error**

In the fourth quarter of 2015, the Company discovered and corrected errors impacting the classification of certain components of consolidated net assets as of December 31, 2014 and 2013, and distributions reported on the consolidated statement of changes in net assets for the year ended December 31, 2014. These reclassifications had no effect on total net assets or net asset value per share. The purpose of the reclassifications was to properly report the tax character of, and basis differences between tax and accounting principles generally accepted in the United States of America (“GAAP”) in (i) accumulated shareholder distributions, (ii) accumulated undistributed net investment income, (iii) accumulated net realized gains/losses, and (iv) net unrealized appreciation (depreciation) on investments.



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Accordingly, the Company has revised its December 31, 2014 consolidated balance sheet and statement of changes in net assets for the years ended December 31, 2014, 2013, and for each interim period within the year ended December 31, 2015. The effect of the reclassifications to the consolidated statement of net assets as of March 31, 2015 and the consolidated statement of changes in net assets for the three months ended March 31, 2015 were as follows:

**Summary of revisions to the Statement of Net Assets**

	As Previously Reported March 31, 2015	Revisions	Revised March 31, 2015
Net Assets			
Preferred stock	\$ -	\$ -	\$ -
Common stock	97	-	97
Paid-in capital in excess of par	143,529	(6,985 )	136,544
Accumulated undistributed (distributions in excess of) net investment income	(8,286 )	10,227	1,941
Accumulated undistributed net realized gain (loss)	(844 )	778	(66 )
Net unrealized appreciation (depreciation) on investments	3,074	(4,020 )	(946 )
Total net assets	\$ 137,570	\$ -	\$ 137,570

**Summary of revisions to the Statement of Changes in Net Assets (affected components)**

	As Previously Reported Three Months Ended March 31, 2015	Revisions	Revised Three Months Ended March 31, 2015
Distributions to shareholders from:			
Net investment income	\$(3,191	) \$(90	) \$(3,281 )
Net realized gains	(90	) 90	-
Total distributions to shareholders	\$(3,281	) \$-	\$(3,281 )
Net assets:			
Beginning of period	\$ 137,471	\$-	\$ 137,471
End of period	\$ 137,570	\$-	\$ 137,570
Accumulated undistributed (distributions in excess of) net investment income	\$(8,286	) \$ 10,227	\$ 1,941

**Note 3. Summary of Significant Accounting Policies**

**Basis of presentation:** The Company prepares its consolidated financial statements in accordance with GAAP, including Accounting Standards Codification Topic 946, “Financial Services–Investment Companies”, and the requirements for reporting on Form 10-Q, the 1940 Act, and Articles 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments consisting only of normal and recurring accruals and adjustment necessary for the fair presentation in accordance with GAAP. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation.

## OFS Capital Corporation and Subsidiaries

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

### Note 3. Summary of Significant Accounting Policies (Continued)

**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. Accounting Standards Codification Topic 820, “Fair Value Measurements and Disclosures” (“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 in pricing 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 a variety of 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 of directors (the “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.

See Note 7 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. Under the 1940 Act,

“Affiliate Investments” are defined as investments in those companies in which the Company owns between 5% and 25% of the voting securities. “Non-Control/Non-Affiliate Investments” are those that neither qualify as Control Investments nor Affiliate Investments.

Additionally, the Company adopted the North American Industry Classification System in the first quarter of 2016 for the purpose of industry classification of the Company's investments on the Schedule of Investments. The December 31, 2015 Schedule of Investments has been conformed to the March 31, 2016 presentation.

**Investment risks:** The Company’s investments are subject to a variety of risks. These risks may include, but are not limited to the following:

*Market risk* - Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument due to market changes.

*Credit risk* - Credit risk represents the risk that the Company would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Company.

*Liquidity risk* - Liquidity risk represents the possibility that the Company may not maintain sufficient cash balances or access to cash to meet loan and other commitments as they become due.

*Interest rate risk* - Interest rate risk represents the likelihood that a change in interest rates could have an adverse impact on the fair value of an interest-bearing financial instrument.

*Prepayment risk* - Certain of the Company’s debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the debt investments and making the instrument less likely to be an income producing instrument.

*Off-Balance sheet risk* - Some of the Company’s financial instruments contain off-balance sheet risk. Generally, these financial instruments represent future commitments to purchase other financial instruments at specific terms at specific future dates.

**Use of estimates:** The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

## **OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

### **Note 3. Summary of Significant Accounting Policies (Continued)**

**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 at the time of acquisition of three months or less. The Company places its cash in financial institutions and at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. Included in cash and cash equivalents was \$40,441 and \$32,612 held in a US Bank Money Market Deposit Account as of March 31, 2016 and December 31, 2015, respectively.

#### **Revenue recognition:**

*Interest Income:* Interest income is recorded on an accrual basis. Recognized interest income, if payable monthly or quarterly, is reported as interest receivable until collected. Recognized interest income due at maturity or at another stipulated date (“PIK interest”) is recorded as an adjustment to the amortized cost basis of the investment. The Company accrues interest income until events occur that place a loan into a non-accrual status (see below). Loan origination fees, original issue discount (“OID”), market discount or premium, and loan amendment fees (collectively, “net loan origination fees”) are capitalized, and the Company accretes or amortizes such amounts as additional interest income over the life of the loan using a method that approximates the effective interest method. Unamortized OID is recorded as an adjustment to the amortized cost basis of the investment and unamortized loan amendment fees are reported as deferred loan fee revenue. When the Company receives a loan principal payment, the unamortized OID related to the paid principal is accelerated and recognized in interest income. All other interest income is recognized as contractually earned. Further, in connection with the Company’s debt investments, the Company may receive warrants or similar equity-related securities (“Warrants”). The Company determines the cost basis of Warrants based upon their fair values on the date of receipt relative to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

Unamortized net loan origination fees on debt investments were \$2,390 and \$1,885 as of March 31, 2016 and December 31, 2015, respectively. The Company recognized net loan origination fee income of \$366 and \$379 for the three months ended March 31, 2016 and 2015, respectively. The Company recognized PIK interest income of \$292

and \$297 for the three months ended March 31, 2016 and 2015, respectively. To maintain its status as a RIC, the Company includes non-cash interest income in the amounts that must be distributed to shareholders.

*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 dividends on preferred equity securities when it determines that the dividend may not be collectible. The Company assesses the collectability of the preferred dividends based on factors including the fair value of the preferred equity security, the valuation of the portfolio company’s enterprise value, and proceeds expected to be received over the life of the investment. The Company may receive cash distributions from portfolio companies that are taxed as flow-through entities. Each distribution is evaluated to determine whether it should be recorded as income or as a return of capital. Distributions classified as a returns of capital are recorded as reductions in the adjusted cost basis of the investments. The Company recognized preferred dividend income of \$514 and \$329, of which \$301 and \$296, respectively, was contractually earned but not declared for the three months ended March 31, 2016 and 2015, respectively. The Company recognized common stock dividends of \$43 for the three months ended March 31, 2016. The Company did not recognize common stock dividends during the three months ended March 31, 2015.

*Fee Income:* The Company generates revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services are rendered. Prepayment penalties for debt instruments repaid prior to their stated maturity are recorded as income upon receipt.

*Net Realized and Unrealized Gain or Loss on Investments:* Investment transactions are reported on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the carrying value of the investment. Investments are reported at fair value as determined by the Company’s 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 a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

## OFS Capital Corporation and Subsidiaries

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

### Note 3. Summary of Significant Accounting Policies (Continued)

*Non-accrual loans:* Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans and accounted for the non-accrual cash method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest according to the contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of management, there is reasonable doubt about its collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has been contractually added to the principal balance prior to the designation date, is reversed against current period interest income. Interest payments subsequently received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. At March 31, 2016 and December 31, 2015, one investment with a cost of \$937 and fair value of \$743 and \$798, respectively, was carried as non-accrual cash method loan.

**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 investment company taxable income to its shareholders. The Company has made, and intends to continue to make, the requisite distributions to its shareholders, which generally relieves the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to retain taxable income 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 taxable income exceeds estimated current year dividend 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 BDC. These "tax blocker" entities are consolidated in the Company's GAAP financial statements and may result in the reporting of 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, 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.

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. The effect on taxable income of positions not deemed to meet the more-likely-than-not threshold would be recorded as an adjustment to distributable taxable income in the current year. The Company recognizes accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at March 31, 2016 and December 31, 2015. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

**Dividends and distributions:** Dividends and distributions to common shareholders are recorded on the declaration date. The timing of dividends and distributions as well as the amount to be paid out as a dividend or distribution is determined by the Board each quarter. Dividends 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. Dividends paid in excess of taxable net investment income and net realized gains are considered returns of capital to shareholders.

The Company has adopted a dividend reinvestment plan (“DRIP”) that provides for reinvestment of any distributions the Company declares in cash on behalf of its shareholders, unless a shareholder elects to receive cash. As a result, if the Board authorizes and the Company declares a cash distribution, then shareholders 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 dividend or 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. These amounts are amortized to interest expense over the life of the borrowings.

**Goodwill:** On December 4, 2013, in connection with acquisition of the remaining limited partnership interests in SBIC I LP and membership interest in SBIC I GP (the “SBIC Acquisitions”), the Company recorded goodwill of \$1,077 (see Note 4) 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. Goodwill is included in prepaid expenses and other assets on the Consolidated Balance Sheets.



**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 3. Summary of Significant Accounting Policies (Continued)**

**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 \$454 and \$405, is included in prepaid expenses and other assets at March 31, 2016 and December 31, 2015, respectively.

**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 recently issued Accounting Standards Updates (“ASU”) by the Financial Accounting Standards Board (“FASB”) adopted by the Company during 2016:

Standard	Description	Period of Adoption	Effect of Adoption on the financial statements
Standards that were adopted			

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ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis	Modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities	First Quarter 2016 retrospectively	No material impact to the Company's consolidated financial statements
ASU 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs	Changes the presentation of debt issuance costs in the financial statements where an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 did not specifically address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements	First Quarter 2016 retrospectively	Resulted in a \$3,420 retrospective reduction of both net deferred financing closing costs and SBA debentures payable in the consolidated balance sheet as of December 31, 2015 and a \$547 reduction of amortization and write-off of deferred financing closing costs and corresponding increase in interest expense associated with the Company's SBA debentures and the OFS Capital WM revolving line of credit in the consolidated statement of operations for the three months ended March 31, 2015. Net deferred debt issuance costs of \$3,324 are presented as a direct deduction from the SBA debentures payable in the consolidated balance sheet as of March 31, 2016. Amortization of deferred debt issuance costs associated with the Company's SBA debentures was \$96 for the three months ended March 31, 2016 and included as interest expense in the consolidated statement of operations. There was no impact to consolidated earnings as a result of this adoption.
ASU 2015-15, Interest – Imputation of Interest: Presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements - amendments to SEC paragraphs	Response to SEC views on ASU 2015-03. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line of credit arrangements, the SEC stated it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement	First Quarter 2016 retrospectively	Net deferred financing closing costs of \$160 and \$185 associated with the Company's PWB Credit Facility are presented as an asset and included in prepaid expenses and other assets in the consolidated balances sheet as of March 31, 2016 and December 31, 2015, respectively. There was no impact to consolidated earnings as a result of this adoption.



**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 3. Summary of Significant Accounting Policies (Continued)**

The following table discusses recently issued ASUs by the FASB yet to be adopted by the Company:

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)	Annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2018
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.

#### **Note 4. OFS Capital WM**

OFS Capital WM, LLC (“OFS Capital WM”), a wholly-owned investment company subsidiary, was formed in August 2010 with the limited purpose of holding, acquiring, managing and financing senior secured loan investments to middle-market companies in the United States. On September 28, 2010, the Company became the owner of OFS Capital WM through a transaction in which it transferred eligible loans—or 100% of its participating interest in certain other loans—to OFS Capital WM in exchange for cash and a 100% equity ownership interest in OFS Capital WM. These loans were managed and serviced by MCF Capital Management, LLC (“MCF”) under a loan and security agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, and Well Fargo Delaware Trust Company, N.A. (the “Loan and Security Agreement”). MCF charged a management fee of 0.25% per annum of the assigned value of the underlying portfolio investments plus an accrued fee that was deferred until termination of the Loan and Security Agreement on May 28, 2015. The Company incurred management fee expense related to this agreement of \$-0-, and \$138, for the three months ended March 31, 2016 and 2015, respectively.

#### OFS Capital WM Asset Sale and Related Transactions

On May 28, 2015, the Company and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison Capital Funding LLC (“Madison”), an affiliate of MCF, pursuant to which OFS Capital WM sold a portfolio of 20 senior secured debt investments with an aggregate outstanding principal balance of \$67,807 to Madison for cash proceeds of \$67,309 (the “WM Asset Sale”). On May 28, 2015, the total fair value of the debt investments sold, applying the Company’s March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was approximately \$66,703. The determination of the fair value of the Company’s investments is subject to the good faith determination by the Company’s board of directors, which is conducted no less frequently than quarterly, pursuant to the Company’s valuation policies and accounting principles generally accepted in the United States.

On May 28, 2015, pursuant to the Loan and Security Agreement, the Company applied \$52,414 from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM’s secured revolving line of credit with Wells Fargo Bank, N.A. (“WM Credit Facility”). As a result of the termination of the WM Credit Facility, the Company wrote-off related unamortized deferred debt issuance costs of \$1,216.

On May 28, 2015, in connection with the WM Asset Sale, the Company entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to certain of its remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter. The Company incurred loan administration fee expense of \$13 for the three months ended March 31, 2016.





## OFS Capital Corporation and Subsidiaries

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### Note 5. Related Party Transactions

**Investment Advisory and Management Agreement:** On November 7, 2012, the Company entered into an Investment Advisory and Management Agreement (“Advisory Agreement”) with OFS Advisor, under which OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. Under the terms of the Advisory Agreement 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 Orchard First Source Asset Management, LLC (“OFSAM”) and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor’s services under the Advisory Agreement are not exclusive to the Company and OFS Advisor is free to furnish similar services to other entities so long as its services to the Company are not impaired. 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.

The base management fee is payable quarterly in arrears and was \$1,115 and \$1,417, for the three months ended March 31, 2016 and 2015, respectively.

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. 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 and adjusted for any share issuances or repurchases during such quarter.

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 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.

## **OFS Capital Corporation and Subsidiaries**

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### **Note 5. Related Party Transactions (Continued)**

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 step acquisitions resulting from the SBIC Acquisitions, and (2) the WM Asset Sale.

The Company incurred incentive fee expense of \$733 for the three months ended March 31, 2016. Incentive fees for the three months ended March 31, 2016, consisted of part one incentive fees (based on net investment income) of \$872 and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(139), which represents the reversal of the part two incentive fee accrued at December 31, 2015. Incentive fees were \$375 for the three months ended March 31, 2015, which consisted entirely of part one incentive fees.

**Administration Agreement:** On November 7, 2012, the Company entered into an administration agreement (“Administration Agreement”) with OFS Capital Services, LLC (the “OFS Services”), a wholly-owned subsidiary of OFSAM. Pursuant to the Administration Agreement, OFS Services furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities. 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 shareholders 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 shareholders, 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 expense was \$428 and \$541 for the three months ended March 31, 2016 and 2015, respectively.

**OFS Capital Corporation and Subsidiaries**

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**Note 6. Investments**

As of March 31, 2016, the Company had loans to 35 portfolio companies, of which 70% were senior secured loans and 30% were subordinated loans, at fair value, as well as equity investments in 16 of these portfolio companies. The Company also held an equity investment in one portfolio company in which it did not hold a debt interest. At March 31, 2016, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	\$ 153,688	\$ 152,060	\$ 149,172
Subordinated debt investments	64,605	64,463	63,779
Equity investments	N/A	27,785	32,456
Total	\$ 218,293	\$ 244,308	\$ 245,407

At March 31, 2016, the Company's investments were all domiciled in the United States and the industry compositions of the Company's portfolio were as follows:

	Cost		Fair Value		
Administrative and Support and Waste Management and Remediation Services					
Other Travel Arrangement and Reservation Services	\$ 10,169	4.2 %	\$ 10,291	4.2 %	
Security Systems Services (except Locksmiths)	5,203	2.1	5,063	2.1	
Tour Operators	2,852	1.2	3,235	1.3	
Education Services					
Colleges, Universities, and Professional Schools	5,083	2.1	4,949	2.0	
Finance and Insurance					
Insurance Agencies and Brokerages	11,662	4.8	10,998	4.5	
Health Care and Social Assistance					
Medical Laboratories	4,192	1.7	3,860	1.6	
Other Outpatient Care Centers	14,198	5.9	13,950	5.7	
Outpatient Mental Health and Substance Abuse Centers	6,664	2.7	6,376	2.6	
Information					
Other Information Services	2,544	1.0	2,416	1.0	

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Other Telecommunications	3,538	1.4	3,469	1.4
Manufacturing				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,484	1.8	4,447	1.8
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,810	4.8	13,151	5.4
Other Basic Inorganic Chemical Manufacturing	4,705	1.9	4,668	1.9
Packaging Machinery Manufacturing	1,995	0.8	1,815	0.7
Pharmaceutical Preparation Manufacturing	4,062	1.7	6,398	2.6
Pump and Pumping Equipment Manufacturing	12,885	5.3	12,578	5.1
Soap and Other Detergent Manufacturing	937	0.4	743	0.3
Travel Trailer and Camper Manufacturing	13,247	5.4	13,251	5.4
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	14,520	5.9	12,684	5.2
Professional, Scientific, and Technical Services				
Administrative Management and General Management Consulting	9,564	3.9	9,554	3.9
Computer Systems Design and Related Services	2,972	1.2	2,676	1.1
Custom Computer Programming Services	6,353	2.6	6,220	2.5
Other Accounting Services	5,784	2.4	6,920	2.8
Other Computer Related Services	11,829	4.8	11,624	4.7
Other Professional, Scientific, and Technical Services	28,760	11.8	28,533	11.6
Real Estate and Rental and Leasing				
Home Health Equipment Rental	900	0.4	1,681	0.7
Office Machinery and Equipment Rental and Leasing	8,133	3.3	8,527	3.5
Offices of Real Estate Appraisers	10,046	4.1	9,848	4.0
Wholesale Trade				
Electrical Apparatus and Equipment, Wiring Supplies, and Related	3,578	1.5	3,754	1.5
Metal Service Centers and Other Metal Merchant Wholesalers	13,091	5.5	13,969	5.7
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,548	3.5	7,759	3.2
	\$244,308	100.1 %	\$245,407	100.0 %

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
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**Note 6. Investments (Continued)**

As of December 31, 2015, the Company had loans to 38 portfolio companies, of which 71% were senior secured loans and 29% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held an equity investment in one portfolio company in which it did not hold a debt interest. At December 31, 2015, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	\$163,398	\$161,944	\$160,437
Subordinated debt investments	65,373	65,227	64,240
Equity investments	N/A	25,084	32,619
Total	\$228,771	\$252,255	\$257,296

At December 31, 2015, the Company's investments were all domiciled in the United States and the industry compositions of the Company's portfolio were as follows:

	Cost		Fair Value	
Administrative and Support and Waste Management and Remediation Services				
Other Travel Arrangement and Reservation Services	\$10,164	4.0 %	\$10,164	4.0 %
Security Systems Services (except Locksmiths)	5,000	2.0	5,000	1.9
Tour Operators	2,849	1.1	3,198	1.2
Education Services				
Colleges, Universities, and Professional Schools	5,005	2.0	4,786	1.9
Finance and Insurance				
Insurance Agencies and Brokerages	11,663	4.6	11,497	4.5
Health Care and Social Assistance				
Medical Laboratories	4,165	1.7	3,677	1.4
Other Outpatient Care Centers	15,187	6.0	15,031	5.8
Outpatient Mental Health and Substance Abuse Centers	6,610	2.6	6,456	2.5
Information				
Other Information Services	2,564	1.0	2,433	0.9
Other Telecommunications	3,798	1.5	3,711	1.4

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Software Publishers	4,711	1.9	7,453	2.9
Manufacturing				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,534	1.8	4,506	1.8
Communications Equipment Manufacturing	2,257	0.9	2,257	0.9
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,770	4.7	12,812	4.9
Other Basic Inorganic Chemical Manufacturing	4,766	1.9	4,695	1.8
Packaging Machinery Manufacturing	1,995	0.8	1,940	0.8
Pharmaceutical Preparation Manufacturing	4,068	1.6	5,698	2.2
Pump and Pumping Equipment Manufacturing	12,853	5.1	12,752	5.0
Soap and Other Detergent Manufacturing	937	0.4	798	0.3
Travel Trailer and Camper Manufacturing	13,613	5.4	13,613	5.3
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	14,449	5.7	13,792	5.3
Professional, Scientific, and Technical Services				
Administrative Management and General Management Consulting	9,915	3.9	9,952	3.9
Computer Systems Design and Related Services	2,971	1.2	2,892	1.1
Custom Computer Programming Services	6,493	2.6	6,319	2.5
Other Accounting Services	5,738	2.3	7,100	2.8
Other Computer Related Services	11,828	4.7	11,508	4.5
Other Professional, Scientific, and Technical Services	31,574	12.4	31,511	12.1
Real Estate and Rental and Leasing				
Home Health Equipment Rental	900	0.4	1,951	0.8
Office Machinery and Equipment Rental and Leasing	8,037	3.2	8,452	3.3
Offices of Real Estate Appraisers	10,050	4.0	9,940	3.9
Wholesale Trade				
Electrical Apparatus and Equipment, Wiring Supplies, and Related	3,558	1.4	3,559	1.4
Metal Service Centers and Other Metal Merchant Wholesalers	9,834	3.9	9,956	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,399	3.3	7,887	3.1
	\$252,255	100.0%	\$257,296	100.0%



## OFS Capital Corporation and Subsidiaries

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### Note 7. Fair Value of Financial Instruments

The Company's investments are reported at fair value as determined in good faith by Company management under the supervision and review of the Board. These fair value are determined using 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 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 an investment professional.

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.

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.

The Company was unable to obtain sufficient market quotations or indicative prices at March 31, 2016 and December 31, 2015, and followed the multi-step valuation process.

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 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 months ended March 31, 2016 and 2015. The following sections describe the valuation techniques used by the Company to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.



## **OFS Capital Corporation and Subsidiaries**

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### **Note 7. Fair Value of Financial Instruments (Continued)**

The primary method used to estimate the fair value of investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more appropriate). 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, assumed growth rate (in cash flows), company performance, and capitalization rates/multiples (for determining terminal values of underlying portfolio companies). 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. 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 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 following tables provide quantitative information about the Company's significant Level 3 fair value inputs to the Company's fair value measurements as of March 31, 2016 and 2015. 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.

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	<b>Fair Value at March 31, 2016</b>	<b>Valuation techniques</b>	<b>Unobservable inputs</b>	<b>Range (Weighted average)</b>
Debt investments:				
Senior secured	\$ 149,172	Discounted cash flow	Discount rates EBITDA multiples	6.85% - 25.00% (12.19%) 4.91x - 11.52x (6.97x)
Subordinated	63,779	Discounted cash flow	Discount rates EBITDA multiples	11.94% - 27.47% (15.65%) 4.30x - 7.42x (6.25x)
Equity investments	32,456	Discounted cash flow	Discount rates EBITDA multiples	17.50% - 30.00% (20.36%) 4.30x - 8.10x (6.21x)

	<b>Fair Value at December 31, 2015</b>	<b>Valuation techniques</b>	<b>Unobservable inputs</b>	<b>Range (Weighted average)</b>
Debt investments:				
Senior secured	\$ 160,437	Discounted cash flow	Discount rates EBITDA multiples	7.11% - 25.00% (12.05%) 4.21x - 11.72x (7.79x)
Subordinated	64,240	Discounted cash flow	Discount rates EBITDA multiples	12.56% - 22.34% (15.12%) 3.98x - 8.61x (6.35x)
Equity investments	32,619	Discounted cash flow	Discount rates EBITDA multiples	15.00% - 30.00% (20.19%) 3.98x - 8.08x (6.31x)

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 multiples, among other things, could have a significant impact on fair values, with the fair value of a particular debt investment susceptible to change in inverse relation to the changes in the discount rate. Changes in EBITDA multiples, as well as changes in the discount rate, could have a significant impact on fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA multiples, and in inverse relation to changes in the discount rate.

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 7. Fair Value of Financial Instruments (Continued)**

The following tables present changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2016 and 2015.

	For the Three Months Ended March 31, 2016			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	\$ 160,437	\$ 64,240	\$ 32,619	\$ 257,296
Net realized gain (loss) on investments	-	7	2,559	2,566
Net change in unrealized appreciation/depreciation on investments	(1,383 )	307	(2,866 )	(3,942 )
Purchase of portfolio investments	5,396	1,135	-	6,531
Equity received in connection with purchase of portfolio investments and amendments	(301 )	-	504	203
Conversion from subordinated debt to equity	-	(1,765 )	1,765	-
Capitalized PIK interest, dividends, and fees	116	373	301	790
Proceeds from principal payments on portfolio investments	(15,342 )	(526 )	-	(15,868 )
Sale and redemption of portfolio investments	-	-	(2,560 )	(2,560 )
Amortization of discounts and premium	249	8	-	257
Other	-	-	134	134
Level 3 assets, end of period	\$ 149,172	\$ 63,779	\$ 32,456	\$ 245,407

	For the Three Months Ended March 31, 2015			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	\$ 241,749	\$ 52,453	\$ 18,032	\$ 312,234

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Net realized gain on investments	90	-	-	90
Net change in unrealized appreciation/depreciation on investments	(571 )	(12 )	976	393
Purchase of portfolio investments	12,688	9,900	2,000	24,588
Capitalized PIK interest, dividends and fees	102	195	296	593
Proceeds from principal payments on portfolio investments	(10,986 )	-	-	(10,986 )
Sale of portfolio investments	(11,034 )	-	-	(11,034 )
Amortization of discounts and premium	308	(2 )	-	306
Conversion from equity to debt	-	44	(44 )	-
Level 3 assets, end of period	\$232,346	\$ 62,578	\$ 21,260	\$316,184

The net change in unrealized appreciation/depreciation for the three months ended March 31, 2016 and 2015 reported in the Company's consolidated statements of operations attributable to the Company's Level 3 assets held at those period ends was \$(821) and \$344, respectively.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since fair value measurements are only required for a portion of the Company's assets and liabilities. 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. As of March 31, 2016 and December 31, 2015, the carrying value of the Company's financial instruments, including its debt obligations under its SBA debentures payable, as well as the revolving line of credit (which was terminated on May 28, 2015; see Note 4), approximated their estimated fair value.

The Company discloses fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Certain non-financial assets and liabilities, as well as a wide range of franchise, relationship and intangible values that add value to the Company, are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts disclosed do not represent the underlying value of the Company.

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 8. Commitments and Contingencies**

Unfunded commitments as of March 31, 2016 and December 31, 2015 were as follows:

Name of Portfolio Company	Investment Type	March 31, 2016	December 31, 2015
A.C.T. Lighting, Inc.	Subordinated Loan	\$742	\$ 742
BCC Software, LLC	Senior Secured Revolver	1,094	1,094
NeoSystems Corp.	Subordinated Loan	1,636	1,636
NeoSystems Corp.	Convertible Preferred Stock	364	364
Sentry Centers Holdings, LLC	Senior Secured Loan	1,450	-
Total		\$5,286	\$ 3,836

From time to time, the Company is involved in legal proceedings in the normal course of its business. Although the outcome of such litigation cannot be predicted with any certainty, management is of the opinion, based on the advice of legal counsel, that final disposition of any litigation should not have a material adverse effect on the financial position of the Company as of March 31, 2016.

Additionally, the Company is subject to periodic inspection by regulators to assess compliance with applicable regulations related to being a BDC and SBIC I LP is subject to periodic inspections by the SBA.

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties that provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not occurred. The Company believes the risk of any material obligation under these indemnifications to be low.

**Note 9. Borrowings**



*SBA Debentures:* The SBIC Program allows SBIC I LP to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to the Company, have interest payable semi-annually and a ten-year maturity. The interest rate is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities.

Under present regulations of the SBIC Act, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is \$150,000. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed \$350,000. In connection with the SBIC Acquisitions, the Company increased its total commitments to SBIC I LP to \$75,000, which became a drop down SBIC fund of the Company on December 4, 2013. During 2014, the Company fully funded its \$75,000 commitment to the SBIC I LP. As of March 31, 2016 and December 31, 2015, SBIC I LP had fully drawn the \$149,880 of leverage commitments from the SBA.

SBIC I LP held \$249,567 and \$245,147 of the Company's consolidated assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of consolidated assets, respectively.

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 9. Borrowings (Continued)**

The following table shows the Company's outstanding SBA debentures payable as of March 31, 2016 and December 31, 2015:

Pooling Date	Maturity Date	Fixed Interest Rate	March 31, 2016	December 31, 2015
September 19, 2012	September 1, 2022	3.049 %	\$14,000	\$14,000
September 25, 2013	September 1, 2023	4.448	7,000	7,000
March 26, 2014	March 1, 2024	3.995	5,000	5,000
September 24, 2014	September 1, 2024	3.819	4,110	4,110
September 24, 2014	September 1, 2024	3.370	31,265	31,265
March 25, 2015	March 1, 2025	2.872	65,920	65,920
September 23, 2015	September 1, 2025	3.184	22,585	22,585
SBA debentures outstanding			149,880	149,880
Unamortized debt issuance costs			(3,324 )	(3,420 )
SBA debentures outstanding, net of unamortized debt issuance costs			\$146,556	\$146,460

The Company received exemptive relief from the SEC effective November 26, 2013 to exclude SBA guaranteed debentures from the definition of senior securities in the statutory 200% asset coverage ratio under the 1940 Act, allowing for greater capital deployment.

The weighted average fixed interest rate on the SBA debentures as of March 31, 2016 and December 31, 2015 was 3.18%. The effective interest rate on the SBA debentures, which includes amortization of deferred debt issuance costs, was 3.42% as of March 31, 2016 and December 31, 2015. Interest expense, inclusive of debt issuance costs amortization, on the SBA debentures was \$1,283 and \$721 for the three months ended March 31, 2016 and 2015, respectively.

Deferred debt issuance costs, net of accumulated amortization, on SBA-guaranteed debentures as of March 31, 2016 and December 31, 2015 were \$3,324 and \$3,420, respectively. Amortization of deferred debt issuance costs on SBA-guaranteed debentures was \$96 and \$13 for the three months ended March 31, 2016 and 2015, respectively.

*PWB Credit Facility:* On November 5, 2015, the Company entered into a Business Loan Agreement (“BLA”) with Pacific Western Bank, as lender, to provide the Company with a \$15,000 senior secured revolving credit facility (“PWB Credit Facility”). The PWB Credit Facility is available for general corporate purposes including investment funding. The maximum availability of the PWB Credit Facility is equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base and otherwise specified in the BLA. The PWB Credit Facility is guaranteed by OFS Capital WM and secured by all of the Company’s current and future assets excluding assets held by SBIC I LP and the Company’s SBIC I LP and SBIC I GP partnership interests. The BLA matures on November 7, 2017. Advances under the facility bear interest at a fixed rate per annum equal to 4.75%. The Company incurred deferred debt issuance costs of \$202 in connection with the closing of the PWB Credit Facility. Deferred debt issuance costs, net of accumulated amortization, was \$160 and \$185 as of March 31, 2016 and December 31, 2015, respectively. Amortization of debt issuance costs was \$25 for the three months ended March 31, 2016. There have been no advances under the facility as of March 31, 2016.

The BLA contains customary terms and conditions, including affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The BLA also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of its covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in the borrower’s financial condition, which would permit amounts borrowed to be accelerated and would permit the lender to terminate their lender commitments.

*OFS Capital WM Revolving Line of Credit:* Prior to the termination of the WM Credit Facility on May 28, 2015 (see Note 4), OFS Capital WM had a \$75,000 secured revolving credit facility, as amended from time to time, with Wells Fargo. The WM Credit Facility was secured by all eligible loans acquired by OFS Capital WM, and had a maturity date of December 31, 2018 and a reinvestment period through December 31, 2015. The interest rate on outstanding borrowings was the London Interbank Offered Rate plus 2.50% per annum. The minimum equity requirement was set at \$35,000. The unused commitment fee on the WM Credit Facility was (1) 0.5% per annum of the first \$25,000 of the unused facility and (2) 2% per annum of the balance in excess of \$25,000, and is included in interest expense on the consolidated statement of operations. Interest expense on the revolving line of credit was \$522 for the three months ended March 31, 2015.

## **OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

### **Note 9. Borrowings (Continued)**

For the three months ended March 31, 2015 amortization and write-off of deferred debt issuance costs on the revolving line of credit totaled \$534, of which \$430 was due to a write-off when the credit facility's commitment was permanently reduced \$100,000 to \$75,000 on March 12, 2015.

### **Note 10. Federal Income Tax**

The Company has elected to be treated as a RIC under Subchapter M of the Code, and intends to distribute substantially all of its taxable net income. Accordingly, there is no expected liability for federal income taxes at the Company level. The Company's taxable net income differs from the net increase in net assets resulting from operations primarily due to differences in income recognition on the unrealized appreciation or depreciation of investments, income from Company's equity investments in pass-through entities, PIK dividends that have not yet been declared and paid by underlying portfolio companies, and capital gains and losses and the net creation or utilization of capital loss carryforwards.

The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based upon its taxable income for the full year and distributions paid for the full year. If the tax characteristics of the Company's \$3,295 distributions paid during 2016 were determined as of March 31, 2016, approximately \$375 would have represented return of capital to its shareholders. The Company utilized \$2,381 of capital loss carryforward during the three months ended March 31, 2016. The Company has \$65 of non-expiring capital loss carryforward remaining as of March 31, 2016.

The Company records reclassifications to its capital accounts related to permanent differences between GAAP and tax treatment related to goodwill amortization, excise taxes, and other permanent differences; and temporary differences between GAAP and tax treatment of realized gains and losses, income arising from Company's equity investments in pass-through entities, PIK dividends, and other temporary differences. These required reclassifications for the three months ended March 31, 2015 were part of the revisions discussed in Note 2 as they had not been reported in previously issued financial statements. Reclassifications were as follows:

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	Three Months Ended March 31, 2016 2015	
Paid-in capital in excess of par	\$18	\$18
Undistributed net investment income	14	14
Accumulated net realized gain (loss)	(32)	(32)

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015
Tax-basis amortized cost of investments	\$239,387	\$247,714
Tax-basis gross unrealized appreciation on investments	12,229	13,826
Tax-basis gross unrealized depreciation on investments	(6,209 )	(4,244 )
Tax-basis net unrealized appreciation on investments	6,020	9,582
Fair value of investments	\$245,407	\$257,296

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 11. Financial Highlights**

The following is a schedule of financial highlights for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
Per share data:				
Net asset value per share at beginning of period	\$ 14.76		\$ 14.24	
Distributions (5)				
Dividends from ordinary income (8) (2015 revised - Note 2)	(0.34	)	(0.34	)
Net investment income	0.38		0.28	
Net realized gain on non-control/non-affiliate investments	0.25		0.01	
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(0.42	)	(0.03	)
Net change in unrealized appreciation/depreciation on affiliate investments	0.02		0.08	
Net change in unrealized depreciation on control investment	-		-	
Net asset value per share at end of period	\$ 14.65		\$ 14.24	
Per share market value, end of period	\$ 12.95		\$ 12.25	
Total return based on market value (1)	15.8	%	6.9	%
Total return based on net asset value (2)	1.6	%	2.4	%
Shares outstanding at end of period	9,692,324		9,662,940	
Weighted average shares outstanding	9,691,183		9,650,969	
Ratio/Supplemental Data (in thousands except ratios)				
Average net asset value	\$ 142,512	(3)	\$ 137,521	
Net asset value at end of period	142,011		137,570	
Net investment income	\$ 3,655		\$ 2,749	
Ratio of expenses without incentive fees to average net assets (6)	9.7	%	13.3	%
Ratio of incentive fees to average net assets (6)	2.1	%	1.1	%
Ratio of total expenses to average net assets (6)	11.8	%	14.4	%
Ratio of net investment income without incentive fees to average net assets (6)	12.4	%	9.2	%
Ratio of net investment income to net assets at end of period	2.6	%	2.0	%
Portfolio turnover (7)	2.1	%	7.8	%

- (1) Calculation is ending market value less beginning market value, adjusting for dividends and distributions reinvested at prices obtained in the Company's dividend reinvestment plan for the respective distributions.
- (2) Calculation is ending net asset value less beginning net asset value, adjusting for dividends and distributions reinvested at the Company's quarter-end net asset value for the respective distributions.
- (3) Based on average net asset values at December 31, 2015 and March 31, 2016.
- (4) Based on average net asset values at December 31, 2014 and March 31, 2015.
- (5) The components of the distributions are presented on an income tax basis.
- (6) Annualized.
- (7) Portfolio turnover rate is calculated using the lesser of year-to-date sales and principal payments or year-to-date purchases over the average of the invested assets at fair value.  
The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based upon its taxable income for the full year and distributions paid for the full year. Therefore, a
- (8) determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. If the tax characteristics of the Company's distributions paid during 2016 were determined as of March 31, 2016, approximately \$.04 per share would represent a return of capital.

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 12. Dividends and Distributions**

The Company has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC, it is required to distribute annually to its shareholders at least 90% of its investment company taxable income, as defined by the Code. To avoid a 4% excise tax on undistributed earnings, the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the one-year period ending October 31 of that calendar year (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no federal income tax. The Company intends to make distributions to shareholders on a quarterly basis of substantially all of its net investment income. In addition, although the Company intends to make distributions of net realized capital gains, if any, at least annually, out of assets legally available for such distributions, it may in the future decide to retain such capital gains for investment.

The Company may be limited in its ability to make distributions due to the BDC asset coverage requirements of the 1940 Act. The Company's ability to make distributions may also be affected by its ability to receive distributions from SBIC I LP. SBIC I LP's ability to make distributions is governed by SBA regulations. Consolidated cash and cash equivalents includes \$35,426 held by SBIC I LP, which was not available for distribution at March 31, 2016.

The following table summarizes distributions declared and paid for the three months ended March 31, 2016 and 2015:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Three Months Ended March 31, 2015						
March 4, 2015	March 17, 2015	March 31, 2015	\$ 0.34	\$ 3,133	12,106	\$ 148
Three Months Ended March 31, 2016						
March 7, 2016	March 17, 2016	March 31, 2016	\$ 0.34	\$ 3,280	1,154	\$ 15

For the three months ended March 31, 2016, \$15 of the total \$3,295 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 1,154 shares at an average value of \$12.95 per share at the date of issuance. For the three months ended March 31, 2015,



\$148 of the total \$3,281 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 12,106 shares at an average value of \$12.25 per share at the date of issuance.

Since the Company's IPO, dividends and distributions to shareholders total \$40,991, or \$4.25 per share on a cumulative basis.

Distributions in excess of the Company's current and accumulated profits and earnings would be treated first as a return of capital to the extent of the shareholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based upon its taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company's shareholders. If the tax characteristics of the Company's distributions paid during 2016 were determined as of March 31, 2016, approximately \$0.30 per share and \$0.04 per share of the Company's distributions represented ordinary income and a return of capital to its shareholders, respectively.

### Note 13. Earnings per Share

The following table summarizes the calculations for basic and diluted net increase in net assets resulting from operations per common share for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,	
	2016	2015
Net increase in net assets resulting from operations	\$2,279	\$3,232
Basic and diluted weighted average shares outstanding	9,691,183	9,650,969
Net increase in net assets resulting from operations per common share - basic and diluted	\$0.24	\$0.33

**OFS Capital Corporation and Subsidiaries**

Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)

**Note 14. Subsequent Events**

On May 2, 2016, the Company's Board declared a distribution of \$0.34 per share for the first quarter of 2016, payable on June 30, 2016 to shareholders of record as of June 16, 2016.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### 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 business development company, or BDC or a small business investment company, or SBIC, or maintaining our status as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended (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 Capital Management, LLC, or 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 Orchard First Source Asset Management, LLC, or OFSAM, which is the holding company of OFS Advisor and OFS Capital Services, LLC, or OFS Services and owns approximately 30% of our outstanding shares of common stock;

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 debentures guaranteed by the Small Business Administration, or SBA, 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;

our ability to qualify and maintain our qualification as a RIC and as a BDC;

the ability of OFS SBIC I LP, or SBIC I LP, and any future portfolio company 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 our year ended December 31, 2015. 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 may file with the SEC in the future, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, 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.

## **Overview**

We are an externally managed, closed-end, non-diversified management investment company. Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. Our investment strategy focuses primarily on investments in middle-market companies in the United States. We use the term “middle-market” to refer to companies that may exhibit one or more of the following characteristics: number of employees up to 2,000; revenues between \$15 million and \$300 million; annual earnings before interest, taxes, depreciation and amortization, or EBITDA, between \$3 million and \$50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between \$10 million and \$500 million. For additional information about how we define the middle-market, see “General—Investment Criteria/Guidelines.”

As of March 31, 2016, our investment portfolio consisted of outstanding loans of approximately \$218.3 million in aggregate principal amount in 35 portfolio companies and equity investments of approximately \$32.5 million, at fair value. As of March 31, 2016, 61% of our investment portfolio was comprised of senior secured loans, 26% of

subordinated loans and 13% of equity investments, at fair value.

While our investment strategy focuses primarily on middle-market companies in the United States, including senior secured loans, which includes first-lien, second-lien and unitranche loans as well as subordinated loans and, to a lesser extent, warrants and other equity securities, we also may invest up to 30% of our portfolio in opportunistic investments of non-eligible portfolio companies. Specifically, as part of this 30% basket, we may consider investments in investment funds that are operating pursuant to certain exceptions to the 1940 Act and in advisers to similar investment funds, as well as in debt of middle-market companies located outside of the United States and debt and equity of public companies that do not meet the definition of eligible portfolio companies because their market capitalization of publicly traded equity securities exceeds the levels provided for in the 1940 Act.

Our investment strategy includes OFS SBIC I LP (“SBIC I LP”), which received a license under the U.S. Small Business Administration (“SBA”) Small Business Investment Company program, in May 2012. The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA leverage funding is subject to SBIC I LP’s payment of certain fees to the SBA, and the ability of SBIC I LP to draw on the leverage commitment is subject to its compliance with SBA regulations and policies, including an audit by the SBA. For additional information regarding the regulation of SBIC I LP, see “Regulation—Small Business Investment Company Regulations.”

In January 2015, we filed an application with the SBA for a second SBIC license, which, if approved, would provide up to \$75.0 million in additional SBA debentures for the funding of our future investments upon our contribution of at least \$37.5 million in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and other customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA.

On a stand-alone basis, SBIC I LP held approximately \$249.6 million and \$245.1 million in assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of our total consolidated assets at March 31, 2016 and December 31, 2015, respectively.

Our investment activities are managed by OFS Capital Management, LLC (“OFS Advisor”) and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the investment advisory agreement between us and OFS Advisor (the “Investment Advisory Agreement”) we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC (“SBIC I GP”) on December 4, 2013. We have also entered into an administration agreement (“Administration Agreement”) with OFS Capital Services, LLC (“OFS Services”). Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.



As a business development company (“BDC”), we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our assets, as defined by the 1940 Act, are qualifying assets (with certain limited exceptions). Qualifying assets include investments in “eligible portfolio companies.” Under the relevant Securities and Exchange Commission (“SEC”) rules, the term “eligible portfolio company” includes all private companies, companies whose securities are not listed on a national securities exchange, and certain public companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million, in each case organized in the United States.

We are permitted to borrow money from time to time within the levels permitted by the 1940 Act (which generally allows us to incur leverage for up to 50% of our asset base). We may borrow money when the terms and conditions available are favorable to do so and are aligned with our investment strategy and portfolio composition. The use of borrowed funds or the proceeds of preferred stock to make investments would have its own specific benefits and risks, and all of the costs of borrowing funds or issuing preferred stock would be borne by holders of our common stock.

We have elected to be treated for tax purposes as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (“Code”). To qualify as a RIC, we must, among other things, meet certain source-of-income and assets diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income we distribute to our shareholders.

## **Related Party Transactions**

### ***Investment Advisory Agreement***

We have entered into an Investment Advisory Agreement with OFS Advisor and will pay OFS Advisor a management fee and incentive fee. Pursuant to the Investment Advisory Agreement and subject to the overall supervision of our board of directors and in accordance with the 1940 Act, OFS Advisor provides investment advisory services to us. For providing these services, OFS Advisor receives a fee from us 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 our 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.



The base management fee expense was approximately \$1.1 million and \$1.4 million for the three months ended March 31, 2016 and 2015, respectively.

The incentive fee has two parts. One part (part one) is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. "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 we receive 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 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 we have not yet received in cash.

Pre-incentive fee net investment income does not include any realized gains, realized losses, unrealized capital appreciation or unrealized capital depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized capital losses and unrealized capital depreciation.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our 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, is compared to a fixed "hurdle rate" of 2.0% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for OFS Advisor to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. There is no accumulation of amounts on the hurdle rate from quarter to quarter and accordingly there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle rate, and there is no delay of payment if prior quarters are below the quarterly hurdle rate. Pre-incentive fee net investment income fees are prorated for any partial quarter based on the number of days in such quarter.

We pay OFS Advisor an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

• No incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate;

• 100% of our 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% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) as the “catch-up” provision. The catch-up is meant to provide OFS Advisor with 20.0% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this pre-incentive fee net investment income exceeds 2.5% in any calendar quarter; and

• 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

The second part (part two) of the incentive fee (the “Capital Gains 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) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and our aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year. We accrue the Capital Gains Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive.

The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment. Unrealized capital appreciation is accrued, but not paid until said

appreciation is realized.

We will accrue the Capital Gains Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. OFS Advisor has excluded from the Capital Gains Fee calculation any realized gain with respect to the step acquisitions resulting from the SBIC Acquisition. The Capital Gains Fee for any partial year is prorated based on the number of days in such year.

We incurred incentive fee expense of \$0.7 million for the three months ended March 31, 2016. Incentive fees for the three months ended March 31, 2016, consisted of part one incentive fees (based on net investment income) of \$0.8 million and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(0.1) million, which represents the reversal of the part two incentive fee accrued at December 31, 2015. Incentive fees were \$0.4 million for the three months ended March 31, 2015, which consisted entirely of part one incentive fees.

### ***License Agreement***

We have entered into a license agreement with OFSAM under which OFSAM has agreed to grant us a non-exclusive, royalty-free license to use the name "OFS."

### ***Administration Agreement***

Pursuant to an Administration Agreement, OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our shareholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, OFS Services would provide managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent, information technology, and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary, and their respective staffs. The Administration Agreement may be renewed annually with the approval of our board of directors who are not "interested persons." The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that OFS Services outsources any of its functions we pay the fees associated with such functions on direct basis without profit to OFS Services.



For the three months ended March 31, 2016 and 2015, we incurred and administration fee expense of \$0.4 million and \$0.5 million, respectively.

### ***Staffing Agreement***

We do not have any internal management capacity or employees. We depend on the diligence, skill and network of business contacts of the OFS senior professionals to achieve our investment objective. OFS Advisor is a subsidiary of OFSAM and depends upon access to the investment professionals and other resources of OFSAM and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. OFS Advisor also depends upon OFSAM to obtain access to deal flow generated by the professionals of OFSAM and its affiliates. Under the Staffing Agreement between OFSC and OFS Advisor, OFSC provides OFS Advisor with the resources necessary to fulfill these obligations. The Staffing Agreement provides that OFSC make available to OFS Advisor experienced investment professionals and access to the senior investment personnel of OFSC for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. The Staffing Agreement also includes a commitment that the members of the Advisor Investment Committee serve in such capacity (including Mr. Ressler, who is currently the Chairman of the Advisor Investment Committee).

The Staffing Agreement is renewable by the parties thereto on an annual basis. Services under the Staffing Agreement are provided to OFS Advisor on a direct cost reimbursement basis, and such fees are not our obligation.

OFSC also has entered into a staffing and corporate services agreement with OFS Services. Under this agreement, OFSC makes available to OFS Services experienced investment professionals and access to the administrative resources of OFS Services.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies:

#### ***Valuation of Portfolio Investments.***

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 820. At March 31, 2016, all of our investments in portfolio companies that are valued at fair value by our board of directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value as determined in good faith by the board of directors. Our debt and equity securities are primarily comprised of investments in middle market companies whose securities are not publicly traded. Our investments in these portfolio companies are generally considered Level 3 assets under ASC Topic 820 because the inputs used to value the investments are generally unobservable. As such, we value substantially all of our investments at fair value as determined in good faith by our board of directors pursuant to a consistent valuation policy in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our board of directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

***Revenue Recognition.*** Our revenue recognition policies are as follows:

***Interest Income:*** Interest income is recorded on an accrual basis. Recognized interest income, if payable monthly or quarterly, is reported as interest receivable until collected. Recognized interest income due at maturity or at another stipulated date (“PIK interest”) is recorded as an adjustment to the cost basis of the investment. We accrue interest income until events occur that place a loan into a non-accrual status (see below). Loan origination fees, original issue discount (“OID”), market discount or premium, and loan amendment fees (collectively, “net loan origination fees”) are capitalized, and we accrete or amortize such amounts as additional interest income over the life of the loan using a method that approximates the effective interest method. Unamortized OID is recorded as an adjustment to the cost basis of the investment and unamortized loan amendment fees are reported as deferred loan fee revenue. When we receive a loan principal payment, the unamortized OID related to the paid principal is accelerated and recognized in interest income. All other interest income is recognized as contractually earned. Further, in connection with our debt investments, we may receive warrants or similar equity-related securities (“Warrants”). We determine the cost basis of Warrants based upon their fair values on the date of receipt relative to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

Unamortized net loan origination fees on debt investments were \$2.4 million and \$1.9 million as of March 31, 2016 and December 31, 2015, respectively. We recognized net loan origination fee income of \$0.4 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively. We recognized PIK interest income of \$0.3 million and \$0.3 million for the three months ended March 31, 2016 and 2015, respectively. To maintain its status as a RIC, we include non-cash interest income in the determination of distributable income.

*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. We discontinue accrual of dividends on preferred equity securities when we determine that the dividend may not be collectible. We assess the collectability of the preferred dividends based on factors including the fair value of the preferred equity security, the valuation of the portfolio company’s enterprise value, and proceeds expected to be received over the life of the investment. Distributions received from common or preferred equity securities that do not qualify as dividend income are recorded as return of capital and a reduction in the cost basis of the investment. In addition, we may receive cash distributions from portfolio companies that are taxed as flow-through entities. Each distribution is evaluated to determine whether it should be recorded as income or as a return of capital. Distributions classified as a returns of capital are recorded as reductions in the cost basis of the investments. We recognized preferred dividend income of \$0.5 million and \$0.3 million, of which \$0.3 million and \$0.3 million, respectively, was contractually earned but not declared for the three months ended March 31, 2016 and 2015. We recognized common stock dividends of \$43 thousand for the three months ended March 31, 2016. We did not recognize common stock dividends during the three months ended March 31, 2015.

*Fee Income:* We generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services are rendered. Prepayment penalties for debt instruments repaid prior to their stated maturity are recorded as income upon receipt.

*Net Realized and Unrealized Gain or Loss on Investments:* Investment transactions are reported on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the cost basis of the investment, without regard to unrealized gains or losses as of the date of disposition. Investments are reported at fair value as determined by our 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, we report changes in the fair value of investments as a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

*Non-accrual loans:* Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans, and non-accrual loans are further classified as and accounted for under either a non-accrual cash

method or a non-accrual cost recovery method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest according to contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of management, there is reasonable doubt about its collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected interest, other than PIK interest that has been contractually added to the principal balance prior to the designation date, is reversed against current period interest income. Interest payments subsequently received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

## **Portfolio Composition and Investment Activity**

### *Portfolio Composition*

The total fair value of our investments was \$245.4 million and \$257.3 million at March 31, 2016 and December 31, 2015, respectively. Our investment portfolio as of March 31, 2016 consisted of outstanding loans to 35 portfolio companies, totaling approximately \$218.3 million in aggregate principal amount, of which 70% were senior secured loans, 30% were subordinated loans, and approximately \$32.5 million were equity investments, at fair value, in 16 portfolio companies in which it also held debt investments and one portfolio company in which it solely held an equity investment. Our investment portfolio encompassed a broad range of geographical regions within the United States and industries. We had unfunded commitments of \$5.3 million and \$3.8 million to four portfolio companies and three portfolio companies at March 31, 2016 and December 31, 2015, respectively. Set forth in the tables below is selected information with respect to our portfolio as of March 31, 2016 and December 31, 2015.



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The following table summarizes the composition of our investment portfolio as of March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
	Commitment	Outstanding Principal	Fair Value	Commitment	Outstanding Principal	Fair Value
	(Dollar amounts in thousands)			(Dollar amounts in thousands)		
Senior secured term loan	\$155,138	\$ 153,688	\$149,202	\$163,398	\$ 163,398	\$160,473
Subordinated term loan	66,983	64,605	63,779	67,751	65,373	64,240
Senior secured revolver	1,094	-	(30 )	1,094	-	(36 )
Equity investments (at fair value)	32,820	N/A	32,456	32,983	N/A	32,619
	\$256,035	\$ 218,293	\$245,407	\$265,226	\$ 228,771	\$257,296
Total number of obligors	35	35	35	38	38	38

The following table summarizes our combined debt commitments and equity investments (at fair value) portfolio by industry as of March 31, 2016 and December 31, 2015.

	March 31, 2016		December 31, 2015	
	Commitment (Dollar amounts in thousands)	Percent	Commitment (Dollar amounts in thousands)	Percent
Administrative and Support and Waste Management and Remediation Services				
Other Travel Arrangement and Reservation Services	10,362	4.0 %	\$10,250	3.9 %
Security Systems Services (except Locksmiths)	5,203	2.0	5,000	1.9
Tour Operators	3,235	1.3	3,208	1.2
Education Services				
Colleges, Universities, and Professional Schools	5,095	2.0	5,026	1.9
Finance and Insurance				
Insurance Agencies and Brokerages	11,814	4.6	11,826	4.5
Health Care and Social Assistance				
Medical Laboratories	4,124	1.6	4,104	1.5
Other Outpatient Care Centers	14,250	5.5	15,250	5.7
Outpatient Mental Health and Substance Abuse Centers	6,722	2.6	6,672	2.5
Information				
Other Information Services	2,554	1.0	2,578	1.0
Other Telecommunications	3,562	1.4	3,826	1.4
Software Publishers	-	-	7,310	2.8
Manufacturing				

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Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,495	1.8	4,551	1.7
Communications Equipment Manufacturing	-	-	2,257	0.9
Other Aircraft Parts and Auxiliary Equipment Manufacturing	13,114	5.1	12,766	4.8
Other Basic Inorganic Chemical Manufacturing	4,727	1.8	4,791	1.8
Packaging Machinery Manufacturing	2,000	0.8	2,000	0.8
Pharmaceutical Preparation Manufacturing	6,406	2.5	5,672	2.1
Pump and Pumping Equipment Manufacturing	12,867	5.0	13,061	4.9
Soap and Other Detergent Manufacturing	939	0.4	939	0.4
Travel Trailer and Camper Manufacturing	13,447	5.3	13,717	5.2
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	13,204	5.2	13,934	5.3
Professional, Scientific, and Technical Services				
Administrative Management and General Management Consulting	9,640	3.8	10,000	3.8
Computer Systems Design and Related Services	3,000	1.2	3,000	1.1
Custom Computer Programming Services	7,520	2.9	7,667	2.9
Other Accounting Services	8,858	3.5	9,113	3.4
Other Computer Related Services	11,850	4.6	11,850	4.5
Other Professional, Scientific, and Technical Services	30,703	12.0	31,907	12.0
Real Estate and Rental and Leasing				
Home Health Equipment Rental	1,681	0.7	1,951	0.7
Office Machinery and Equipment Rental and Leasing	8,685	3.4	8,566	3.2
Offices of Real Estate Appraisers	10,000	3.9	10,000	3.8
Wholesale Trade				
Electrical Apparatus and Equipment, Wiring Supplies, and Related	4,334	1.7	4,316	1.6
Metal Service Centers and Other Metal Merchant Wholesalers	13,887	5.4	10,159	3.8
Sporting and Recreational Goods and Supplies Merchant Wholesalers	7,757	3.0	7,959	3.0
	\$256,035	100.0 %	\$265,226	100.0 %

The following table provides a regional breakdown of our debt investment portfolio as of March 31, 2016 and December 31, 2015.

	March 31, 2016		December 31, 2015	
	Commitment	Percent	Commitment	Percent
	(Dollar amounts in thousands)			
South	\$95,035	42.6 %	\$93,810	40.3 %
Northeast	74,887	33.5	77,480	33.4
West	41,517	18.6	46,840	20.2
Midwest	11,776	5.3	14,113	6.1
Total	\$223,215	100.0 %	\$232,243	100.0 %

The following table provides a breakdown of our debt investment portfolio by portfolio company investment size as of March 31, 2016 and December 31, 2015.

Debt Investment Size (in millions)	As of March 31, 2016			As of December 31, 2015		
	Commitment (Dollar amounts in thousands)	Percent	Number	Commitment (Dollar amounts in thousands)	Percent	Number
\$0 - \$3	\$ 18,659	8.4 %	8	\$ 22,004	9.5 %	10
\$3 - \$4	14,680	6.6	4	11,614	5.0	3
\$4 - \$5	32,331	14.5	7	32,324	13.9	7
\$5 - \$10	70,699	31.6	9	92,125	39.7	12
>\$10	86,846	38.9	7	74,176	31.9	6
	\$ 223,215	100.0 %	35	\$ 232,243	100.0 %	38

The following table provides a breakdown of our debt investment portfolio by yield to fair value as of March 31, 2016 and December 31, 2015.

Yield to Fair Value	March 31, 2016		December 31, 2015	
	Senior Secured Debt	Subordinated Debt	Senior Secured Debt	Subordinated Debt

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Less than 6%	-	%	-	%	-	%	-	%
6% - 7%	11.6		-		12.4		-	
8% - 10%	16.8		-		27.0		-	
Greater than 10%	71.6		100.0		60.6		100.0	
Total	100.0%		100.0		% 100.0%		100.0	%
Weighted average yield	11.57%		14.16		% 11.37%		13.60	%

The weighted average yield to fair value of our debt investment portfolio was 12.34% and 12.01% at March 31, 2016 and December 31, 2015, respectively. The weighted average yield on debt investments at fair value is computed as (a) total annual stated interest on accruing loans plus the annualized accretion of OID and amortization of deferred loan fees divided by (b) total debt investments at fair value excluding assets on non-accrual basis. The weighted average yield on debt investments at fair value is computed as of the balance sheet date.

As of March 31, 2016 and December 31, 2015, floating rate loans comprised 61% and 59% of our debt investment portfolio, respectively, and fixed rate loans comprised 39% and 41% of our debt investment portfolio, respectively, as a percent of fair value.

*Investment Activity*

The following is a summary of our investment activity, presented on a principal (or cost for equity investments) basis, for the three months ended March 31, 2016 and 2015 (in millions).

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Investments in new portfolio companies	\$-	\$ -	\$16.0	\$ 2.0
Investments in existing portfolio companies				
Follow-on investments	3.3 (1)	-	6.5	-
Refinanced investments	3.4	-	-	-
Delayed draw funding	-	-	0.3	-
Total investments in existing portfolio companies	6.7	-	6.8	-
Total investments in new and existing portfolio companies	\$6.7	\$ -	\$22.8	\$ 2.0
Number of new portfolio company investments	-	-	2	1
Number of existing portfolio company investments	2	-	2	-
Proceeds/distributions from principal payments/equity investments	15.9	-	11.0	-
Proceeds from investments sold or redeemed	-	2.1	18.3 (2)	-
Total proceeds from principal payments, equity distributions and investments sold	\$15.9	\$ 2.1	\$29.3	\$ -

(1) Received LLC membership interest in connection with a follow-on debt investment in an existing portfolio company valued at \$0.3 million.

(2) Includes \$7.2 million of proceeds pertaining to a debt investment we sold in December 2014.

During the three months ended March 31, 2016, we converted a \$1.8 million portion of a subordinated debt investment with a principal amount of \$1.8 million into equity units and warrants valued at \$1.8 million. In addition, we received equity in a portfolio company as consideration for an amendment to a senior secured debt investment in the same portfolio company with a fair value of \$0.2 million.

Our level of investment activity may vary substantially from period to period depending on various factors, including, but not limited to, the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

*Portfolio Credit Ratings*

We categorize debt investments into seven risk categories based on relevant information about the ability of borrowers to service their debt.

1 (Low Risk) – A risk rated 1, or Low Risk, credit is a credit that has most satisfactory asset quality and liquidity, as well as good leverage capacity. It maintains predictable and strong cash flows from operations. The trends and outlook for the credit's operations, balance sheet, and industry are neutral to favorable. Collateral, if appropriate, has maintained value and would be capable of being liquidated on a timely basis. Overall, a 1 rated credit would be considered to be of investment grade quality.

2 (Below Average Risk) – A risk rated 2, or Below Average Risk, credit is a credit that has acceptable asset quality, moderate excess liquidity, and modest leverage capacity. It could have some financial/non-financial weaknesses that are offset by strengths; however, the credit demonstrates an ample current cash flow from operations. The trends and outlook for the credit's operations, balance sheet, and industry are generally positive or neutral to somewhat negative. Collateral, if appropriate, has maintained value and would be capable of being liquidated successfully on a timely basis.

3 (Average) – A risk rated 3, or Average, credit is a credit that has acceptable asset quality, somewhat strained liquidity, and minimal leverage capacity. It is at times characterized by just acceptable cash flows from operations. Under adverse market conditions, carrying the current debt service could pose difficulties for the borrower. The trends and conditions of the credit's operations and balance sheet are neutral to slightly negative.

4 (Special Mention) – A risk rated 4, or Special Mention, credit is a credit with no apparent loss of principal or interest envisioned. Nonetheless, it possesses credit deficiencies or potential weaknesses that deserve management's close and continued attention. The credit's operations and/or balance sheet have demonstrated an adverse trend or deterioration that, while serious, has not reached the point where the liquidation of debt is jeopardized. These weaknesses are generally considered correctable by the borrower in the normal course of business but may, if not checked or corrected, weaken the asset or inadequately protect our credit position.

5 (Substandard) – A risk rated 5, or Substandard, credit is a credit inadequately protected by the current enterprise value or paying capacity of the obligor or of the collateral, if any. These credits have well-defined weaknesses based upon objective evidence, such as recurring or significant decreases in revenues and cash flows. These assets are characterized by the possibility that we may sustain loss if the deficiencies are not corrected. The possibility that liquidation would not be timely (e.g. bankruptcy or foreclosure) requires a Substandard classification even if there is little likelihood of loss.

6 (Doubtful) – A risk rated 6, or Doubtful, credit is a credit with all the weaknesses inherent in those classified as Substandard, with the additional factor that the weaknesses are pronounced to the point that collection or liquidation in full, on the basis of currently existing facts, conditions and values is deemed uncertain. The possibility of loss on a Doubtful asset is high but, because of certain important and reasonably specific pending factors that may strengthen the asset, its classification as an estimated loss is deferred until its more exact status can be determined.

7 (Loss) – A risk rated 7, or Loss, credit is a credit considered almost fully uncollectible and of such little value that its continuance as an asset is not warranted. It is generally a credit that is no longer supported by an operating company, a credit where the majority of our assets have been liquidated or sold and a few assets remain to be sold over many months or even years, or a credit where the remaining collections are expected to be minimal.

The following table shows the classification of our debt investments portfolio by credit rating as of March 31, 2016 and December 31, 2015:

Credit Rating	March 31, 2016		December 31, 2015		
	Debt Investments at Fair Value	% of Debt Investments	Debt Investments at Fair Value	% of Debt Investments	
1	\$-	-	% \$-	-	%
2	10,928	5.1	15,755	7.0	
3	171,665	80.7	187,276	83.4	
4	29,615	13.9	17,171	7.6	
5	743	0.3	4,475	2.0	
6	-	-	-	-	
7	-	-	-	-	
	\$212,951	100.0	% \$224,677	100.0	%

At March 31, 2016 and December 31, 2015, we had one non-accrual loan (Phoenix Brands LLC) with a fair value of approximately \$0.7 million and 0.8 million, respectively.

## Results of Operations

### *Key Financial Measures*

The following is a discussion of the key financial measures that management employs in reviewing the performance of our operations.

**Revenues.** We generate revenue in the form of interest income on debt investments, capital gains, and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of March 31, 2016, floating rate and fixed rate loans comprised 61% and 39%, respectively, of our current debt investment portfolio; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will increase. In some cases, our investments will provide for deferred interest or dividend payment, PIK interest, or PIK dividend, respectively, (meaning interest or dividend paid in the form of additional principal amount of the loan or equity security instead of in cash). In addition, we may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Loan origination fees, OID, market discount or premium, and loan amendment fees are capitalized, and we accrete or amortize such amounts over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its carrying value, we will also record the excess principal payment as income.



**Expenses.** Our primary operating expenses include interest expense due under our outstanding borrowings, the payment of fees to OFS Advisor under the Investment Advisory Agreement, our allocable portion of overhead expenses under the Administration Agreement and other operating costs described below. Additionally, we will pay interest expense on any outstanding debt under any new credit facility or other debt instrument we may enter into. We will bear all other out-of-pocket costs and expenses of our operations and transactions, whether incurred by us directly or on our behalf by a third party, including:

• the cost of calculating our net asset value, including the cost of any third-party valuation services;

• the cost of effecting sales and repurchases of shares of our common stock and other securities;

• fees payable to third parties relating to making investments, including out-of-pocket fees and expenses associated with performing due diligence and reviews of prospective investments;

• transfer agent and custodial fees;

• out-of-pocket fees and expenses associated with marketing efforts;

• federal and state registration fees and any stock exchange listing fees;

• U.S. federal, state and local taxes;

• independent directors' fees and expenses;

• brokerage commissions;

• fidelity bond, directors' and officers' liability insurance and other insurance premiums;

• direct costs, such as printing, mailing and long-distance telephone;

• fees and expenses associated with independent audits and outside legal costs;

•

costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S. federal and state securities laws; and

other expenses incurred by either OFS Services or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion (subject to policies reviewed and approved by our board of directors) of overhead.

We do not believe that our historical operating performance is necessarily indicative of our future results of operations that we expect to report in future periods. We are primarily focused on investments in middle-market companies in the United States, including debt investments and, to a lesser extent, equity investments, including warrants and other minority equity securities, which differs to some degree from our historical investment concentration, in senior secured loans to middle-market companies in the United States. Moreover, as a BDC and a RIC, we will also be subject to certain constraints on our operations, including, but not limited to, limitations imposed by the 1940 Act and the Code. In addition, SBIC I LP is subject to regulation and oversight by the SBA. For the reasons described above, the results of operations described below may not necessarily be indicative of the results we expect to report in future periods.

***Comparison of the three months ended March 31, 2016 and 2015***

Consolidated operating results for the three months ended March 31, 2016 and 2015, are as follows:

	Three Months Ended March 31, 2016    2015 (Amounts in thousands)	
Total investment income	\$7,843	\$7,621
Total expenses	4,188	4,872
Net investment income	3,655	2,749
Net gain (loss) on investments	(1,376)	483
Net increase in net assets resulting from operations	\$2,279	\$3,232

*Investment Income*

	Three Months Ended March 31, 2016 2015 (Amounts in thousands)	
Interest income		
Senior secured term loan	\$4,501	\$5,360
Subordinated term loan	2,262	1,798
Total interest income	6,763	7,158
Dividend income	557	329
Fee income	523	134
Total investment income	\$7,843	\$7,621

Interest income decreased by \$0.4 million, or 6%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The \$0.4 million decrease was primarily due to a \$1.4 million increase in interest income due to a 26% increase in our average portfolio yield offset by a decrease of approximately \$1.8 million due to a 27% decrease in the weighted average principal balance of investments outstanding during the three months ended March 31, 2016.

We generated dividend income of \$0.6 million and \$0.3 million for the three months ended March 31, 2016 and 2015, respectively. The increase of \$0.3 million was due to an increase in cash dividends received from our equity investments.

We generated fee income of \$0.5 million and \$0.1 million for the three months ended March 31, 2016 and 2015, respectively. The increase of \$0.4 million was primarily due to an increase in prepayment fees received which are earned when a portfolio company repays its debt obligation prior to maturity.

*Expenses*

Three Months  
Ended March  
31,  
2016 2015

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(Amounts in thousands)

Interest expense	\$1,308	\$1,777
Management fees	1,115	1,555
Incentive fee	733	375
Professional fees	314	315
Administration fee	428	541
General and administrative expenses	290	309
Total expenses	\$4,188	\$4,872

We incur significant expenses which involve transactions with related parties, specifically management fees, the incentive fee, and the administrative fee. See “Item 2–Related Party Transactions” and “Item 1–Unaudited Financial Statements - Note 5”.

Total expenses decreased by \$0.7 million, or 14%, for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015.

Interest expense decreased by \$0.5 million for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The \$0.5 million decrease was primarily due to an increase of \$0.5 million in interest expense incurred on our SBA debentures, which was offset by a decrease of \$0.5 million in interest expense on our WM Credit Facility and a \$0.4 million write-off of deferred debt issuance costs in connection with our March 2015 permanent reduction of the WM Credit Facility from \$100.0 million to \$75.0 million. Interest expense on our SBA debentures increased by \$0.5 million due to an increase of \$21.5 million in the weighted average debentures outstanding and an increase in the weighted average interest rate of approximately 1% during the three months ended March 31, 2016 compared to the three months ended March 31, 2015, which resulted in an increase in interest expense of \$0.3 million and \$0.2 million, respectively. The decrease of \$0.5 million of interest expense on the WM Credit Facility was due the termination of the facility on May 28, 2015.

Management fee expense was \$1.1 million and \$1.6 million for the three months ended March 31, 2016 and 2015, respectively. The decrease of \$0.5 million was primarily due to a decrease in the base management fee incurred to OFS Advisor as a result of a decrease in the average total assets subject to the base management fee.

For the three months ended March 31, 2016, we incurred \$0.7 million of incentive fee expense to OFS Advisor compared to incentive fee expense of \$0.4 million incurred for the three months ended March 31, 2015. The increase of approximately \$0.3 million was primarily due to an increase in our pre-incentive fee net investment income for the three months ended March 31, 2016, as compared with the three months ended March 31, 2015.

Administrative fee expense decreased by \$0.1 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015, primarily due to a decrease in the allocable amount of the salary and incentives of our officers and their respective staffs, which OFS Services passed along to us under our administration agreement.

***Net Gain (Loss) on Investments***

	Three Months Ended March 31,	
	2016	2015
	(Amounts in thousands)	
Senior secured debt	\$(1,382)	\$(481)
Subordinated debt	313	(12 )
Equity	(307 )	976
Net gain (loss) on investments	\$(1,376)	\$483

Net gain (loss) on investments consist of aggregate (a) realized gains and losses from the sale of debt or equity securities, or the redemption of equity securities; and (b) changes in net unrealized appreciation/depreciation on debt and equity investments. In the period in which a realized gain or loss is recognized, such gain or loss will generally be offset by the reversal of previously recognized unrealized appreciation or depreciation, and the net gain recognized in that period will generally be smaller. The unrealized appreciation or depreciation on debt securities is also reversed when those investments are redeemed or paid-off prior to maturity. In such instances the reversal on unrealized appreciation or depreciation will be reported as a net loss or gain, respectively, and will be partially offset by the acceleration of premium or discount on the debt security, if any, in interest income.

Three months ended March 31, 2016

We recognized net losses of \$1.4 million on senior secured debt primarily as a result of the impact of widening spreads in second lien loan indices and other interest rate market factors on our discount rates, and the pay-off of debt investments, partially offset by the net impact of company-specific and other factors on our valuations.

We recognized net gains of \$0.3 million on subordinated debt principally as a result of the pay-off of debt investments and the net impact of company-specific and other factors, partially offset by the impact of widening spreads in second lien loan indices and other interest rate market factors on our discount rates.

Net losses on equity investments of \$0.3 million were primarily attributable to company-specific factors, partially offset by the impact of exit-event assumptions and other factors on our valuations.

During the three months ended March 31, 2016, we realized gains of \$2.6 million principally from the redemption of an equity investment. We held this investment from the first quarter of 2014 and recognized unrealized gains of \$2,062 and \$498 during the years ended December 31, 2015 and 2014, respectively. There was no net gain during the three months ended March 31, 2016, on this transaction.

Three months ended March 31, 2015

We recognized net losses of \$0.5 million on senior secured debt primarily as a result of the impact of widening spreads in middle market and second lien loan indices, and other interest rate market factors on our discount rates, partially offset by the pay-off of debt investments and the net impact of company-specific factors on our valuations.

Net gains on equity investments of \$1.0 million were attributable to the effect of improvements in company-specific factors on our valuations.

## Liquidity and Capital Resources

### *Sources and Uses of Cash and Cash Equivalents*

We generate cash through operations from net investment income and the net liquidation of portfolio investments, and uses cash in our operations in the net purchase of portfolio investments. We must distribute substantially all our taxable income which approximates, but will not always equal, the cash we generate from net investment income to maintain our RIC status. We will not make a final determination regarding the tax character of our distributions until January 2017, however if the tax characteristics of the distributions paid during the first quarter of 2016 were determined as of March 31, 2016, we estimate that approximately \$375 thousand would represent a return of capital. We have no history of net taxable gains, but in the first quarter of 2016 we effectively exhausted our net capital loss carryforward. We also obtain and use cash in the net borrowing of funds from the SBA and commercial sources of debt. These principal sources and uses of cash and liquidity are presented below (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cash from net investment income	\$1,315	\$2,354
Sales and repayments (net of purchases) of portfolio investments	11,481	4,655
Net cash provided by operating activities	12,796	7,009
Cash dividends and distributions paid	(3,280)	(3,133)
Net borrowings	-	5,321

At March 31, 2016, we held cash and cash equivalents of \$42.2 million, an increase of \$9.5 million from December 31, 2015. During the three months ended March 31, 2016, sales and repayments of portfolio investments were primarily due to \$2.1 million of cash collected from the redemption of a warrant investment and \$15.9 million of cash we received from principal payments on our portfolio investments. These cash receipts were offset by \$6.5 million of cash we used to purchase portfolio investments.

Net cash from net investment income was \$1.3 million, or \$1.1 million less than the corresponding quarter in 2015. The decline in cash collected from net investment income was principally due to higher management and incentive fees paid and higher cash paid for interest. Cash used to pay base management fees in the first quarter of 2016 were \$1.0 million greater than the first quarter of 2015 due to adjustments in the base management fee rate and the timing of management fees settlement. On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. The annualized base fee rate for second, third, and fourth quarters of 2014 was lowered, such that the full year affect for 2014 was a base

management fee annual rate of 0.875% which resumed to its 1.75% annual rate on January 1, 2015. As management fees are settled a quarter in arrears, the management fees paid in the first quarter of 2015 were at the lower management fee rate.

Cash paid for interest increased \$0.5 million in the first quarter of 2016 compared to the corresponding quarter in 2015, as a result of higher payments on a SBA debentures, partially offset by lower payments on the WM Credit Facility. We are required to make interest payments on our SBA debentures semi-annually in March and September through maturity. The weighted average outstanding balance on our SBA debentures, excluding debt issuance costs, increased from \$103.8 million for the six months ended March 31, 2015, to \$149.8 million for the for the six months ended March 31, 2016. Additionally, \$42.5 million of the weighted average outstanding balance for the six months ended March 31, 2015, carried interest at a lower pre-pooling, short-term rate. Consequently, we paid cash interest of \$2.3 million on our SBA debentures for the three months ended March 31, 2016 compared to \$1.2 million for the three months ended March 31, 2015. This increase was partially offset by a decline in cash paid for interest on our WM Credit Facility from \$0.6 million in the first quarter of 2015 to \$-0- in 2016 due to the retirement of that facility.

The increases in management fees paid and cash paid for interest for the three months ended March 31, 2016, over the comparable quarter in 2015 were partially offset by an increase in investment income collected.

During the three months ended March 31, 2015, sales and repayments of portfolio investments were primarily due to \$11.0 million of cash we received from principal payments on our portfolio investments, cash collections of \$18.3 million from the sale of our portfolio investments, including \$7.2 million of cash collection from an investment we sold in December 2014. These cash receipts were offset by \$24.6 million of cash we used to purchase portfolio investments.

Cash from net investment income for the three months ended March 31, 2015, was \$0.7 million greater than the corresponding quarter in 2014 due to greater investment income collected from 35% increase in average investments, at fair value, partially offset by greater interest paid as a result of higher average outstanding borrowings.

Net borrowings of \$5.3 million for the three months ended March 31, 2015 was primarily attributable to \$13.3 million of draws from our SBA debentures (net of the fees), offset by \$8.3 million of net repayments on the WM Credit Facility.

### ***SBA Debentures***

As a result of the SBIC Acquisitions, SBIC I LP became our wholly-owned subsidiary effective December 4, 2013. SBIC I LP has a SBIC license that allows it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to OFS



Capital, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate is fixed at the first pooling date after issuance, which is March and September of each year, at a market-driven spread over U.S. Treasury Notes with ten-year maturities. SBA regulations currently limit the amount that an SBIC may borrow to up to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed \$350 million. As of March 31, 2016, SBIC I LP had fully drawn the \$149.9 million of leverage commitments from the SBA. The SBA debentures do not amortize and are due in full at maturity between September 2022 and September 2025.

In January 2015, we filed an application with the SBA for a second SBIC license, which, if approved, would provide up to \$75.0 million in additional SBA debentures for the funding of our future investments upon our contribution of at least \$37.5 million in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and other customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA.

On a stand-alone basis, SBIC I LP held approximately \$249.6 million and \$229.1 million in assets at March 31, 2016 and March 31, 2015, respectively, which accounted for approximately 85% and 66% of our total consolidated assets at March 31, 2016 and March 31, 2015, respectively.

SBIC I LP is periodically examined and audited by the SBA's staff to determine its compliance with SBA regulations. If SBIC I LP fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit SBIC I LP's use of debentures, declare outstanding debentures immediately due and payable, and/or limit SBIC I LP from making new investments. In addition, SBIC I LP may also be limited in its ability to make distributions to OFS Capital if it does not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would in turn, negatively affect OFS Capital.

### ***PWB Credit Facility***

On November 5, 2015, we, as borrower, entered into a Business Loan Agreement ("BLA") with Pacific Western Bank, as lender, to provide OFS Capital with a \$15.0 million senior secured revolving credit facility ("PWB Credit Facility") for general corporate purposes, including investment funding. The maximum availability under the PWB Credit Facility is equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base and otherwise specified in the BLA. The PWB Credit Facility is guaranteed by OFS Capital WM and secured by all of our current and future assets excluding assets held by SBIC I LP and our SBIC I LP and SBIC I GP partnership interests. The PWB Credit Facility matures on November 7, 2017. Advances under the facility will bear interest at a fixed rate per annum equal to 4.75%. We paid a \$150 thousand commitment fee in connection with the closing of the PWB Credit Facility. There have been no advances under the PWB Credit Facility as of March 31, 2016.

The PWB Credit Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The PWB Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition.

***WM Asset Sale and Related Transactions***

On May 28, 2015, OFS Capital Corporation and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison, a Delaware limited liability company, pursuant to which we sold a portfolio of 20 senior secured debt investments with an aggregate principal balance of approximately \$67.8 million as of May 28, 2015 to Madison. Madison is an affiliated entity of MCF Capital Management, LLC (“MCF”), which was the loan manager for OFS Capital WM prior to the WM Asset Sale under a Loan and Security Agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, each of the Lenders from time to time party thereto, and Wells Fargo Delaware Trust Company, N.A. (the “Loan and Security Agreement”).

As a result of the WM Asset Sale, we received cash proceeds of approximately \$67.3 million. On May 28, 2015, the total fair value of the debt investments sold, applying our March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was approximately \$66.7 million. The determination of the fair value of our investments is subject to the good faith determination by our board of directors, which is conducted no less frequently than quarterly, pursuant to our valuation policies and accounting principles generally accepted in the United States.

On May 28, 2015, pursuant to the Loan and Security Agreement, we applied approximately \$52.4 million from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM’s secured revolving credit facility with the WM Credit Facility. As a result of the termination of the WM Credit Facility, we wrote-off the remaining related unamortized deferred financing closing costs of \$1.2 million on the revolving line of credit.

In connection with the WM Asset Sale, on May 28, 2015, we entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to the remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter.

***Other Liquidity Matters***

We expect to fund the growth of our investment portfolio utilizing borrowings under SBA debentures, future equity offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act. We cannot assure shareholders that our plans to raise capital will be successful. In addition, we intend to distribute to our shareholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments or make additional investments in our portfolio companies. The illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

In addition, as a BDC, we generally will be required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities (including SBIC I LP's SBA-guaranteed debt), to total senior securities, which include all of our borrowings (excluding SBA-guaranteed debt) and any outstanding preferred stock (of which we had none at March 31, 2016), of at least 200%. We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the statutory 200% asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

***Contractual Obligations***

The following table shows our contractual obligations as of March 31, 2016:

Contractual Obligations (1)	Total	Payments due by period			
		Less than 1 year	1-3 years (2)	3-5 years	After 5 years (2)
		(Amounts in thousands)			
PWB Credit Facility	\$-	\$ -	\$ -	\$ -	\$-
SBA Debentures	146,556	-	-	-	146,556
Total	\$146,556	\$ -	\$ -	\$ -	\$146,556

(1) Excludes commitments to extend credit to our portfolio companies.

- (2) The PWB Credit Facility is undrawn at March 31, 2016 and is scheduled to mature on November 7, 2017. The SBA debentures are scheduled to mature between September 2022 and 2025.

We have entered into contracts with third parties under which we have material future commitments—the Investment Advisory Agreement, pursuant to which OFS Advisor has agreed to serve as our investment adviser, and the Administration Agreement, pursuant to which OFS Services has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations.

### *Commitments and Contingencies*

We had \$5.3 million and \$3.8 million of total unfunded commitments to four and three portfolio companies at March 31, 2016 and December 31, 2015, respectively. See “Item 1– Unaudited Financial Statements - Note 8.”

### *Distributions*

We are taxed as a RIC under the Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine “taxable income.” Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual PIK interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest and dividends or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation, and amortization expense.

Our board of directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount not less than 90-100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend, or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income to a following year.

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The following table summarizes our distributions declared and paid on all shares since inception to date:

Date Declared	Record Date	Payment Date	Amount	
			Per Share (2)	Total Amount
Fiscal 2016				
March 7, 2016	March 17, 2016	March 31, 2016	\$ 0.34	\$ 3,295
Fiscal 2015				
November 2, 2015	December 17, 2015	December 31, 2015	\$ 0.34	\$ 3,295
August 6, 2015	September 16, 2015	September 30, 2015	0.34	3,289
May 4, 2015	June 16, 2015	June 30, 2015	0.34	3,286
March 4, 2015	March 17, 2015	March 31, 2015	0.34	3,281
Fiscal 2014				
November 4, 2014	December 17, 2014	December 31, 2014	\$ 0.34	\$ 3,278
August 7, 2014	September 16, 2014	September 30, 2014	0.34	3,276
May 7, 2014	June 16, 2014	June 30, 2014	0.34	3,275
January 21, 2014	January 31, 2014	February 14, 2014	0.34	3,274
Fiscal 2013				
September 25, 2013	October 17, 2013	October 31, 2013	\$ 0.34	\$ 3,273
June 25, 2013	July 17, 2013	July 31, 2013	0.34	3,272
March 26, 2013	April 17, 2013	April 30, 2013	0.34	3,269
Fiscal 2012				
November 26, 2012 (1)	January 17, 2013	January 31, 2013	\$ 0.17	\$ 1,628

(1) Represents the dividend declared in the specified quarter, which, if prorated for the number of days remaining in the fourth quarter after the IPO in November 2012, would have been \$0.34 per share.

(2) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. If the tax characteristics of the distributions paid during fiscal 2016 were determined as of March 31, 2016, we estimate that approximately \$0.04 would represent a return of capital. The return of capital portion of each distribution paid during the years ended December 31, 2015, 2014, and 2013 (which includes the distribution declared on November 26, 2012) was \$0.23, \$0.72, and \$0.40, respectively.

Available cash to make distributions could be impacted by, among other things, SBA regulations. Furthermore, we may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our status as a RIC. We cannot assure shareholders that they will receive any distributions at a particular level.

Distributions in excess of our current and accumulated earnings and profits are reported as return of capital; the tax treatment to the shareholder will depend on a variety of factors including the shareholder's tax basis in our shares. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year; therefore, a determination made on a quarterly basis may not be representative of the tax attributes of our annual distributions to shareholders. For dividends and distributions paid during the three months ended March 31, 2016, out of the approximately \$3.3 million distribution, approximately 89% represented ordinary income and 11% represented a return of capital.

Each year a statement on Form 1099-DIV identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus, which is a nontaxable distribution) is mailed to our U.S. shareholders. To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a taxable return of capital to our shareholders.

We maintain an "opt-out" dividend reinvestment plan for our common shareholders. As a result, if we declare a dividend, cash dividends are automatically reinvested in additional shares of our common stock unless the shareholder specifically "opts out" of the dividend reinvestment plan and chooses to receive cash dividends.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of March 31, 2016, 61% of our debt investments bore interest at floating interest rates and 39% of our debt investments bore fixed interest rates. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current rates on a periodic basis. Substantially all of the debt investments bearing floating interest rates in our portfolio as of March 31, 2016 had interest rate floors, which have effectively converted those debt investments to fixed rate debt investments in the current interest rate environment.

Our current long-term debt bears interest at a fixed rate. We expect that other credit facilities into which we may enter in the future may have floating interest rate provisions.

	<b>Interest</b>	<b>Interest</b>	<b>Net</b>
	<b>income</b>	<b>expense</b>	<b>increase</b>
Basis point increase(1)			(decrease)
	(Amounts in thousands)		
50	\$124	\$ -	\$ 124
100	638	-	638
150	1,260	-	1,260
200	1,939	-	1,939
250	2,617	-	2,617

(1) A decline in interest rates would not have a material impact on our net investment income.

Although we believe that the foregoing analysis is indicative of our net investment income sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets in our portfolio, and other business developments, including borrowings under our credit facility, that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

We are subject to financial market risks, including changes in interest rates. Changes in interest rates affect both our cost of funding and the valuation of our investment portfolio. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs. Our investment portfolio and investment income may be affected by changes in various interest rates, including LIBOR



and prime rates.

#### **Item 4. Controls and Procedures**

##### **Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer, under the supervision and with the participation of our management, conducted an evaluation of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, and in light of the material weakness in the design and operation of our internal control over financial reporting related the reconciliation of the components of distributions in the statement of changes in net assets and net assets within the balance sheet, as disclosed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2015 and Item 1–Unaudited Financial Statements–Note 2, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective. To address this material weakness, we have taken steps to address the underlying causes of the material weakness as described further in “—Remediation Efforts.” Accordingly, we believe that the consolidated financial statements included in this quarterly report on Form 10-Q do fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

### ***Remediation Efforts***

We are currently in the process of remediating the material weakness in our internal control over financial reporting as described above and are taking the necessary steps that we believe will address the underlying causes of the material weakness. We have completed the development and formal documentation of our policies and procedures relating to our internal control over financial reporting, but we have not completed the testing of these formalized controls. The identified material weakness in internal control will not be considered fully remediated until sufficient time has elapsed to provide evidence that the new controls have been implemented and are operating effectively. We implemented the following remediation steps to address the material weakness discussed above and to improve its internal control over financial reporting:

Our account reconciliation process for components of net assets and distributions was enhanced (1) to ensure the proper reclassification entries are recorded to account for the tax character of, and basis differences between tax and GAAP and (2) to ensure the beginning of the quarter and normal, recurring elements of changes in net assets appropriate to the account, equal the reconciled balance at the end of the quarter for components of net assets and distributions.

### **Changes in Internal Control over Financial Reporting**

Other than as described above, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We, OFS Advisor and OFS Services, are not currently subject to any material pending legal proceedings threatened against us as of March 31, 2016. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition, results of operations or cash flows.

## **Item 1A. Risk Factors**

Investing in our common stock may be speculative and involves a high degree of risk. In addition to the other information contained in this Quarterly Report on Form 10-Q, including our financial statements, and the related notes, schedules and exhibits, you should carefully consider the risk factors described in *Part I, "Item 1A. Risk Factors"* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

There have been no material changes from the risk factors previously disclosed in *Part I, "Item 1A. Risk Factors"* in our Annual Report on Form 10-K for the year ended December 31, 2015, which should be read together with the other risk factors and information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

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

During the three month period ended March 31, 2016, we issued 1,154 shares of common stock to shareholders in connection with our dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan was approximately \$15 thousand.

## **Item 3. Defaults Upon Senior Securities**

Not applicable.

## **Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

Listed below are the exhibits that are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

<b>Exhibit Number</b>	<b>Description</b>
11.1	Computation of Per Share Earnings for OFS Capital Corporation (included in the notes to the financial statements contained in this report)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\* Filed herewith.

**SIGNATURES**

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

Dated: May 6, 2016 OFS CAPITAL  
CORPORATION

By: /s/ Bilal Rashid  
**Name:** Bilal Rashid  
**Title:** Chief Executive Officer

By: /s/ Jeffrey A. Cerny  
Jeffrey A. Cerny  
Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
11.1	Computation of Per Share Earnings for OFS Capital Corporation (included in the notes to the financial statements contained in this report)
31.1	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\*Filed herewith.