OFS Capital Corp
Form 497
October 11, 2018
This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated October 11, 2018

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated June 11, 2018)
OFS Capital Corporation
$
% Notes due 2025
OFS Capital Corporation, a Delaware corporation, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"). Our investment objective is to provide our stockholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments.
We are managed by OFS Capital Management, LLC. OFS Capital Services, LLC provides the administrative services necessary for us to operate.
We are offering $ million in aggregate principal amount of % notes due 2025, which we refer to as the Notes. The Notes will mature on , 2025. We will pay interest on the Notes on January 31, April 30, July 31 and October 31 of each year, beginning January 31, 2019. We may redeem the Notes in whole or in part at any time or from time to time on or after , at the redemption price of 100% of the aggregate principal amount thereof plus accrued and unpaid interest, as discussed under the section titled "Description of the Notes—Optional Redemption" in this prospectus supplement. The Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.
The Notes will be our direct unsecured obligations and rank pari passu, which means equal in right of payment, with all outstanding and future unsecured, unsubordinated indebtedness issued by us, including our 6.375% notes due 2025, of which we had $50 million outstanding as of October 9, 2018. Because the Notes will not be secured by any of our assets, they will be effectively subordinated to all of our existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which we subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under our senior secured revolving credit facility with Pacific Western Bank, or PWB, as amended (the "PWB Credit Facility"), of which we had $31 million outstanding as of October 9, 2018. The Notes will be structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including OFS SBIC I LP ("SBIC I LP"), since the Notes will be obligations exclusively of OFS Capital Corporation and not of any of our subsidiaries. As of October 9, 2018, our subsidiaries had total indebtedness outstanding of $149.9 million. None of our subsidiaries is a guarantor of the Notes and the Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. For further discussion, see the section titled "Description of the Notes" in this prospectus supplement.
The Notes will also rank pari passu with, or equal to, our general liabilities (total liabilities, less debt). In total, these general liabilities were $5.0 million as of October 9, 2018. We currently do not have outstanding debt that is subordinated to the Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the Notes. Therefore, the Notes will not be senior to any of our indebtedness or obligations. Our board of directors has approved the application to us of the modified asset coverage requirements established by the Small Business Credit Availability Act and, as a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective May 3, 2019.
We intend to list the Notes on The Nasdaq Global Select Market, and we expect trading to commence thereon within 30 days of the original issue date under the trading symbol "OFSSB". The Notes are expected to trade "flat." This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not included in the trading price. Currently, there is no public market for the Notes, and there can be no assurance that one

will develop.

This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in the Notes. Please read this prospectus supplement and the accompanying prospectus before investing and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission ("SEC"). The information is available free of charge, and security holders may make inquiries by contacting us at OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606, or by calling us collect at (847) 734-2000 or on our website at www.ofscapital.com. The SEC maintains a website at www.sec.gov where such information is available without charge. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement and the accompanying prospectus.

Investing in our Notes involves a high degree of risk, including the risk of leverage. Before buying any Notes, you should read the discussion of the material risks of investing in us in "Risk Factors" beginning on page S-22 of this prospectus supplement and page 15 of the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Public offering price	$	$
Underwriting discount (sales load and commissions)	$	$
Proceeds, before expenses, to us [(1)]	$	$

(1) We estimate that we will incur approximately $350,000 in offering expenses in connection with this offering.

The underwriters may also purchase up to an additional $ total aggregate principal amount of Notes offered by this prospectus supplement and the accompanying prospectus, solely to cover over-allotments, if any, within 30 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be $, the total underwriting discount (sales load and commissions) paid by us will be $, and total proceeds, before expenses, will be $.

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form only through The Depository Trust Company, known as DTC, will be made on or about , 2018.

Joint Book-Running Managers

Ladenburg Thalmann BB&T Capital Markets Janney Montgomery Scott

Lead Managers

B. Riley FBR Incapital National Securities Corporation William Blair

The date of this prospectus supplement is , 2018.

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	Page
ABOUT THIS PROSPECTUS SUPPLEMENT	S- 1
PROSPECTUS SUPPLEMENT SUMMARY	S- 2
SPECIFIC TERMS OF THE NOTES AND THE OFFERING	S- 10
SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA	S- 17
SELECTED QUARTERLY FINANCIAL DATA	S- 19
RATIO OF EARNINGS TO FIXED CHARGES	S- 20
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	S- 21
RISK FACTORS	S- 22
USE OF PROCEEDS	S- 26
CAPITALIZATION	S- 27
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	S- 28
SENIOR SECURITIES	S- 48
DESCRIPTION OF THE NOTES	S- 49
CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS	S- 58
UNDERWRITING	S- 62
LEGAL MATTERS	S- 65
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	S- 65
AVAILABLE INFORMATION	S- 65
INDEX TO FINANCIAL STATEMENTS	SF- 1

PROSPECTUS

	Page
PROSPECTUS SUMMARY	1
FEES AND EXPENSES	9
SELECTED CONSOLIDATED FINANCIAL DATA	12
RATIO OF EARNINGS TO FIXED CHARGES	14
RISK FACTORS	15
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	43
USE OF PROCEEDS	44
PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS	45
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	46
THE COMPANY	68
SENIOR SECURITIES	76
PORTFOLIO COMPANIES	77
MANAGEMENT	86
PORTFOLIO MANAGEMENT	97
MANAGEMENT AND OTHER AGREEMENTS	99
RELATED-PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS	105
CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS	108
DETERMINATION OF NET ASSET VALUE	109
DISTRIBUTION REINVESTMENT PLAN	112
DESCRIPTION OF OUR CAPITAL STOCK	113
DESCRIPTION OF OUR PREFERRED STOCK	116

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS	117
DESCRIPTION OF OUR WARRANTS	119
DESCRIPTION OF OUR DEBT SECURITIES	121
REGULATION	131
MATERIAL FEDERAL INCOME TAX CONSIDERATIONS	137
PLAN OF DISTRIBUTION	144
CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR	145
BROKERAGE ALLOCATION AND OTHER PRACTICES	145
LEGAL MATTERS	146
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	146
AVAILABLE INFORMATION	146
INDEX TO FINANCIAL STATEMENTS	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of the Notes and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings “Available Information,” “Prospectus Supplement Summary,” and “Risk Factors” before investing in the Notes.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any Notes by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of the Notes. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in that prospectus.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider before investing in our securities. You should read the entire prospectus supplement and the accompanying prospectus carefully, including "Risk Factors" sections included in the prospectus supplement and accompanying prospectus. Throughout this prospectus supplement and the accompanying prospectus, we refer to OFS Capital Corporation and its consolidated subsidiaries as the "Company," "we," "us" or "our;" OFS Capital Management, LLC as "OFS Advisor" or the "Advisor;" and (Capital Services, LLC as "OFS Services" or the "Administrator."

OFS Capital Corporation

We are an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a business development company ("BDC") under the 1940 Act, which imposes certain investment restrictions on our portfolio. Our investment objective is to provide our stockholders 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 between 150 and 2,000; revenues between $15 million and $300 million; annual earnings before interest, taxes, depreciation and amortization ("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 "The Company — Investment Criteria/Guidelines" in the accompanying prospectus.

As of June 30, 2018, the fair value of our debt investment portfolio totaled $326.5 million in 38 portfolio companies, of which 80% and 20% were senior secured loans and subordinated loans, respectively, and approximately $36.3 million in equity investments, at fair value, in 17 portfolio companies in which we also held debt investments and four portfolio companies in which we solely held an equity investment.

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 portfolio companies not otherwise eligible under BDC regulations. 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.

We execute our investment strategy, in part, through SBIC I LP, a licensee under the U.S. Small Business Administration ("SBA") Small Business Investment Company ("SBIC") program. 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 the accompanying prospectus.

On a stand-alone basis, SBIC I LP held approximately approximately $249.6 million and $251.6 million in assets, or approximately 64% and 70% of our total consolidated assets at June 30, 2018 and December 31, 2017, respectively.

Our investment activities are managed by 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 funds 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 ("SBIC Acquisition"). OFS Advisor also serves as the investment adviser to collateralized loan obligation ("CLO") funds and other assets, including

Hancock Park Corporate Income, Inc. (“HPCI”), a non-traded BDC with an investment strategy similar to ours, and OFS Credit Company, Inc., a newly-organized, non-diversified, closed-end management investment company that has yet to commence operations and intends to invest in floating rate credit-based instruments and other structured credit investments, including CLO debt and subordinated (i.e., residual or equity) securities. OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy.

We have also entered into an administration agreement ("Administration Agreement") with 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 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 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.

As a BDC, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage ratio for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Provisions of the Small Business Credit Availability Act (the "SBCAA"), permit BDCs to be subject to a minimum asset coverage ratio of 150%, if specific conditions are satisfied, when issuing senior securities (i.e., the amount of debt may not exceed 66 2/3% of the value of our assets). In other words, prior to the enactment of the SBCAA, the most that a BDC could borrow for investment purposes was $1 for every $1 of investor equity. Now, for those BDCs that satisfy the SBCAA's approval and disclosure requirements and become subject to the reduced asset coverage ratio, the BDC can borrow $2 for investment purposes for every $1 of investor equity.

The SBCAA provides that in order for a BDC whose common stock is traded on a national securities exchange to be subject to 150% asset coverage, the BDC must either obtain: (i) approval of the required majority of its non-interested directors who have no financial interest in the proposal, which would become effective one year after the date of such approval (the "Board Effective Date"), or (ii) obtain stockholder approval (of more than 50% of the votes cast for the proposal at a meeting in which quorum is present), which would become effective on the first day after the date of such stockholder approval.

On May 3, 2018, our board of directors, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements and, as a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective May 3, 2019. We received exemptive relief from the SEC effective November 26, 2013, which allows us to exclude our SBA guaranteed debentures from the definition of senior securities in the statutory asset coverage ratio under the 1940 Act.

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 continue to qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income we distribute to our stockholders.

The 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so. On October 12, 2016, we received exemptive relief from the SEC to permit us to co-invest in portfolio companies with certain other funds managed by OFS Advisor ("Affiliated Funds") in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions (the "Order"). Pursuant to the Order, we are generally permitted to co-invest with Affiliated Funds if a "required majority" (as defined in Section 57(o) of the 1940 Act) of our directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies.

Organizational Structure

About OFS and Our Advisor

OFS (which refers to the collective activities and operations of Orchard First Source Asset Management, LLC ("OFSAM") and its subsidiaries and certain affiliates) is a full-service provider of capital and leveraged finance solutions to U.S. corporations. As of June 30, 2018, OFS had 45 full-time employees. OFS is headquartered in Chicago, Illinois and also has offices in New York, New York and Los Angeles, California.

Our investment activities are managed by OFS Advisor, our investment adviser. OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. OFS Advisor is a registered investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act") and a wholly-owned subsidiary of OFSAM.

Our relationship with OFS Advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. OFS Advisor provides us with advisory services in exchange for a base management fee and incentive fee; see "Management and Other Agreements — Investment Advisory Agreement" in the accompanying prospectus. The base management fee is based on our total assets (other than cash and cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisition; but including assets purchased with borrowed funds, and assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance.

OFS Advisor has entered into a Staffing Agreement (the "Staffing Agreement") with Orchard First Source Capital, Inc. ("OFSC"), a wholly-owned subsidiary of OFSAM. Under the Staffing Agreement, OFSC makes experienced investment professionals available to OFS Advisor and provides access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment

adviser, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

OFS Advisor capitalizes on the deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFS's professionals. The senior management team of OFS, including Bilal Rashid, Jeff Cerny and Mark Hauser, provides services to OFS Advisor. These managers have developed a broad network of contacts within the investment community and possess an average of over 20 years of experience investing in debt and equity securities of middle-market companies. In addition, these managers have extensive experience investing in assets that constitute our primary focus and have expertise in investing across all levels of the capital structure of middle-market companies. See "Portfolio Management" in the accompanying prospectus for additional information regarding our portfolio managers.

Our Administrator

We do not have any direct employees, and our day-to-day investment operations are managed by OFS Advisor. We have a chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, corporate secretary and, to the extent necessary, our board of directors may elect to appoint additional officers going forward. Our officers are employees of OFSC, an affiliate of OFS Advisor, and a portion of the compensation paid to our officers is paid by us pursuant to the Administration Agreement. All of our executive officers are also officers of OFS Advisor.

OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and recordkeeping services at such facilities. OFS Services oversees our financial reporting as well as prepares our reports to stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. OFS Services also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services may retain third parties to assist in providing administrative services to us. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions at cost, on a direct basis.

Market Opportunity

Our investment strategy is focused primarily on investments in middle-market companies in the United States. We find the middle-market attractive for the following reasons:

Large Target Market. According to the U.S. Census Bureau in its 2012 economic census, there were approximately 197,000 companies in the United States with annual revenues between $10 million and $2.5 billion, compared with approximately 1,300 companies with revenues greater than $2.5 billion. We believe that these middle-market companies represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have historically constituted the vast bulk of OFS's portfolio companies since its inception and constituted the vast bulk of our portfolio as of June 30, 2018. We believe that this market segment will continue to produce significant investment opportunities for us.

Specialized Lending Requirements with High Barriers to Entry. We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to private middle-market companies in the United States (a) is generally more labor-intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (b) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market and (c) may also require more extensive ongoing monitoring by the lender. As a result, middle-market companies historically have been served by a limited segment of the lending community. As a result of the unique challenges facing lenders to middle-market companies, we believe that there are high barriers to entry that a new lender must overcome.

Robust Demand for Debt Capital. We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. Subject to market conditions, we expect the large amount of unfunded buyout commitments will drive demand for leveraged buyouts over the next several years, which should, in turn, create leveraged lending opportunities for us.

Competitive Strengths and Core Competencies

Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure. We are managed by OFS Advisor, which has access through the Staffing Agreement with OFSC to the resources and expertise of OFS's investment professionals. As of June 30, 2018, OFS's credit and investment professionals (including all investment committee members) employed by OFSC had an average of over 15 years of investment experience with strong institutional backgrounds.

Significant Investment Capacity. The net proceeds of equity and debt offerings and borrowing capacity under our credit facilities will provide us with a substantial amount of capital available for deployment into new investment opportunities in our targeted asset class.

Scalable Infrastructure Supporting the Entire Investment Cycle. We believe that our loan acquisition, origination and sourcing, underwriting, administration and management platform is highly scalable (that is, it can be expanded on a cost-efficient basis within a timeframe that meets the demands of business growth). Our platform extends beyond origination and sourcing and includes a regimented credit monitoring system. We believe that our careful approach, which involves ongoing review and analysis by an experienced team of professionals, should enable us to identify problems early and to assist borrowers before they face difficult liquidity constraints.

Extensive Loan Sourcing Capabilities. OFS Advisor gives us access to the deal flow of OFS. We believe OFS's 20-year history as a middle-market lending platform and its market position make it a leading lender to many sponsors and other deal sources, especially in the currently under-served lending environment, and we have extensive relationships with potential borrowers and other lenders.

Structuring with a High Level of Service and Operational Orientation. We provide client-specific and creative financing structures to our portfolio companies. Based on our experience in lending to and investing in middle-market companies, we believe that the middle-market companies we target, as well as sponsor groups we may pursue, require a higher level of service, creativity and knowledge than has historically been provided by other service providers more accustomed to participating in commodity-like loan transactions.

Rigorous Credit Analysis and Approval Procedures. OFS Advisor utilizes the established, disciplined investment process of OFS for reviewing lending opportunities, structuring transactions and monitoring investments. Using OFS's disciplined approach to lending, OFS Advisor seeks to minimize credit losses through effective underwriting, comprehensive due diligence investigations, structuring and, where appropriate, the implementation of restrictive debt covenants.

Structure of Investments

We anticipate that our loan portfolio will continue to contain investments of the following types with the following characteristics:

Senior Secured First-Lien Loans. First-lien senior secured loans comprise, and will continue to comprise, a significant portion of our investment portfolio. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans (in certain cases, subject to a payment waterfall). The collateral takes the form of first-priority liens on specified assets of the portfolio company borrower and, typically, first-priority pledges of the ownership interests in the borrower. Our first lien loans may provide for moderate loan amortization in the early years of the loan, with the majority of the amortization deferred until loan maturity. These loans are categorized as Senior Secured Loans in our consolidated schedule of investments included in the financial statements included elsewhere in this prospectus supplement.

Senior Secured Unitranche Loans. Unitranche loans are loans that combine both senior and subordinated debt into one loan under which the borrower pays a single blended interest rate that is intended to reflect the relative risk of the secured and unsecured components. We typically structure our unitranche loans as senior secured loans. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans. This collateral takes the form of first-priority liens on the assets of a portfolio company and, typically, first-priority pledges of the ownership interests in the company. We believe that unitranche lending represents a significant growth opportunity for us, offering the borrower the convenience of dealing with one lender, which may result in a higher blended rate of interest to us than we might realize in a traditional multi-tranche structure. Unitranche loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases, we will be the sole lender, or we, together with our affiliates, will be the sole lender, of unitranche loans, which can afford us additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of under performance. These loans are categorized as Senior Secured Loans in our consolidated schedule of investments included in the financial statements included elsewhere in this prospectus supplement.

Senior Secured Second-lien Loans. Second-lien senior secured loans obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of such loans. This collateral typically takes the form of second-priority liens on the assets of a portfolio company, and we may enter into an inter-creditor agreement with the holders of the portfolio company's first-lien senior secured debt. These loans typically provide for no contractual loan amortization in the initial years of the facility, with all amortization deferred until loan maturity. These loans are categorized as Senior Secured

Loans in our consolidated schedule of investments included in the financial statements included elsewhere in this prospectus supplement.

Subordinated ("Mezzanine") Loans. These investments are typically structured as unsecured, subordinated loans that typically provide for relatively high, fixed interest rates that provide us with significant current interest income. These loans typically will have interest-only payments (often representing a combination of cash pay and payment-in-kind ("PIK") interest) in the early years, with amortization of principal deferred to maturity. Mezzanine loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. Mezzanine investments are generally more volatile than secured loans and may involve a greater risk of loss of principal. Mezzanine loans often include a PIK feature (meaning a feature allowing for the payment of interest in the form of additional principal amount of the loan instead of in cash), which effectively operates as negative amortization of loan principal, thereby increasing credit risk exposure over the life of the loan. These loans are categorized as Subordinated Loans in our consolidated schedule of investments included in the financial statements included elsewhere in this prospectus supplement.

Equity Securities. Equity securities typically consist of either a direct minority equity investment in common or membership/partnership interests or preferred stock of a portfolio company, and are typically not control-oriented investments. Our preferred equity investments typically contain a fixed dividend yield based on the par value of the equity security. Preferred equity dividends may be paid in cash at a stipulated date, usually quarterly and are participating and/or cumulative. We may structure such equity investments to include provisions protecting our rights as a minority-interest holder, as well as a "put," or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights, which grants us the right to register our equity interest when either the portfolio company or another investor in the portfolio company files a registration statement with the SEC to issue securities. Our equity investments typically are made in connection with debt investments to the same portfolio companies. These securities are categorized as Preferred Equity or Common Equity in our consolidated schedule of investments included in the financial statements included elsewhere in this prospectus supplement.

Warrants. In some cases, we may receive nominally priced warrants to buy a minority equity interest in the portfolio company in connection with a loan. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure such warrants to include provisions protecting our rights as a minority-interest holder, as well as a put to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights. These securities are categorized as Warrants in our consolidated schedule of investments included in the financial statements included elsewhere in this prospectus supplement.

General Structuring Considerations. We tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its operating results. We seek to limit the downside potential of our investments by:

- selecting investments that we believe have a very low probability of loss;
- requiring a total return on our investments (including both interest and potential equity appreciation) that we believe will compensate us appropriately for credit risk; and
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or rights to a seat on the board of directors under some circumstances.

We expect to hold most of our investments to maturity or repayment, but we may sell some of our investments earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

Investments

We pursue an investment strategy focused primarily on investments in middle-market companies in the United States. We focus on investments in loans, in which OFS Advisor's investment professionals have expertise, including

investments in first-lien, unitranche, second-lien, and mezzanine loans and, to a lesser extent, on warrants and other equity securities. We seek to create a diverse portfolio by making investments in the securities of middle-market companies that we expect to range generally from $3.0 million to $25.0 million each, although we expect this investment size will vary proportionately with the size of our capital base.

Competition

Our primary competitors include public and private funds, other BDCs, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical, and marketing resources than we do. Some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Further, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC, or to the distribution and other requirements we must satisfy to maintain our RIC status.

We expect to continue to use the expertise of the investment professionals of OFS and its affiliates to which we have access, to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we expect that the relationships of the senior members of OFS and its affiliates will enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see "Risk Factors — Risks Related to Our Business and Structure — We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses" in the accompanying prospectus.

Conflicts of Interests

Subject to certain 1940 Act restrictions on co-investments with affiliates, OFS Advisor will offer us the right to participate in investment opportunities that it determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors. Such offers will be subject to the exception that, in accordance with OFS Advisor's allocation policy, we might not participate in each individual opportunity but will, on an overall basis, be entitled to participate fairly and equitably with other entities managed by OFS Advisor and its affiliates.

To the extent that we compete with entities managed by OFS Advisor or any of its affiliates for a particular investment opportunity, OFS Advisor will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) its internal allocation policy, (b) the requirements of the Advisers Act, and (c) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates. OFS Advisor's allocation policy is intended to ensure that we may generally share fairly and equitably with other investment funds or other investment vehicles managed by OFS Advisor or its affiliates in investment opportunities that OFS Advisor determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors, particularly those involving a security with limited supply or involving differing classes of securities of the same issuer that may be suitable for us and such other investment funds or other investment vehicles. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

- investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;
- risk and return profile of the investment vehicles;
- suitability/priority of a particular investment for the investment vehicles;
- if applicable, the targeted position size of the investment for the investment vehicles;
- level of available cash for investment with respect to the investment vehicles;
- total amount of funds committed to the investment vehicles; and
- the age of the investment vehicles and the remaining term of their respective investment periods, if any.

In situations where co-investment with such other accounts is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, OFS Advisor will need to decide which account will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. See "Related-Party Transactions and Certain Relationships" in the accompanying prospectus.

General Information

Our principal executive offices are located at 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, and our telephone number is (847) 734-2000. Information contained in our website is not incorporated by reference into this prospectus

supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. This information is available at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC's public reference room by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

Risks

Investing in our securities may be speculative and involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. See "Risk Factors" beginning on page S-22 of this prospectus supplement and "Risk Factors" beginning on page 15 of the accompanying prospectus for a more detailed discussion of material risks you should carefully consider before deciding to invest in our securities.

Recent Developments

On July 31, 2018, our Board declared a distribution of $0.34 per share for the third quarter of 2018, payable on September 28, 2018, to stockholders of record as of September 14, 2018.

SPECIFIC TERMS OF THE NOTES AND THE OFFERING

This summary sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and the accompanying prospectus. This section and the “Description of the Notes” section in this prospectus supplement outline the specific legal and financial terms of the Notes. You should read this section of the prospectus supplement together with the section titled “Description of the Notes” beginning on page S-22 of this prospectus supplement and the more general description of the Notes in the section titled “Description of Our Debt Securities” beginning on page 119 of the accompanying prospectus before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes.

Issuer	OFS Capital Corporation
Title of the securities	% Notes due 2025
Initial aggregate principal amount being offered	$
Over-allotment option	The underwriters may also purchase from us up to an additional $ million aggregate principal amount of Notes offered by this prospectus supplement and the accompanying prospectus within 30 days from the date of this prospectus supplement.
Initial public offering price	% of the aggregate principal amount
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the trustee, paying agent, and security registrar for the Notes or at such other office as we may designate.
Type of note	Fixed-rate note
Listing	We intend to list the Notes on The Nasdaq Global Select Market within 30 days of the original issue date under the trading symbol “OFSSB”.
Private rating of the Notes	A- from Egan-Jones Rating Company. An explanation of the significance of ratings may be obtained from the rating agency. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. The rating of the Notes should be evaluated independently from similar ratings of other securities. A credit rating of a security is paid for by the issuer and is not a recommendation to buy, sell or hold securities and maybe subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency. See “Risk Factors - A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, if any, could cause the liquidity or market value of the Notes to decline significantly.”
Interest rate	% per year
Day count basis	360-day year of twelve 30-day months

, 2018

Original issue date	
Stated maturity date	, 2025

Date interest starts accruing interest	, 2018
Interest payment dates	Every January 31, April 30, July 31 and October 31, commencing January 31, 2019. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	The initial interest period will be the period from and including , 2018, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
Regular record dates for interest payments	Every January 15, April 15, July 15 and October 15, commencing January 15, 2019.
Specified currency	U.S. Dollars
Place of payment	The City of New York and/or such other places that may be specified in the indenture or a notice to holders.
Ranking of notes	The Notes will be our direct unsecured obligations and will rank: • pari passu, or equal, with any future unsecured, unsubordinated indebtedness, including the 6.375% Notes due 2025, of which $50 million was outstanding as of October 9, 2018; • senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; • effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured in respect of which we subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility, of which $31 million was outstanding as of October 9, 2018; and • structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including the SBA-guaranteed debentures issued by SBIC I LP, which, as of October 9, 2018, had total indebtedness outstanding of $149.9 million. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets.
Denominations	We will issue the Notes in denominations of $25 and integral multiples of $25 in excess thereof.

Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in the City of New York or another place of payment are authorized or obligated by law or executive order to close.
Optional redemption	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.
	You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act.
	If we redeem only some of the Notes, the trustee or DTC, as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with the indenture governing the Notes and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.
Sinking fund	The Notes will not be subject to any sinking fund.
Repayment at option of holders	Holders will not have the option to have the Notes repaid prior to the stated maturity date.
Defeasance	The Notes are subject to defeasance by us. “Defeasance” means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions required under the indenture relating to the Notes, we will be deemed to have been discharged from our obligations under the Notes. See “Description of the Notes — Defeasance” in this prospectus supplement.
Covenant defeasance	The Notes are subject to covenant defeasance by us. In the event of a “covenant defeasance,” upon depositing such funds and satisfying conditions similar to those for defeasance we would be released from certain covenants under the indenture relating to the Notes. The consequences to the holders of the Notes would be that, while they would no longer benefit from certain covenants under the indenture, and while the Notes could not be accelerated for any reason, the holders of the Notes nonetheless could look to the Company for repayment of the Notes if there were a shortfall in the funds deposited with the trustee or the trustee is prevented from making a payment. See “Description of the Notes — Defeasance” in this prospectus supplement.

Form of notes	The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.
Trustee, paying agent, and security registrar	U.S. Bank National Association
Other covenants	In addition to any covenants described elsewhere in this prospectus supplement or the accompanying prospectus, the following covenants will apply to the Notes: • We agree that for the period of time during which Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by such provisions of Section 61(a) as may be applicable to the Company from time to time of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC. These provisions generally prohibit us from incurring additional borrowings, including through the issuance of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% on and after May 3, 2019, as noted below) after such borrowings. See ‘‘Risk Factors — Risks Related to our Business and Structure — Because we have received the approval of our board of directors, we will be subject to 150% Asset Coverage beginning on May 3, 2019” in this prospectus supplement;

• We agree that for the period of time during which Notes are Outstanding, the Company will not declare any dividend (except a dividend payable in stock of the issuer), or declare any other distribution, upon a class of the capital stock of the Company, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has an asset coverage (as defined in the 1940 Act) of at least the threshold specified in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to the Company from time to time or any successor provisions thereto of the 1940 Act, as such obligation may be amended or superseded, after deducting the amount of such dividend, distribution or purchase price, as the case may be, and in each case giving effect to (i) any exemptive relief granted to the Company by the SEC, and (ii) any SEC no-action relief granted by the SEC to another BDC (or to the Company if it determines to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to the Company from time to time, as such obligation may be amended or superseded, in order to maintain such BDC’s status as a regulated investment company under Subchapter M of the Code; and

• If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act, to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP.

Events of default You will have rights if an Event of Default occurs with respect to the Notes and is not cured.

The term “Event of Default” in respect of the Notes means any of the following:

	• We do not pay the principal of any Note when due and payable at maturity; • We do not pay interest on any Note when due and payable, and such default is not cured within 30 days of its due date; • We remain in breach of any other covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the outstanding Notes); • We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; or • On the last business day of each of twenty-four consecutive calendar months, the Notes have an asset coverage of less than 100%, giving effect to any exemptive relief granted to us by the SEC.
Further issuances	We have the ability to issue additional debt securities under the indenture with terms different from the Notes and, without the consent of the holders of the Notes, to reopen the Notes and issue additional Notes. If we issue additional debt securities, these additional debt securities could have a lien or other security interest greater than that accorded to the holders of the Notes, which are unsecured.
Use of proceeds	We estimate that the net proceeds we will receive from the sale of the Notes will be approximately $ million (or approximately $ million if the underwriters exercise their over-allotment option in full) based on a public offering price of $ per Note, after deducting the underwriting discount of $ (or approximately $ if the underwriters fully exercise their over-allotment option) payable by us and estimated offering expenses of approximately $350,000 payable by us. We may change the size of this offering based on demand and market conditions. We intend to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes. We also intend to use a portion of the net proceeds from this offering to repay outstanding indebtedness under the PWB Credit Facility. As of October 9, 2018, we had $31 million of indebtedness outstanding under the PWB Credit Facility, which bore interest at a rate of 5.75% as of such date. The PWB Credit Facility matures on January 31, 2020.
Governing law	The Notes and the indenture will be governed by and construed in accordance with the laws of the State of New York.

Global clearance and settlement procedures	Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected financial and other data for the years ended December 31, 2017, 2016, 2015, and 2014 are derived from our consolidated financial statements that have been audited by BDO USA, LLP, our independent auditors. Selected financial and other data for the year ended December 31, 2013 are derived from our audited consolidated financial statements. The selected financial and other data for the six months ended June 30, 2018 and 2017 and other quarterly financial information is derived from our unaudited financial statements, and in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Senior Securities," and the consolidated financial statements and related notes included elsewhere in this prospectus supplement and the accompanying prospectus.

	Six Months Ended June 30,		For the Years Ended December 31,				
	2018	2017	2017	2016	2015	2014	2013
	(Dollars in thousands, except per share data)						
Statement of Operations Data:							
Total investment income	19,281	16,012	33,426	$31,094	$32,264	$22,820	$17,070
Total expenses	10,907	8,356	17,549	16,949	18,853	13,685	11,352
Net investment income	8,374	7,656	15,877	14,145	13,411	9,135	5,718
Net realized gain (loss) on non-control/non-affiliate investments	(5,003)	163	(3,248)	2,387	(3,033)	199	87
Net realized gain (loss) on affiliate investment	(4,018)	874	10,081	17	1,471	28	—
Net realized gain (loss) on control investment	—	—	—	—	—	(3,586)	—
Realized gain from SBIC Acquisitions	—	—	—	—	—	—	2,742
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments	3,848	(8,546)	(9,715)	(6,042)	5,099	534	367
Net unrealized appreciation (depreciation) on affiliate investments	5,173	658	(5,088)	2,684	1,283	1,880	511
Net unrealized appreciation (depreciation) on control investment	114	1,780	3	637	—	1,750	(1,750)
Net increase in net assets resulting from operations	8,488	2,585	7,910	13,828	18,231	9,940	7,675
Per share data:							
Net asset value	13.70	14.40	$14.12	$14.82	$14.76	$14.24	$14.58
Net investment income	0.63	0.67	1.28	1.46	1.39	0.95	0.59
Net realized gain (loss) on non-control/non-affiliate investments	(0.37)	0.01	(0.26)	0.25	(0.31)	0.02	0.01
Net realized gain on affiliate investment	(0.30)	0.08	0.81	—	0.14	—	—
Net realized loss on control investment	—	—	—	—	—	(0.37)	—
Realized gain from SBIC Acquisitions	—	—	—	—	—	—	0.29
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments	0.29	(0.75)	(0.78)	(0.69)	0.53	0.05	0.04
Net unrealized appreciation (depreciation) on affiliate investments	0.38	0.06	(0.40)	0.33	0.13	0.19	0.05
Net unrealized appreciation (depreciation) on control investment	—	0.16	—	0.07	—	0.18	(0.18)

Net increase in net assets resulting from operations	0.64	0.23	0.64	1.43	1.89	1.03	0.80
Distributions declared [1]	1.05	0.68	1.36	1.36	1.36	1.36	1.02
Balance sheet data at period end:							
Investments, at fair value	362,832	296,908	$277,499	$281,627	$257,296	$312,234	$237,919
Cash and cash equivalents	22,665	46,920	72,952	17,659	32,714	12,447	28,569
Restricted cash and cash equivalents	—	—	—	—	—	—	450
Other assets	7,176	5,132	7,327	5,744	4,666 [2]	11,823 [2]	9,106 [2]
Total assets	392,673	348,960	357,778	305,030	294,676 [2]	336,504 [2]	276,044 [2]
Debt	155,410	153,033	164,823	156,343	146,460 [2]	194,935 [2]	131,912 [2]
Total liabilities	209,744	156,964	169,442	161,252	151,664 [2]	199,033 [2]	135,666 [2]
Total net assets	182,929	191,996	188,336	143,778	143,012	137,471	140,378
Other data (unaudited):							
Weighted average annualized yield on performing debt investments at cost [3]	12.26 %	11.66 %	12.11 %	12.08 %	11.89 %	9.53 %	8.49 %
Weighted average annualized yield on total debt investments at cost [4]	11.80 %	11.04 %	11.59 %	11.72 %	11.84 %	9.41 %	8.35 %
Weighted average annualized yield on total investments at cost [5]	11.06 %	10.52 %	10.35 %	10.88 %	10.79 %	8.99 %	8.13 %
Number of portfolio companies at period end	42	42	37	41	39	62	58

(1) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If the tax characteristics of the Company's distributions paid during 2018 were determined as of June 30, 2018, none of the Company's distributions represented a return of capital. The return of capital portion of these distributions for the years December 31, 2017, 2016, 2015, 2014, and 2013, was $0.0, $0.09, $0.23, $0.72, and $0.40, respectively.

(2) On January 1, 2016, we adopted Accounting Standards Update ("ASU") 2015-03 which requires that debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability rather than as an asset. Adoption of ASU 2015-03 requires the changes to be applied retrospectively.

(3) The weighted average yield on our performing debt investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of loan origination fees, original issue discount, market discount or premium, and loan amendment fees divided by (b) amortized cost of our debt investments, excluding assets on non-accrual basis as of the balance sheet date.

(4) The weighted average yield on our performing debt investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of loan origination fees, original issue discount, market discount or premium, and loan amendment fees divided by (b) amortized cost of our debt investments, including assets on non-accrual basis as of the balance sheet date.

(5) The weighted average yield on total investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of loan origination fees, original issue discount, market discount or premium, and loan amendment fees, plus the effective yield on our income producing preferred

equity investments divided by (b) amortized cost of our total investment portfolio, including assets on non-accrual basis as of the balance sheet date.

SELECTED QUARTERLY FINANCIAL DATA

	Quarter Ended	
	June 30, 2018	March 31, 2018
Total investment income	10,278	9,003
Net investment income	4,558	3,816
Net gain (loss) on investments	437	(323)
Net increase (decrease) in net assets resulting from operations	4,995	3,493
Net increase (decrease) in net assets resulting from operations per share [1]	$0.37	$ 0.26
Net asset value per share [2]	$13.70	$ 13.67

	Quarter Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total investment income	$8,292	$ 9,122	$7,978	$ 8,034
Net investment income	3,819	4,402	4,316	3,340
Net gain (loss) on investments	331	(3,227)	(6,597)	1,526
Net increase (decrease) in net assets resulting from operations	4,150	1,175	(2,281)	4,866
Net increase (decrease) in net assets resulting from operations per share [1]	$0.22	$ 0.09	$(0.17)	$ 0.50
Net asset value per share [2]	$14.12	$ 14.15	$14.40	$ 14.98

	Quarter Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total investment income	$8,209	$ 7,359	$ 7,683	$ 7,843
Net investment income	3,736	3,297	3,457	3,655
Net gain (loss) on investments	1,087	(909)	881	(1,376)
Net increase in net assets resulting from operations	4,823	2,388	4,338	2,279
Net increase in net assets resulting from operations per share [1]	$0.49	$ 0.25	$ 0.45	$ 0.24
Net asset value per share [2]	$14.82	$ 14.67	$ 14.76	$ 14.65

RATIO OF EARNINGS TO FIXED CHARGES

The following table contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our consolidated financial statements, including the notes to those statements, included in this prospectus supplement and the accompanying prospectus.

	For the Six Months Ended June 30, 2018	For the Year Ended December 31,				
		2017	2016	2015	2014	2013
Earnings to Fixed Charges [(1)]	3.23	2.36	3.61	3.52	2.58	2.42

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to factors identified elsewhere in this prospectus supplement and the accompanying prospectus, including the “Risks Factors” section of this prospectus supplement and the “Risk Factors” section of the accompanying prospectus, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- our ability and experience operating a BDC or an SBIC, or maintaining our tax treatment as a RIC under Subchapter M of the Code;
- our dependence on key personnel;
- our ability to maintain or develop referral relationships;
- our ability to replicate historical results;
- the ability of OFS Advisor to identify, invest in and monitor companies that meet our investment criteria;
- actual and potential conflicts of interest with OFS Advisor and other affiliates of OFSAM;
- constraint on investment due to access to material nonpublic information;
- restrictions on our ability to enter into transactions with our affiliates;
- limitations on the amount of SBA-guaranteed debentures that may be issued by an SBIC;
- our ability to comply with SBA regulations and requirements;
- the use of borrowed money to finance a portion of our investments;
- competition for investment opportunities;
- the ability of SBIC I LP to make distributions enabling us to meet RIC requirements;
- our ability to raise debt or equity 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, including the ability to incur additional leverage under the Small Business Credit Availability Act.

This prospectus supplement and the accompanying prospectus, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as “trend,” “opportunity,” “pipeline,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “estimate,” “position,” “assume,” “potential,” “outlook,” “continu “maintain,” “sustain,” “seek,” “achieve” and similar expressions, or future or conditional verbs such as “will,” “would,” “shoul “could,” “may” or similar expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act or Section 21E of the Exchange Act. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

RISK FACTORS

Investing in the Notes involves a number of significant risks. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should consider carefully the following information before making an investment. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value could decline, and you may lose all or part of your investment.

Risks Related to the Notes

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future and will rank pari passu with, or equal to, all outstanding and future unsecured, unsubordinated indebtedness issued by us and our general liabilities.

The Notes will not be secured by any of our assets or any of the assets of any of our subsidiaries. As a result, the Notes will be effectively subordinated to any secured indebtedness we or our subsidiaries have outstanding as of the date of this prospectus supplement (including the PWB Credit Facility) or that we or our subsidiaries may incur in the future (or any indebtedness that is initially unsecured as to which we subsequently grant a security interest) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our secured indebtedness or secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of October 9, 2018, we had $31 million in outstanding indebtedness under the PWB Credit Facility. The indebtedness under the PWB Credit Facility is effectively senior to the Notes to the extent of the value of the assets securing such indebtedness.

The Notes will rank pari passu, which means equal in right of payment, with all outstanding and future unsecured, unsubordinated indebtedness issued by us, including our 6.375% notes due 2025, of which we had $50 million outstanding as of October 9, 2018. The Notes will also rank pari passu with, or equal to, our general liabilities (total liabilities, less debt). In total, these general liabilities were $5.0 million as of October 9, 2018. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of such indebtedness may assert rights equal to the holders of the Notes, which may limit recovery by the holders of the Notes.

The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The Notes will be obligations exclusively of OFS Capital Corporation, and not of any of our subsidiaries. None of our subsidiaries will be a guarantor of the Notes, and the Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. Any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Notes. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors of our subsidiaries will have priority over our equity interests in such entities (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such entities. Even if we are recognized as a creditor of one or more of these entities, our claims would still be effectively subordinated to any security interests in the assets of any such entity and to any indebtedness or other liabilities of any such entity senior to our claims. Consequently, the Notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of any of our existing or future subsidiaries, including SBIC I LP. As of October 9, 2018, our subsidiaries had total indebtedness outstanding of $149.9 million. Certain of these entities currently serve as guarantors under the PWB Credit Facility, and in the future our subsidiaries may incur substantial additional indebtedness, all of which is and would be structurally senior to the Notes.

The indenture under which the Notes will be issued contains limited protection for holders of the Notes.

The indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have a material adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

•

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in those entities and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by such provisions of Section 61(a) of the

1940 Act as may be applicable to us from time to time or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in each case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% on and after May 3, 2019) after such borrowings. See "— Because we have received the approval of our board of directors, we will be subject to 150% Asset Coverage beginning on May 3, 2019" below;

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause our asset coverage to fall below the threshold specified in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time or any successor provisions, giving effect to (i) any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to us if we determine to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time in order to maintain the BDC's status as a RIC under Subchapter M of the Code. These provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% (or 150% on and after May 3, 2019) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase;
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture (as defined in "Description of the Notes") will not require us to make an offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, if any, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.

Our ability to recapitalize, incur additional debt (including additional debt that matures prior to the maturity of the Notes), and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for, trading levels, and prices of the Notes.

There is no existing trading market for the Notes and, even if The Nasdaq Global Select Market approves the listing of the Notes, an active trading market for the Notes may not develop, which could limit your ability to sell the Notes and/or the market price of the Notes.

The Notes will be a new issue of debt securities for which there initially will not be a trading market. We intend to list the Notes on The Nasdaq Global Select Market within 30 days of the original issue date under the symbol "OFSSB". However, there is no assurance that the Notes will be approved for listing on The Nasdaq Global Select Market. Moreover, even if the listing of the Notes is approved, we cannot provide any assurances that an active trading market will develop or be maintained for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at

any time at their sole discretion.

Accordingly, we cannot assure you that the Notes will be approved for listing on The Nasdaq Global Select Market, that a liquid trading market will develop or be maintained for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

Our amount of debt outstanding will increase as a result of this offering, and if we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

As of October 9, 2018, we had approximately $31 million of indebtedness outstanding under the PWB Credit Facility and $50 million of 6.375% Notes due 2025 outstanding. Any default under the agreements governing our indebtedness, including a default under the PWB Credit Facility, the 6.375% Notes due 2025 or other indebtedness to which we may be a party that is not waived by the required lenders or holders of such indebtedness, and the remedies sought by lenders or the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, as applicable, in the instruments governing our indebtedness (including the PWB Credit Facility and the 6.375% Notes due 2025), we could be in default under the terms of the agreements governing such indebtedness and the Notes. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the PWB Credit Facility or other debt we may incur in the future could elect to terminate their commitment, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation.

Our ability to generate sufficient cash flow in the future is, to some extent, subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under the PWB Credit Facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes, our other debt, and to fund other liquidity needs.

If our operating performance declines and we are not able to generate sufficient cash flow to service our debt obligations, we may in the future need to refinance or restructure our debt, including any Notes sold, sell assets, reduce or delay capital investments, seek to raise additional capital or seek to obtain waivers from the lenders under the PWB Credit Facility, the holders of our 6.375% Notes due 2025 or other debt that we may incur in the future to avoid being in default. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt. If we breach our covenants under the PWB Credit Facility, the 6.375% Notes due 2025 or any of our other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders thereof. If this occurs, we would be in default under the PWB Credit Facility, the 6.375% Notes due 2025 or other debt, the lenders or holders could exercise rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations could proceed against the collateral securing the debt, including the PWB Credit Facility. Because the PWB Credit Facility has, and any future credit facilities will likely have, customary cross-default provisions, if we have a default under the terms of the Notes or the 6.375% Notes due 2025, the obligations under the PWB Credit Facility or any future credit facility may be accelerated and we may be unable to repay or finance the amounts due.

Legislative or regulatory tax changes could adversely affect investors.

Changes in tax laws, regulations or administrative interpretations or any amendments thereto could adversely affect us, the entities in which we invest, or our noteholders. In particular, on December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act was signed into law. This tax legislation lowers the general federal corporate income tax rate from 35 percent to 21 percent, makes changes regarding the use of net operating losses, repeals the corporate alternative minimum tax and makes significant changes with respect to the U.S. international tax rules. In addition, the legislation generally requires a taxpayer that uses the accrual method of accounting for U.S. tax purposes to include certain amounts in income no later than the time such amounts are reflected on certain financial statements, which therefore if applicable could require us or a holder to accrue income earlier than under prior law, although the

precise application of this rule is unclear at this time. The legislation also limits the amount or value of net interest deductions of borrowers, which could potentially affect the loan market and our and our portfolio companies' use of leverage. For individual taxpayers, the legislation temporarily reduces the maximum individual income tax rate for taxable years 2018 through 2025. The impact of this new legislation on us, the entities in which we invest, and the holders of the Notes is uncertain. You are urged to consult with your tax advisor with respect to the impact of this legislation and the status of any other regulatory or administrative developments and proposals and their potential effect on your investment in the Notes.

We may choose to redeem the Notes when prevailing interest rates are relatively low.

On or after , we may choose to redeem the Notes from time to time, especially if prevailing interest rates are lower than the rate borne by the Notes. If prevailing rates are lower at the time of redemption, and we redeem the Notes, you likely would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes being redeemed. Our redemption right also may adversely impact your ability to sell the Notes as the optional redemption date or period approaches.

A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, if any, could cause the liquidity or market value of the Notes to decline significantly.

Our credit ratings, if any, are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are paid for by the issuer and are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion.

The Notes have received a private rating of A- from Egan-Jones Rating Company. An explanation of the significance of ratings may be obtained from the rating agency. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of Notes of any changes in our credit ratings. There can be no assurance that our credit ratings will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely by the rating agency if in their judgment future circumstances relating to the basis of the credit ratings, such as adverse changes in our company, so warrant.

Risks Related to Our Business and Structure

Because we have received the approval of our board of directors, we will be subject to 150% Asset Coverage beginning on May 3, 2019.

The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). However, recent legislation has modified the 1940 Act by allowing a BDC to increase the maximum amount of leverage it may incur from an asset coverage ratio of 200% to an asset coverage ratio of 150%, if certain requirements are met. Under the legislation, we are allowed to increase our leverage capacity if stockholders representing at least a majority of the votes cast, when quorum is met, approve a proposal to do so. If we receive stockholder approval, we would be allowed to increase our leverage capacity on the first day after such approval. Alternatively, the legislation allows a “required majority” (as defined in Section 57(o) of the 1940 Act) of our directors to approve an increase in our leverage capacity, and such approval would become effective after one year from the date of approval. In either case, we would be required to make certain disclosures on our website and in SEC filings regarding, among other things, the receipt of approval to increase our leverage, our leverage capacity and usage, and risks related to leverage.

On May 3, 2018 our board of directors approved the application of the reduced asset coverage ratio to us. As a result, we will be able to increase our leverage up to an amount that reduces our asset coverage ratio from 200% to 150% (i.e., the amount of debt may not exceed 66 2/3% of the value of our assets) beginning on May 3, 2019, assuming that additional borrowings are available and we are able to amend our PWB Credit Facility to permit additional leverage. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then the additional leverage would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not increased our leverage. Conversely, if the value of our assets decreases, the additional leverage would cause net asset value to decline more sharply than it otherwise would have had we not increased our leverage. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the additional leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not increased our leverage. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique. See “Risk Factors — Risks Related to Our Business and Structure — We finance our

investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us" in the accompanying prospectus.

In addition, the ability of BDCs to increase their leverage will increase the capital available to BDCs and thus competition for the investments that we seek to make. This may negatively impact pricing on the investments that we do make and adversely affect our net investment income and results of operations.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the Notes will be approximately $ million (or approximately $ million if the underwriters exercise their over-allotment option in full) based on a public offering price of $ per Note, after deducting the underwriting discount and commissions of $ (or approximately $ if the underwriters fully exercise their over-allotment option) payable by us and estimated offering expenses of approximately $350,000 payable by us. We may change the size of this offering based on demand and market conditions.

We intend to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes.

We also intend to use a portion of the net proceeds from this offering to repay outstanding indebtedness under the PWB Credit Facility. As of October 9, 2018, we had $31 million of indebtedness outstanding under the PWB Credit Facility, which bore interest at a rate of 5.75% as of such date. The PWB Credit Facility matures on January 31, 2020.

We anticipate that substantially all of the net proceeds from the sale of the Notes will be used as described above within three months of their receipt by us. Pending such uses and investments, we will invest the remaining net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. The management fee payable by us to OFS Advisor will not be reduced while our assets are invested in such securities. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of any offering, pending full investment, are held in lower yielding short-term instruments.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2018:

- on an actual basis; and
- on an as adjusted basis for the sale of $ million aggregate principal amount of the Notes offered by this prospectus supplement and the accompanying prospectus (assuming no exercise of the over-allotment option) based on an assumed public offering price of $ per Note, after deducting the underwriting discounts and commissions of $ payable by us and estimated offering expenses of approximately $350,000 payable by us but before the use of proceeds from this offering as described in “Use of Proceeds” in this prospectus supplement.

You should read this table together with “Use of Proceeds” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes thereto included in this prospectus supplement and the accompanying prospectus.

	June 30, 2018	
	Actual	As Adjusted[1]
	(amounts in thousands)	
Assets:		
Investments, at fair value	$362,832	$
Cash and cash equivalents	22,665	
Other assets	7,176	
Total assets	392,673	
Liabilities:		
The Notes offered hereby	—	
6.375% Notes due 2025	48,299	
SBA-guaranteed debentures payable, net[1]	147,410	
PWB Credit Facility[2]	8,000	
Other liabilities	6,035	
Total liabilities	$209,744	$
Net assets	$182,929	$
Shareholders’ equity:		
Preferred stock, par value $0.01 per share; 20,000,000 shares authorized, 0 shares issued and outstanding	$—	$
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 13,350,458 shares issued and outstanding	134	
Capital in excess of par value	182,795	
Total shareholders’ equity	$182,929	$

(1) As of October 9, 2018, we had approximately $149.9 million of SBA-guaranteed debentures outstanding. This table has not been adjusted to reflect the change in our outstanding SBA-guaranteed debentures subsequent to June 30, 2018.

(2) As of October 9, 2018, we had approximately $31 million outstanding under the PWB Credit Facility. This table has not been adjusted to reflect the changes in our outstanding borrowings under the PWB Credit Facility subsequent to June 30, 2018.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with the “Selected Consolidated Financial Data” and our financial statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under “Risk Factors” and “Special Note Regarding Forward-Looking Statements” appearing elsewhere in this prospectus supplement and under “Risk Factors” in the accompanying prospectus.

Defined Terms

We have used “we,” “us,” “our”, “our company”, and “the Company” to refer to OFS Capital Corporation in this section and in our audited financial statements contained in this prospectus. We also have used several other terms in this section and in our audited financial statements, which are explained or defined below:

Term	Explanation or Definition
1940 Act	Investment Company Act of 1940, as amended
6.375% Notes due 2025	The Company’s $50.0 million aggregate principal amount of 6.375% notes due April 30, 2025
Administration Agreement	Administration Agreement between the Company and OFS Services dated November 7, 2012
Annual Distribution Requirement	Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI
ASC	Accounting Standards Codification, as issued by the FASB
ASU	Accounting Standards Updates, as issued by the FASB
BDC	Business Development Company under the 1940 Act
BLA	Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility
Board	The Company's board of directors
CLO	Collateralized loan obligation funds
Code	Internal Revenue Code of 1986, as amended
DRIP	Distribution reinvestment plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
HPCI	Hancock Park Corporate Income, Inc., a Maryland corporation and non-traded BDC for whom OFS Advisor serves as investment adviser
ICTI	Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses
Investment Advisory Agreement	Investment Advisory and Management Agreement between the Company and OFS Advisor dated November 7, 2012
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
Net Loan Fees	The cumulative amount of fees, such as discounts, premiums and amendment fees that are deferred and recognized as income over the life of the loan.
Offering	The April 2017 follow-on public offering 3,625,000 shares of our common stock at an offering price of $14.57 per share.
OFS Advisor	OFS Capital Management, LLC, a wholly owned subsidiary of OFSAM and registered investment advisor under the 1940 Act
OFS Capital WM	OFS Capital WM, LLC, a wholly owned investment company subsidiary

S- 28

OFS Services	OFS Capital Services, LLC, a wholly owned subsidiary of OFSAM and affiliate of OFS Advisor
OFSAM	Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. corporations
PIK	Payment-in-kind, non-cash interest or dividends payable as an addition to the loan or equity security producing the income.
Prime Rate	United States Prime interest rate
PWB Credit Facility	Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender
RIC	Regulated investment company under the Code
SBA	U.S. Small Business Administration
SBCAA	Small Business Credit Availability Act
SBIC	A fund licensed under the SBA small business investment company program
SBIC Acquisition	The Company's acquisition of the remaining ownership interests in SBIC I LP and OFS SBIC I GP, LLC on December 4, 2013
SBIC Act	Small Business Investment Act of 1958
SBIC I LP	OFS SBIC I, LP, a wholly owned SBIC subsidiary of the Company
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Stock Repurchase Program	The open market stock repurchase program for shares of the Company’s common stock under Rule 10b-18 of the Exchange Act

Overview

We are an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a BDC under the 1940 Act, which imposes certain investment restrictions on our portfolio. Our investment activities are managed by OFS Advisor; and OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. In exchange for these services we pay OFS Advisor a base management fee and an incentive fee and we pay OFS Services an administration fee. The base management fee, incentive fee, and the administration fee represents a substantial portion of our total expenses.

Our investment objective is to provide our stockholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments in middle-market companies in the United States. We believe that these middle-market companies represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have historically, and as of June 30, 2018, constituted the bulk of our portfolio companies since inception. We believe that this market segment will continue to produce significant investment opportunities for us.

We execute our investment strategy, in part, through SBIC I LP, a licensee under the SBA's SBIC program. 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 Regulation” in the accompanying prospectus. On a stand-alone basis, SBIC I LP held approximately $249.6 million and $251.6 million in assets at June 30, 2018 and December 31, 2017, respectively, which accounted for approximately 64% and 70% of our total consolidated assets, respectively.

We generate revenue in the form of interest income on debt investments, and 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 June 30, 2018, floating rate and fixed rate loans comprised 77% and 23%, respectively, of our current debt investment portfolio at fair value. We expect to make quarterly distributions, such that we distribute substantially all of our ICTI. In addition, although we intend to make distributions of net realized capital gains, if any, at least annually, out of assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

Further, we have elected to be taxed as a RIC under the Code. As a RIC, we are not required to pay corporate-level federal income taxes on any income that we distribute to our stockholders from our ICTI. We are required to recognize ICTI in circumstances in which we have not received a corresponding payment in cash. For example, we hold debt obligations that are treated under applicable tax rules as issued at a discount and debt instruments with PIK interest, and we must include in ICTI each year the portion of the discount and PIK interest that accrues for that year (as it accrues over the life of the obligation), irrespective of the fact the cash representing such income is received by us in that taxable year. The continued recognition of non-cash ICTI may cause difficulty in meeting the Annual Distribution Requirement. We may be required to sell investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital, or forgo new investment opportunities to meet this requirement. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). On March 23, 2018, the Consolidated Appropriations Act of 2018, which includes the SBCAA, was signed into law. The SBCAA amends the 1940 Act to permit a BDC to reduce the required minimum asset coverage ratio applicable to it from 200% to 150%, subject to certain requirements described therein.

On May 3, 2018, the Board, including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective May 3, 2019.

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. For a discussion of the risks associated with leverage, see "Supplementary Risk Factors" in this prospectus supplement and “Risk Factors—Risks Related to our Business and Structure" in the accompanying prospectus. As a BDC, we may need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage. For additional overview information on the Company, see "The Company" in the accompanying prospectus.

The 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so. On October 12, 2016, we received exemptive relief from the SEC to permit us to co-invest in portfolio companies with certain other funds managed by OFS Advisor ("Affiliated Funds") in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions (the "Order"). Pursuant to the Order, we are generally permitted to co-invest with Affiliated Funds if a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies.

Critical Accounting Policies and Significant Estimates

Our critical accounting policies and estimates are those relating to revenue recognition and fair value estimates. Management has discussed the development and selection of each critical accounting policy and estimate with the Audit Committee of the Board. For descriptions of our revenue recognition and fair value policies, see "Financial Statements - Notes to Financial Statements - Note 2" and "Management's Discussion and Analysis - Critical Accounting Policies and Significant Estimates" in the accompanying prospectus.

Fair value estimates. As of June 30, 2018, approximately 92% of our total assets were carried on the consolidated balance sheets at fair value. As described in "Financial Statements—Note 5" in the accompanying prospectus, we follow a process, under the supervision and review of the Board, to determine these unobservable inputs used to calculate the fair values of our investments. The following table illustrates the sensitivity of our fair value measures to reasonably likely changes to the estimated discount rate and EBITDA multiple inputs used in our debt and equity investment valuations at June 30, 2018 (dollar amounts in thousands):

Valuation Method / Investment Type	Fair Value at June 30, 2018	Weighted average discount rate/EBITDA multiple at June 30, 2018	Discount rate sensitivity		EBITDA multiple sensitivity	
			-10% Weighted average	+10% Weighted average	+0.5x	-0.5x
Discounted cash flow						
Debt investments:						
Senior Secured	$205,917	13.15%	$210,374	$199,684	N/A	N/A
Subordinated	$63,374	14.59%	$64,667	$61,294	N/A	N/A
Enterprise value						
Debt investments:						
Subordinated	$2,286	6.75x	N/A	N/A	$2,478	$2,095
Equity investments:						
Preferred equity	$14,717	7.49x	N/A	N/A	$16,098	$13,713
Common equity and warrants	$21,601	6.41x	N/A	N/A	$24,681	$17,639

The table above presents the impact to our debt and equity investment fair value accounting measures by uniformly modifying our discount rate and EBITDA valuation inputs, as applicable. The discount rate sensitivity measures included in the table do not present the estimated effect of hypothetical changes in actual, observed interest rates, which would affect the cash flows from many of the underlying investments as they are indexed to LIBOR, the operating environment of many of our portfolio companies, and other factors, as well as our estimates of the discount rate valuation input. The effect of hypothetical changes in actual, observed interest rates on our fair value measures is not subject to reasonable estimation.

Related Party Transactions

We have entered into a number of business relationships with affiliated or related parties, including the following:

- The Investment Advisory Agreement with OFS Advisor to manage our operating and investment activities. Under 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. See “Financial Statements–Note 3” in this prospectus supplement.
- The Administration Agreement with OFS Services, an affiliate of OFS Advisor, to provide us with the office facilities and administrative services necessary to conduct our operations. See “Financial Statements–Note 3" in this prospectus supplement .
- A license agreement with OFSAM, the parent company of OFS Advisor, under which OFSAM has agreed to grant us a non-exclusive, royalty-free license to use the name “OFS.” Under this agreement, we have a right to use the “OFS” name for so long as OFS Advisor or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we have no legal right to the “OFS” name. This license agreement will remain in effect for so long as the Investment Advisory Agreement with OFS Advisor is in effect.

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

Portfolio Composition and Investment Activity

Portfolio Composition

As of June 30, 2018, the fair value of our debt investment portfolio totaled $326.5 million in 38 portfolio companies, of which 80% and 20% were senior secured loans and subordinated loans, respectively, and approximately $36.3 million in equity investments, at fair value, in 17 portfolio companies in which we also held debt investments and four portfolio companies in which we solely held an equity investment. We had unfunded commitments of $10.8 million to four portfolio companies at June 30, 2018. Set forth in the tables and charts below is selected information with respect to our portfolio as of June 30, 2018, and December 31, 2017.

The following table summarizes the composition of our investment portfolio as of June 30, 2018, and December 31, 2017 (dollar amounts in thousands):

	June 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Senior secured debt investments [(1)]	$260,078	$260,851	$196,020	$195,112
Subordinated debt investments	75,633	65,661	63,031	51,198
Preferred equity	19,416	14,718	24,103	19,200
Common equity and warrants	10,948	21,602	6,821	11,989
	$366,075	$362,832	$289,975	$277,499
Total number of portfolio companies	42	42	37	37

(1) Includes debt investments in which we have entered into contractual arrangements with co lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of certain co lenders pursuant to a payment waterfall. The aggregate amortized cost and fair value of these investments was $20,970 and $21,423 at June 30, 2018, respectively, and $21,709 and $21,919, at December 31, 2017, respectively

The following table shows the portfolio composition by geographic region at amortized cost and fair value and as a percentage of total investments; the geographic composition is determined by the location of the portfolio companies' corporate headquarters (dollar amounts in thousands):

	Amortized Cost				Fair Value			
	June 30, 2018		December 31, 2017		June 30, 2018		December 31, 2017	
South - US	$144,040	39.4 %	$126,123	43.5 %	$148,097	40.8 %	$124,699	44.9 %
Northeast - US	90,822	24.8	106,506	36.7	76,975	21.2	91,012	32.8
West - US	92,396	25.2	32,976	11.4	92,529	25.5	33,097	11.9
Midwest - US	38,817	10.6	20,431	7.0	45,231	12.5	24,621	8.9
Canada	—	—	3,939	1.4	—	—	4,070	1.5
Total	$366,075	100.0%	$289,975	100.0%	$362,832	100.0%	$277,499	100.0%

As of June 30, 2018, our investment portfolio's three largest industries by fair value, were (1) Manufacturing (16.4%) (2) Wholesale Trade (13.5%), and (3) Other Services (except Public Administration) (11.2%), totaling approximately 41.2% of the investment portfolio. For a full summary of our investment portfolio by industry, see "Financial Statements–Note 4" in this prospectus supplement.

The following table presents our debt investment portfolio by investment size as of June 30, 2018, and December 31, 2017 (dollar amounts in thousands):

	Amortized Cost				Fair Value			
	June 30, 2018		December 31, 2017		June 30, 2018		December 31, 2017	
Up to $4,000	$19,980	6.0 %	$28,403	10.9 %	$22,076	6.7 %	$24,745	10.1 %
$4,001 to $7,000	55,444	16.5	53,271	20.5	43,633	13.4	45,765	18.6
$7,001 to $10,000	92,226	27.5	84,596	32.7	81,743	25.0	84,026	34.1
$10,001 to $13,000	23,599	7.0	37,706	14.6	33,844	10.4	38,033	15.4
Greater than $13,000	144,462	43.0	55,075	21.3	145,216	44.5	53,741	21.8
Total	$335,711	100.0%	$259,051	100.0%	$326,512	100.0%	$246,310	100.0%

The following table displays the composition of our performing debt investment portfolio by weighted average yield as of June 30, 2018, and December 31, 2017:

	June 30, 2018			December 31, 2017		
Weighted Average Yield [1]	Senior Secured Debt	Subordinated Debt	Total Debt	Senior Secured Debt	Subordinated Debt	Total Debt
Less than 8%	1.8 %	— %	1.3 %	2.0 %	— %	1.6 %
8% - 10%	6.0	—	4.9	26.7	—	21.1
10% - 12%	45.2	6.0	37.6	38.4	11.5	32.7
12% - 14%	31.2	62.8	37.4	10.1	50.8	18.6
Greater than 14%	15.8	31.2	18.8	22.8	37.7	26.0
Total	100.0%	100.0 %	100.0%	100.0%	100.0 %	100.0%
Weighted average yield - performing debt investments [1]	11.85%	13.94 %	12.26%	11.76%	13.40 %	12.11%
Weighted average yield - total debt investments [2]	11.85%	11.66 %	11.80%	11.76%	11.05 %	11.59%

(1) The weighted average yield on our performing debt investments is computed as (a) the annual stated accruing interest plus the annualized accretion of Net Loan Fees divided by (b) amortized cost of our debt investments, excluding debt investments in non-accrual status as of the balance sheet date.

(2) The weighted average yield on our total debt investments is computed as (a) the annual stated accruing interest plus the annualized accretion of Net Loan Fees divided by (b) amortized cost of our debt investments, including debt investments in non-accrual status as of the balance sheet date.

The weighted average yield on total investments was 11.06% and 10.35% at June 30, 2018 and December 31, 2017, respectively. Weighted average yield on total investments is computed as (a) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of Net Loan Fees, plus the effective yield on our performing preferred equity investments, divided by (b) amortized cost of our total investment portfolio, including assets in non-accrual status as of the balance sheet date. The weighted average yield of our investments is not the same as a return on investment for our stockholders but, rather, the gross investment income from our investment portfolio before the payment of all of our fees and expenses. There can be no assurance that the weighted average yield will remain at its current level.

The weighted average yield increased from 12.11% at December 31, 2017 to 12.26% at June 30, 2018, primarily due to an increase in LIBOR, the principle index for our variable-rate debt investments during the six months ended June 30, 2018,

As of June 30, 2018, and December 31, 2017, floating rate loans at fair value were 77% and 76% of our debt investment portfolio, respectively, and fixed rate loans at fair value were 23% and 24% of our debt investment portfolio, respectively.

Investment Activity

The following is a summary of our investment activity for the three and six months ended June 30, 2018 and 2017 (dollar amounts in millions).

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Investments in new portfolio companies	$44.2	$ —	$112.6	$ 4.6
Investments in existing portfolio companies				
Follow-on investments	2.8	—	26.4	0.3
Delayed draw and revolver funding	—	—	1.4	—
Total investments in existing portfolio companies	2.8	—	27.8	0.3
Total investments in new and existing portfolio companies	$47.0	$ —	$140.4	$ 4.9
Number of new portfolio company investments	5	—	13	4
Number of existing portfolio company investments	1	—	7	1
Proceeds/distributions from principal payments/ equity investments	$6.2		$19.2	
Proceeds from investments sold or redeemed	11.8	2.4	38.9	3.5
Total proceeds from principal payments, equity distributions and investments sold	$18.0	$ 2.4	$58.1	$ 3.5

Notable investments in new portfolio companies during the six months ended June 30, 2018, include Online Tech Stores, LLC ($16.1 million subordinated loan), 3rd Rock Gaming, LLC (dba Planet Bingo) ($21.6 million senior secured loan and $2.5 million common equity), and Performance Team, LLC ($20.3 million senior secured loan). The weighted-average yield of debt investments in new portfolio companies during the six months ended June 30, 2018, was 11.47%.

In June 2018, our subordinated debt and equity investments with a cost basis of $3.5 million and $2.2 million in Southern Technical Institute, LLC were restructured and exchanged for a reduced subordinated debt and a new class of common equity recognized with a cost and fair value of $0. We recognized a realized losses of $5.6 million related to this restructuring, of which $4.4 million was recognized as an unrealized loss at December 31, 2017.

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Investments in new portfolio companies	$58.8	$ 0.3	$58.8	$ 0.3
Investments in existing portfolio companies				
Follow-on investments	6.5	0.5	12.1	0.5
Delayed draw and revolver funding	—	—	0.5	—
Total investments in existing portfolio companies	6.5	0.5	12.6	0.5
Total investments in new and existing portfolio companies	$65.3	$ 0.8	$71.4	$ 0.8
Number of new portfolio company investments	9	—	9	1
Number of existing portfolio company investments	4	—	9	1
Proceeds/distributions from principal payments/ equity investments	$19.4	$ —	$51.4	$ —
Proceeds from investments sold or redeemed	—	—	—	2.4
Total proceeds from principal payments, equity distributions and investments sold	$19.4	$ —	$51.4	$ 2.4

In December 2017, the Company's investment in Jobson Healthcare Information, LLC ("Jobson") was restructured, whereby the lender group, including the Company, purchased all the outstanding equity of Jobson for a nominal purchase price. During the six months ending June 30, 2018, we sold our debt and equity securities in Jobson and realized a loss of $3.9 million, $2.8 milion of which we had recognized as unrealized losses as of December 31, 2017.
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.
We categorize debt investments into seven risk categories based on relevant information about the ability of borrowers to service their debt. For additional information regarding our risk categories, see "The Company–Portfolio Review/Risk Monitoring" in the accompanying prospectus. The following table shows the classification of our debt investments portfolio by credit risk rating as of June 30, 2018, and December 31, 2017 (dollar amounts in thousands):

	Amortized Cost				Fair Value			
Risk Category	June 30, 2018		December 31, 2017		June 30, 2018		December 31, 2017	
1 (Low Risk)	$—	— %	$—	— %	$—	— %	$—	— %
2 (Below Average Risk)	3,818	1.1	3,823	1.5	3,844	1.2	3,755	1.5
3 (Average)	301,135	89.8	220,332	85.0	302,503	92.6	222,027	90.1
4 (Special Mention)	18,355	5.5	19,114	7.4	17,879	5.5	16,454	6.7
5 (Substandard)	—	—	4,692	1.8	—	—	2,873	1.2
6 (Doubtful)	12,403	3.7	11,090	4.3	2,286	0.7	1,201	0.5
7 (Loss)	—	—	—	—	—	—	—	—
	$335,711	100.1 %	$259,051	100.0 %	$326,512	100.0 %	$246,310	100.0 %

Changes in the distribution of our debt investments across risk categories, were a result of new debt investments, the receipt of amortization payments on existing debt investments, repayment of certain debt investments in full, changes in the fair value of our existing debt investments, realized losses on restructuring, within the categories, including a realized loss of $3.5 million on the restructuring of Southern Technical Institute, LLC, the change in Master Cutlery to risk category 6 with an amortized cost and fair value of $4.8 million and $2.3 million, respectively, and other investment activity.

Non-Accrual Loans

When there is reasonable doubt that principal, cash interest, or PIK interest, will be collected, loan investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, or Net Loan Fee

amortization, as applicable. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest, and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal. The aggregate amortized cost and fair value of loans on non-accrual status with respect to all interest and Net Loan Fee amortization was $12.4 million and $2.3 million at June 30, 2018, and $11.1 million and $1.2 million at December 31, 2017, 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.

Total Investment Income. We generate revenue in the form of interest income on debt investments 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 June 30, 2018, floating rate and fixed rate loans comprised 77% and 23%, respectively, of our debt investment portfolio at fair value; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will continue to increase. In some cases, our investments provide for PIK interest, or PIK dividends (meaning interest or dividends paid in the form of additional principal amount of the loan or equity security instead of in cash). We also generate revenue in the form of management, valuation, and other contractual fees, which is recognized as the related services are rendered. In the general course of business, we receive certain fees from portfolio companies which are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and fees for capital structuring services from certain portfolio companies, which are recognized as earned upon closing of the investment. Net Loan Fees are capitalized, and accreted or amortized over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its amortized cost, we will also recognize the excess principal payment as income in the period it is received.

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.

Net Gain (Loss) on Investments. Net gain (loss) on investments consists of the sum of: (a) realized gains and losses from the sale of debt or equity securities, or the redemption of equity securities; and (b) net unrealized appreciation or

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 accumulated net unrealized appreciation or depreciation, and the net gain recognized in that period will generally be smaller. The accumulated net 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 of accumulated unrealized appreciation or depreciation will be reported as a net loss or gain, respectively, and may be partially offset by the acceleration of any premium or discount on the debt security, which is reported in interest income, and any prepayment fees on the debt security, which is reported in fee income.

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 L.P. is subject to regulation and oversight by 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.

Net increase in net assets resulting from operations can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, annual comparisons of net increase in net assets resulting from operations may not be meaningful.

Comparison of the three and six months ended June 30, 2018, and 2017

Consolidated operating results for the three and six months ended June 30, 2018 and 2017, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Investment income				
Interest income:				
Cash interest income	$8,971	$6,235	$16,684	$12,850
Net Loan Fee amortization	308	327	583	668
Other interest income	65	72	159	83
Total interest income	9,344	6,634	17,426	13,601
PIK income:				
PIK interest income	233	335	606	649
Preferred equity PIK dividends	201	397	540	780
Total PIK income	434	732	1,146	1,429
Dividend income:				
Preferred equity cash dividends	94	32	257	65
Common equity dividends	—	150	—	240
Total dividend income	94	182	257	305
Fee income:				
Management, valuation and syndication	388	42	421	84
Prepayment and other	18	388	31	593
Total fee income	406	430	452	677
Total investment income	10,278	7,978	19,281	16,012
Total expenses, net of incentive fee waiver	5,720	3,662	10,907	8,356
Net investment income	4,558	4,316	8,374	7,656
Net gain (loss) on investments	437	(6,597)	114	(5,071)
Net increase in net assets resulting from operations	$4,995	$(2,281)	$8,488	$2,585

Interest and PIK income by debt investment type for the three and six months ended June 30, 2018 and 2017, is summarized below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income and PIK interest income:				
Senior secured debt investments	$7,421	$5,069	$13,771	$10,448
Subordinated debt investments	2,156	1,900	4,261	3,802
Total interest income and PIK interest income	9,577	6,969	18,032	14,250
Less: acceleration of Net Loan Fees	(110)	(128)	(123)	(272)
Recurring interest income and PIK interest income	$9,467	$6,841	$17,909	$13,978

We consider our interest income, other than acceleration of Net Loan Fees recognized upon the repayment of a loan, and PIK interest income to be recurring in nature. Recurring interest income and PIK interest income increased by $2.6 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to a $2.2 million increase caused by an approximately $76 million increase in the average outstanding performing loan balance and a $0.4 million increase resulting from a 57 basis point increase in the recurring earned yield on our portfolio.

Recurring interest income and PIK interest income increased by $3.9 million for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, due to a $3.1 million increase caused by an approximately $53 million increase in the average outstanding performing loan balance and a $0.8 million increase resulting from a 59 basis point increase in the recurring earned yield on our portfolio.

Syndication fees, prepayment fees and the acceleration of Net Loan Fees generally result from periodic transactions transactions rather than from holding portfolio investments and are considered to be non-recurring. Syndication fees of $353,000 included in management, valuation and syndication fees for the three and six months ended June 30, 2018, resulted from approximately $38 million in loan originations during that period which OFS Advisor sourced, structured, and arranged the lending group, and for which we were additionally compensated. The accelerations of Net Loans Fees for the three and six months ended June 30, 2018, resulted from unscheduled principal payments of $7.5 million and $7.9 million, respectively.

Fee income decreased by $0.1 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017, primarily due to a $0.2 million decrease in prepayment fees, offset by a $0.1 million increase in syndication fees. We recorded prepayment fees of $0.2 million resulting from $11.3 million of unscheduled principal payments during the three months ended June 30, 2018 compared to prepayment fees of $0.4 million resulting from $12.7 million of unscheduled principal payments we recorded during the three months ended June 30, 2017. We recorded syndication fees of $0.2 million in connection with the closing of $18.3 million of investments during the three months ended June 30, 2018 compared to syndication fees of $0.1 million in connection on the closing of $5.0 million of investments during the three months ended June 30, 2017.

Fee income decreased by $0.4 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017, primarily due to a $0.5 million decrease in prepayment fees, offset by a $0.1 million increase in syndication fees. We recorded prepayment fees of $0.4 million resulting from $28.2 million of unscheduled principal payments during the six months ended June 30, 2018 compared to prepayment fees of $0.9 million resulting from $24.9 million of unscheduled principal payments we recorded during the six months ended June 30, 2017. We recorded syndication fees of $0.2 million in connection with the closing of $18.3 million of investments during the six months ended June 30, 2018 compared to syndication fees of $0.1 million in connection with the closing of $6.2 million of investments during the six months ended June 30, 2017.

Operating expenses for the three and six months ended June 30, 2018 and 2017, are presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest expense	$2,169	$1,339	$3,803	$2,726
Management fees	1,548	1,224	2,908	2,416
Incentive fee	1,135	(22)	1,871	1,159
Professional fees	200	293	401	556
Administration fee	358	307	941	708
Other expenses	310	521	1,005	791
Total expenses before incentive fee waiver	5,720	3,662	10,929	8,356
Incentive fee waiver	—	—	(22)	—
Total expenses, net of incentive fee waiver	$5,720	$3,662	$10,907	$8,356

Interest expense for the three and six months ended June 30, 2018 increased over the corresponding period in the prior year primarily due to an increase in borrowings under our PWB Credit Facility and the issuance of the 6.375% Notes due 2025. The average borrowings outstanding under the PWB Credit Facility and 6.375% Notes due 2025 during the three and six months ended June 30, 2018 is summarized below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
PWB Credit Facility	$7.1	$0.7	$14.7	$3.2
6.375% Notes due 2025	41.5	—	20.9	—

Management fee expense for the three and six months ended June 30, 2018 and 2017, increased over the corresponding periods in the priors years due to an increase in our average total assets in both periods, primarily due to an increase in net investment activity. Management fee expense for the 2017 periods was also impacted by the deployment of funds from the Offering.

The $1.2 million increase in incentive fee expense for the three months ended June 30, 2018, compared to the corresponding quarter in the prior year was attributable to the reduction in incentive fees in the three months ended June 30, 2017, that resulted from the share-issuance adjustment to the incentive fee related to the Offering. Additionally, the incentive fee for the three months ended June 30, 2017, included a $0.3 million reversal of accrued Capital Gain Fees, which did not recur in the three or six months ended June 30, 2018. We accrue the Capital Gain Fee if, on a cumulative basis, the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation) is positive; the accrued Capital Gain Fee was $0 at June 30, 2017, and at subsequent quarter ends. On May 1, 2018, OFS Advisor irrevocably waived Income Incentive Fees of approximately $22 thousand related to net investment income, that it would otherwise be entitled to under the Investment Advisory Agreement for the three months ended March 31, 2018.

Administration fee expense for the six months ended June 30, 2018 increased $0.2 million over the corresponding period in the prior year primarily due to an increase in our allocable portion of OFS Services’s overhead in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions.

Other expenses for the six months ended June 30, 2018, increased over the corresponding period in the prior year primarily due to legal and other offering costs incurred during the first quarter of 2018 in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions. Other expenses increased by $0.2 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the write-off of deferred common stock offering costs in connection with the expiration of a related shelf registration statement.

Net Gain (Loss) on Investments

Net gain (loss) by investment type for the three and six months ended June 30, 2018 and 2017, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Senior secured debt	$(1,675)	$(2,647)	$(1,396)	$(4,237)
Subordinated debt	(208)	(2,131)	(1,608)	(2,354)
Preferred equity	(573)	(310)	(1,685)	2,679
Common equity and warrants	2,893	(1,509)	4,803	(1,159)
Net gain (loss) on investments	$437	$(6,597)	$114	$(5,071)

Three and six months ended June 30, 2018

We recognized net losses of $1.7 million on senior secured debt during the three months ended June 30, 2018, primarily as a result of an additional net loss of $1.2 million from the sale of Jobson Healthcare Information, LLC. Additional unrealized losses of $0.5 million and $0.2 million for the three and six months ended June 30, 2018 were primarily a result of the net negative impact of portfolio company-specific performance factors and the impact of changes to certain market loan indices.

We recognized net losses of $0.2 million on subordinated debt during the three months ended June 30, 2018, primarily due to unrealized depreciation of $0.3 million recognized on our subordinated debt investment in Master Cutlery, LLC, which was placed on non-accrual during the second quarter of 2018 and written down to a fair value of $2.3 million at June 30, 2018. We recognized net losses of $1.6 million for the six months ended June 30, 2018, primarily as a result of a realized loss of $3.5 million on Southern Technical Institute, LLC and net unrealized gains of $1.7 million primarily as a result of net positive impact of portfolio company-specific performance factors and the impact of changes to certain market loan indices.

We recognized net losses of $0.6 million on preferred equity investments for the three months ended June 30, 2018, primarily as a result of unrealized depreciation on certain portfolio investments due to the net negative impact of portfolio company-specific performance factors. We recognized net losses of $1.7 million for the six months ended June 30, 2018, primarily due to a $1.0 million unrealized loss on My Alarm Center Class B Preferred and a $1.2 million unrealized loss in TRS Services, LLC Class A units.

We recognized net gains of $2.9 million on common equity and warrant investments for the three months ended June 30, 2018, primarily as a result of unrealized appreciation stemming from the positive impact of portfolio company-specific performance factors. We recognized net gains of $4.8 million on common equity and warrant investments for the six months ended June 30, 2018, primarily as a result of a $2.0 million unrealized gain in Pfanstiehl Holdings, Inc. and a $2.2 million unrealized gain in Contract Datascan Holdings, Inc.

Three and six months ended June 30, 2017

We recognized net losses of $2.6 million on senior secured debt during the three months ended June 30, 2017, primarily as a result of the negative impact of portfolio company-specific performance factors, including an unrealized loss of $3.0 million recognized on our senior secured debt investment in My Alarm Center, LLC, which was placed on non-accrual at June 30, 2017, partially offset primarily by the positive impact of changes to certain market loan indices.

We recognized net losses of $4.2 million on senior secured debt during the six months ended June 30, 2017, primarily as a result of the negative impact of portfolio company-specific performance factors, including an unrealized loss of $5.1 million recognized on our senior secured debt investment in My Alarm Center, LLC partially offset by the positive impact of changes to certain market loan indices. A cumulative unrealized loss of $5.0 million at June 30, 2017, on My Alarm Center, LLC was realized subsequent to June 30, 2017 upon restructure of the senior secured debt investment and was reflected in our third quarter 2017 financial statements.

We recognized net losses of $2.1 million on subordinated debt during the three months ended June 30, 2017, primarily as a result of the negative impact of portfolio company-specific performance factors, including an unrealized loss of $1.4 million recognized on our subordinated debt investment in Community Intervention Services, Inc., which was placed on non-performing during 2016.

We recognized net losses of $2.4 million on subordinated debt during the six months ended June 30, 2017, primarily as a result of the net negative impact of portfolio company-specific performance factors, including an unrealized loss of $2.1

million recognized on our subordinated debt investment in Community Intervention Services, Inc., which was placed on non-performing during 2016.
We recognized net losses of $0.3 million on preferred equity investments for the three months ended June 30, 2017, primarily as a result of the net negative impact of portfolio company-specific performance factors, offset by the net positive impact from changes to EBITDA multiples used in our valuations.
We recognized net gains of $2.7 million on preferred equity investments for the six months ended June 30, 2017, primarily as a result of the net positive impact from changes to EBITDA multiples used in our valuations, offset by the net negative impact of portfolio company-specific performance factors.
We recognized net losses of $1.5 million on common equity and warrant investments for the three months ended June 30, 2017, primarily as a result of the negative impact of portfolio company-specific performance factors. Included in the net loss was a realized gain of $0.9 million from the sale of a common equity investment, which through March 31, 2017, we recognized unrealized gains of $0.7 million, resulting in a net gain of $0.2 million during the three months ended June 30, 2017.
We recognized net losses of $1.2 million on common equity and warrant investments for the six months ended June 30, 2017, primarily as a result of the negative impact of portfolio company-specific performance factors. Included in the net loss was a realized gain of $0.9 million from the sale of a common equity investment, which through December 31, 2016, we recognized unrealized gains of $0.5 million, resulting in a net gain of $0.4 million during the six months ended June 30, 2017.

Liquidity and Capital Resources
At June 30, 2018, we held cash and cash equivalents of $22.7 million, which includes cash and cash equivalents of $20.6 million held by SBIC I LP, our wholly owned SBIC. Our use of cash held by SBIC I LP is restricted by SBA regulation, including limitations on the amount of cash SBIC I LP can distribute to OFS Capital Corporation as parent company (the "Parent"). Any such distributions to the Parent from SBIC I LP are generally restricted under SBA regulations to a statutory measure of undistributed accumulated earnings of SBIC I LP. During the six months ended June 30, 2018, the Parent received $11.4 million in cash distributions from SBIC I LP. At June 30, 2018, the Parent had $7.6 million of cash and cash equivalents available for general corporate activities, including $5.5 million held by SBIC I LP that was available for distribution to it. Additionally, the Parent had available borrowings of $42.0 million under our PWB Credit Facility at June 30, 2018.

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 use cash in our operations in the net purchase of portfolio investments. Significant variations may exist between net investment income and cash from net investment income, primarily due to the recognition of non-cash investment income, including certain Net Loan Fee amortization, PIK interest, and PIK dividends, which generally will not be fully realized in cash until we exit the investment. As discussed in "Financial Statements–Note 3," we pay OFS Advisor a quarterly incentive fee with respect to our pre-incentive fee net investment income, which includes investment income that we have not received in cash. In addition, 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 tax treatment. Historically, our distributions have been in excess of taxable income, and we have limited history of net taxable gains. We also obtain cash to fund investments or general corporate activities from the issuance of securities and our revolving line of credit. These principal sources and uses of cash and liquidity are presented below (in thousands):

	Six Months Ended June 30,	
	2018	2017
Cash from net investment income	$8,529	$5,463
Cash received from realized gains	518	899
Net purchases and originations portfolio investments	(83,913)	(19,309)
Net cash provided by (used in) operating activities	(74,866)	(12,947)
Proceeds from common stock offering, net of expenses	—	53,448
Cash distributions paid[(1)]:		
From net investment income	(9,008)	(6,486)
From realized gains	(4,887)	(1,254)
Net repayments on PWB Credit Facility	(9,600)	(3,500)
Net proceeds from issuance of 6.375% Notes due 2025	48,247	—
Other financing	(173)	—
Increase (decrease) in cash and cash equivalents	$(50,287)	$29,261

(1) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our ICTI for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. The 2018 distribution from realized gains represents a special dividend of undistributed net long-term capital gains that we realized in 2017. See "Financial Statements–Note 10" included elsewhere in this prospectus supplement.

Cash from net investment income

Cash from net investment income increased $3.1 million for the six months ended June 30, 2018, compared to the six months ended June 30, 2017 principally due to an increase in collected interest income caused by a 56 basis point increase in average cash coupon and a $54.2 million increase in average outstanding principal.

Cash received from realized gains

Cash received on realized gains may differ from realized gains in the statement of operations due to delays in the receipt of sale proceeds related to escrow and earn-out provisions in the investment sales transactions.

Net purchases and originations portfolio investments

During the six months ended June 30, 2018, net purchases and originations of portfolio investments were primarily due to $145.2 million of cash we used to purchase portfolio investments, offset by $61.3 million of cash we received from amortized cost repayments on our portfolio investments. During the six months ended June 30, 2017, net repayments were due to $51.4 million of cash we received from principal payments on our portfolio investments, offset by $72.2 million of cash we used to purchase portfolio investments. See "—Portfolio Composition and Investment Activity–Investment Activity."

Borrowings

SBA Debentures

SBIC I LP has a SBIC license that allowed 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 us, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate was fixed at the first pooling date after issuance, which was 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 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 June 30, 2018 and 2017, SBIC I LP had fully drawn the $149.9 million of leverage commitments from the SBA.

On a stand-alone basis, SBIC I LP held $249.6 million, and $251.6 million in assets at June 30, 2018, and December 31, 2017, respectively, which accounted for approximately 64% and 70% of the Company's total consolidated assets, 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.

We have received exemptive relief from the SEC, effective November 26, 2013, which permits us 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.

PWB Credit Facility

We are party to a BLA with Pacific Western Bank, as lender, to provide us with a senior secured revolving credit facility, or PWB Credit Facility, which 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, which excludes subordinated loan investments (as defined in the BLA) and as 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 the Company's partnership interests in SBIC I LP and OFS SBIC I, GP. The PWB Credit Facility bears interest at a variable rate of the Prime Rate plus a 0.75% margin, with a 5.25% floor, and includes an unused commitment fee, payable monthly in arrears, equal to 0.50% per annum on any unused portion.

On March 7, 2018 the BLA was amended to, among other things, increase the maximum amount available under the PWB Credit Facility from $35 million to $50 million, extend the maturity date from October 31, 2018 to January 31, 2020, and change the interest rate floor from 5.00% to 5.25%. We incurred deferred debt issuance costs of $0.2 million in connection with the amendment.

As of June 30, 2018, we had $8.0 million outstanding at a variable interest rate of 5.50% per annum, and $42.0 million available for use under the PWB Credit Facility.

The BLA 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 BLA 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. As of June 30, 2018, the Company was in compliance with the applicable covenants.

6.375% Notes due 2025

In April 2018, we closed the public offering of $50.0 million in aggregate principal amount of our 6.375% notes due 2025 (the "6.375% Notes due 2025"). The total net proceeds to us from the 6.375% Notes due 2025, after deducting underwriting discounts of approximately $1.6 million and estimated offering expenses of $0.4 million, were approximately $48.0 million. The 6.375% Notes due 2025 will mature on April 30, 2025 and bear interest at a rate of

6.375%. The 6.375% Notes due 2025 are unsecured obligations of the Company and rank pari passu with our existing and future unsecured subordinated indebtedness; effectively subordinated to all of our existing and future secured unsubordinated indebtedness, including borrowings under the PWB Credit Facility; and structurally subordinated to all existing and future indebtedness and other obligations of any subsidiaries, including the SBA-guaranteed debentures. The 6.375% Notes due 2025 may be redeemed in whole or in part at any time or from time to time at our option on or after April 30, 2020 at the redemption price of 100% of

the aggregate principal amount thereof plus accrued and unpaid interest. Interest on the 6.375% Notes due 2025 is payable quarterly on January 31, April 30, July 31, and October 31 of each year. The 6.375% Notes due 2025 are listed on the Nasdaq Global Select Market under the trading symbol "OFSSL." We may from time to time repurchase 6.375% Notes due 2025 in accordance with the 1940 Act and the rules promulgated thereunder. As of June 30, 2018, the outstanding principal balance of the 6.375% Notes due 2025 was $50.0 million.

The indenture governing the 6.375% Notes due 2025, or the "6.375% Notes Indenture," contains certain covenants, including covenants (i) requiring our compliance with Section 18(a)(1)(A) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from incurring additional borrowings, including through the issuance of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% if certain requirements are met) after such borrowings; (ii) requiring our compliance, under certain circumstances, with a modified version of the requirements set forth in Section 18(a)(1)(B) as modified by Section 61(a) of the 1940 Act, whether or not we continue to be subject to such provisions of the 1940 Act, prohibiting the declaration of any cash dividend or distribution upon any class of our capital stock (except to the extent necessary for us to maintain our treatment as a RIC under Subchapter M of the Code), or purchasing any such capital stock, if our asset coverage, as defined in the 1940 Act, were below 200% (or 150% if certain requirements are met) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution, or purchase; and (iii) requiring us to provide financial information to the holders of the 6.375% Notes due 2025 and the Trustee if we cease to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the Indenture.

Other Liquidity Matters

We expect to fund the growth of our investment portfolio utilizing borrowings under SBA debentures, follow-on equity offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act. We cannot assure stockholders that our plans to raise capital will be successful. In addition, we intend to distribute to our stockholders 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 June 30, 2018), of at least 200% (or 150% if certain conditions are met). 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 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 the need 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.

On March 23, 2018, the Consolidated Appropriations Act of 2018, which includes the SBCAA, was signed into law. The SBCAA amends the 1940 Act to permit a BDC to reduce the required minimum asset coverage ratio applicable to it from 200% to 150%, subject to certain requirements described therein.

On May 3, 2018, the Board, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective May 3, 2019.

On May 22, 2018, the Board authorized the Company to initiate the Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. Under the Stock Repurchase Program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The Stock Repurchase Program may be extended,

modified or discontinued at any time for any reason. The Company expects the Stock Repurchase Program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases. No shares of common stock were repurchased during the three months ended June 30, 2018.

Information about our senior securities is shown in the following table as of June 30, 2018 and December 31, 2017 (dollar amounts in thousands):

Class and Year	Total Amount Outstanding (1)	Asset Coverage Ratio(2)
PWB Credit Facility		
June 30, 2018	$ 8,000	406 %
December 31, 2017	$ 17,600	1,154 %
6.375% Notes due 2025		
June 30, 2018	$ 50,000	406 %
Small Business Administration Debentures (SBIC I LP) (3)		
June 30, 2018	$ 149,880	$ —
December 31, 2017	$ 149,880	$ —

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness.

(3) The Small Business Administration Debentures are not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our contractual obligations as of June 30, 2018 (in thousands):

	Payments due by period				
Contractual Obligation (1)	Total	Less than year	1-3 years (2)	3-5 years	After 5 years (2)
PWB Credit Facility	$8,000	$ —	$8,000		$—
6.375% Notes due 2025	50,000	—	—	—	50,000
SBA Debentures	149,880	—	—	14,000	135,880
Total	$207,880	$ —	$8,000	$14,000	$185,880

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

(2) The PWB Credit Facility is scheduled to mature on January 31, 2020. The SBA debentures are scheduled to mature between September 2022 and 2025. The 6.375% Notes due 2025 are scheduled to mature in 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.

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. We had $10.8 million in unfunded commitments to four portfolio companies at June 30, 2018.

Distributions

We are taxed as a RIC under the Code. In order to maintain our status as a RIC, we are required to distribute annually to our stockholders at least 90% of our investment company taxable income ("ICTI"), as defined by the Code. Additionally, to avoid a 4% excise tax on undistributed earnings we are required to distribute each calendar year the sum of (i) 98% of our ordinary income for such calendar year (ii) 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year, and (iii) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax. Maintenance of our RIC status also requires adherence to certain source of income and asset diversification requirements. Generally, a RIC is entitled to deduct dividends it pays to its stockholders 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. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company's stockholders.

Recent Developments

On July 31, 2018, our Board declared a distribution of $0.34 per share for the third quarter of 2018, payable on September 28, 2018, to stockholders of record as of September 14, 2018.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of June 30, 2018, 77% of our debt investments bore interest at floating interest rates, at fair value. 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 market rates on a periodic basis. A significant portion of our loans that are subject to the floating LIBOR rates are also subject to a minimum base rate, or floor, that we charge on our loans if the current market rates are below the respective floors. As of June 30, 2018, all of our floating rate loans were based on a floating LIBOR (not subject to a floor).

Our outstanding SBA debentures bear interest at a fixed rate. Our PWB Credit Facility has a floating interest rate provision based on the Prime Rate with a 5.25% interest rate floor.

Assuming that the interim and unaudited consolidated balance sheet as of June 30, 2018 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following tables show the annualized impact of hypothetical base rate changes in interest rates (in thousands).

Basis point increase	Interest income	Interest expense	Net increase
50	$ 1,679	$ 41	$ 1,638
100	2,959	81	2,878
150	4,239	122	4,117
200	5,519	162	5,357
250	6,799	203	6,596

Basis point decrease	Interest income