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OFS Capital Corp  
Form 10-Q  
May 03, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 814-00813

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

46-1339639  
I.R.S. Employer  
Identification No.

State or Other Jurisdiction of  
Incorporation or Organization

10 S. Wacker Drive, Suite 2500, Chicago, Illinois  
Address of Principal Executive Offices

60606  
Zip Code

(847) 734-2000

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of May 1, 2019 was 13,361,134.

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OFS CAPITAL CORPORATION

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### Defined Terms

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

Term	Explanation or Definition
1940 Act	Investment Company Act of 1940, as amended
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
April 2017 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
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
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
Indicative Prices	Market quotations, prices from pricing services or bids from brokers or dealers
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.
OCCI	OFS Credit Company, Inc., a Delaware corporation and a non-diversified, closed-end management investment company for whom OFS Advisor serves as investment adviser
OFS Advisor	OFS Capital Management, LLC, a wholly owned subsidiary of OFSAM and registered investment adviser under the Investment Advisers Act of 1940, as amended
OFS Capital WM	OFS Capital WM, LLC, a wholly owned investment company subsidiary of the Company
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

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Term	Explanation or Definition
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, as amended
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
Secured Revolver Amendment	The amended Business Loan Agreement with Pacific Western Bank, as lender, dated April 10, 2019
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
Structured Finance Notes	CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses
The Order	We received exemptive relief from the SEC to permit us to co-invest in portfolio companies with certain funds managed by 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.
Transaction Price	The cost of an arm's length transaction occurring in the same security
Unsecured Notes	The combination of the Unsecured Notes Due April 2025 and the Unsecured Notes Due October 2025
Unsecured Notes Due April 2025	The Company's \$50.0 million aggregate principal amount of 6.375% notes due April 30, 2025
Unsecured Notes Due October 2025	The Company's \$46.0 million aggregate principal amount of 6.5% notes due October 30, 2025

### Forward-Looking Statements

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

our 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;

our ability to incur additional leverage pursuant to the SBCAA, beginning on May 3, 2019;

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.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include, among others, those described or identified in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q.

We have based the forward-looking statements on information available to us on the date of this Quarterly Report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The forward-looking statements and projections contained in this Quarterly Reports on Form 10-Q are excluded from the safe harbor protection provided by Section 21E of the Exchange Act.

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## OFS Capital Corporation and Subsidiaries

## Consolidated Statements of Assets and Liabilities

(Dollar amounts in thousands, except per share data)

	March 31, 2019	December 31, 2018
	(unaudited)	
Assets		
Investments, at fair value:		
Non-control/non-affiliate investments (amortized cost of \$323,794 and \$312,223, respectively)	\$ 310,090	\$ 297,749
Affiliate investments (amortized cost of \$120,199 and \$90,751, respectively)	117,431	89,103
Control investment (amortized cost of \$10,368 and \$10,337, respectively)	10,146	9,945
Total investments at fair value (amortized cost of \$454,361 and \$413,311, respectively)	437,667	396,797
Cash	15,156	38,172
Interest receivable	3,787	2,787
Prepaid expenses and other assets	3,592	3,665
Total assets	\$ 460,202	\$ 441,421
Liabilities		
Revolving line of credit	\$ 35,750	\$ 12,000
SBA debentures (net of deferred debt issuance costs of \$2,188 and \$2,280, respectively)	147,692	147,600
Unsecured notes (net of deferred debt issuance costs of \$3,176 and \$3,299 respectively)	95,349	95,226
Interest payable	1,478	2,791
Payable to adviser and affiliates (Note 3)	3,767	3,700
Payable for investments purchased	1,027	4,151
Accrued professional fees	662	637
Other liabilities	219	293
Total liabilities	285,944	266,398
Commitments and contingencies (Note 6)		
Net assets		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of March 31, 2019, and December 31, 2018, respectively	\$ —	\$ —
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,361,134 and 13,357,337 shares issued and outstanding as of March 31, 2019, and December 31, 2018, respectively	134	134
Paid-in capital in excess of par	187,604	187,540
Total distributable earnings (losses)	(13,480)	(12,651)
Total net assets	174,258	175,023
Total liabilities and net assets	\$ 460,202	\$ 441,421
Number of shares outstanding	13,361,134	13,357,337
Net asset value per share	\$ 13.04	\$ 13.10

See Notes to Consolidated Financial Statements.





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

	Three Months Ended March 31,	
	2019	2018
Investment income		
Interest income:		
Non-control/non-affiliate investments	\$8,642	\$ 5,758
Affiliate investments	2,333	2,085
Control investment	259	239
Total interest income	11,234	8,082
Payment-in-kind interest and dividend income:		
Non-control/non-affiliate investments	97	224
Affiliate investments	252	461
Control investment	27	27
Total payment-in-kind interest and dividend income	376	712
Dividend income:		
Affiliate investments	173	130
Control investment	—	33
Total dividend income	173	163
Fee income:		
Non-control/non-affiliate investments	342	26
Affiliate investments	205	2
Control investment	15	18
Total fee income	562	46
Total investment income	12,345	9,003
Expenses		
Interest and financing expense	3,455	1,634
Management fee	1,843	1,360
Incentive fee	1,163	736
Professional fees	535	201
Administration fee	437	583
Other expenses	84	695
Total expenses before incentive fee waiver	7,517	5,209
Incentive fee waiver (see Note 3)	—	(22 )
Total expenses, net of incentive fee waiver	7,517	5,187
Net investment income	4,828	3,816
Net realized and unrealized gain (loss) on investments		
Net realized gain (loss) on non-control/non-affiliate investments	(804 )	461
Net realized loss on affiliate investments	—	(541 )
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments	658	(1,563 )
Net unrealized appreciation (depreciation) on affiliate investments	(1,120 )	1,245
Net unrealized appreciation on control investment	170	75
Net loss on investments	(1,096 )	(323 )
Net increase in net assets resulting from operations	\$3,732	\$ 3,493

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Net investment income per common share – basic and diluted	\$0.36	\$ 0.29
Net increase in net assets resulting from operations per common share – basic and diluted	\$0.28	\$ 0.26
Distributions declared per common share	\$0.34	\$ 0.71
Basic and diluted weighted average shares outstanding	13,357,463	13,340,502
See Notes to Consolidated Financial Statements.		

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

	Preferred stock		Common Stock		Paid-in capital in excess of par	Total distributable earnings (losses)	Total net assets
	Number of shares	Par value	Number of shares	Par value			
Balances at January 1, 2018	—	—	13,340,217	\$ 133	\$ 187,398	\$ 805	\$ 188,336
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	3,816	3,816
Net realized loss on investments	—	—	—	—	—	(80)	(80)
Net unrealized depreciation on investments	—	—	—	—	—	(243)	(243)
Tax reclassifications of permanent differences	—	—	—	—	18	(18)	—
Distributions to stockholders:							
Common stock issued from reinvestment of stockholder distributions	—	—	8,557	—	96	—	96
Dividends declared	—	—	—	—	—	(9,472)	(9,472)
Total increase (decrease) for the period ended March 31, 2018	—	—	8,557	—	114	(5,997)	(5,883)
Balances at March 31, 2018	—	—	13,348,774	\$ 133	\$ 187,512	\$ (5,192)	\$ 182,453
Balances at January 1, 2019	—	—	13,357,337	\$ 134	\$ 187,540	\$ (12,651)	\$ 175,023
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	4,828	4,828
Net realized loss on investments	—	—	—	—	—	(804)	(804)
Net unrealized depreciation on investments	—	—	—	—	—	(292)	(292)
Tax reclassifications of permanent differences	—	—	—	—	19	(19)	—
Distributions to stockholders:							
Common stock issued from reinvestment of stockholder distributions	—	—	3,797	—	45	—	45
Dividends declared	—	—	—	—	—	(4,542)	(4,542)
Total increase (decrease) for the period ended March 31, 2019	—	—	3,797	—	64	(829)	(765)
Balances at March 31, 2019	—	—	13,361,134	\$ 134	\$ 187,604	\$ (13,480)	\$ 174,258

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$3,732	\$3,493
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized loss on investments	804	80
Net unrealized depreciation on investments	292	243
Amortization of Net Loan Fees	(178 )	(275 )
Payment-in-kind interest and dividend income	(377 )	(712 )
Accretion of interest income on structured-finance notes	(467 )	—
Amortization of debt issuance costs	277	144
Amortization of intangible asset	49	49
Purchase and origination of portfolio investments	(63,630 )	(98,208 )
Proceeds from principal payments on portfolio investments	6,013	13,025
Proceeds from sale or redemption of portfolio investments	16,328	28,203
Proceeds from distributions received from portfolio investments	433	—
Changes in operating assets and liabilities:		
Interest receivable	(1,000 )	(181 )
Interest payable	(1,313 )	(1,186 )
Payable to adviser and affiliates	67	361
Other assets and liabilities	(3,297 )	137
Net cash used in operating activities	(42,267 )	(54,827 )
Cash flows from financing activities		
Distributions paid to stockholders	(4,496 )	(9,376 )
Borrowings under revolving line of credit	36,500	46,250
Repayments under revolving line of credit	(12,750 )	(22,900 )
Payment of debt issuance costs	—	(173 )
Repurchases of common stock under Stock Repurchase Program	(3 )	—
Net cash provided by financing activities	19,251	13,801
Net decrease in cash	(23,016 )	(41,026 )
Cash — beginning of period	38,172	72,952
Cash — end of period	\$15,156	\$31,926
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$4,491	\$2,676
Reinvestment of stockholder common stock	45	96

See Notes to Consolidated Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Non-control/Non-affiliate Investments Debt and Equity Investments									
Baymark Health Services, Inc.	Outpatient Mental Health & Sub. Abuse Centers	10.74%	(L +8.25%)	3/22/2018	3/1/2025	\$4,000	\$3,966	\$3,960	2.3 %
Brookfield WEC Holdings Inc.,	Business to Business Electronic Markets	9.25%	(L +6.75%)	12/6/2018	8/3/2026	1,959	1,959	1,969	1.1
Carolina Lubes, Inc. (4)	Automotive Oil Change and Lubrication Shops	10.61%	(L +7.82%)	8/23/2017	8/23/2022	20,696	20,572	20,920	12.0
Senior Secured Loan (8)		0.25%	(L +7.25%)	8/23/2017	8/23/2022	—	(10 )	—	—
Senior Secured Loan (Revolver)		(18)				20,696	20,562	20,920	12.0
Cenexel Clinical Research Holdings, Inc. (f/k/a JBR Clinical Research, Inc.) (4) (8)	Research and Development in the Social Sciences and Humanities	10.61%	(L +7.79%)	8/2/2018	8/2/2023	22,419	22,283	22,059	12.8
Senior Secured Loan		10.85%	(L +8.25%)	3/5/2018	10/19/2022	12,835	12,699	12,573	7.2
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services								
Senior Secured Loan									

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Senior Secured Loan (Revolver)		10.85%	(L +8.25%)	3/5/2018	10/19/2022	26	26	25	—
						12,861	12,725	12,598	7.2
Community Intervention Services, Inc. (4) (6) (10) (11)	Outpatient Mental Health and Substance Abuse Centers								
Subordinated Loan		7.0% cash / 6.0% PIK	N/A	7/16/2015	1/16/2021	9,196	7,639	—	—
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages								
Senior Secured Loan		11.13%	(L +8.50%)	7/7/2015	11/1/2025	9,678	9,495	9,417	5.4
Constellis Holdings, LLC	Other Justice, Public Order, and Safety Activities								
Senior Secured Loan		11.74%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,836	9,442	5.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Convergint Technologies	Security Systems Services (except Locksmiths)	9.25%	(L +6.75%)	9/28/2018	2/2/2026	\$ 3,481	\$ 3,424	\$ 3,433	2.0 %
Davis Vision, Inc.	Direct Health and Medical Insurance Carriers	9.25%	(L +6.75%)	7/17/2018	12/1/2025	5,854	5,705	5,749	3.3
DuPage Medical Group	Offices of Physicians, Mental Health Specialists	9.49%	(L +7.00%)	8/22/2017	8/15/2025	10,099	10,181	10,079	5.8
Eblens Holdings, Inc.	Shoe Store	12.0% cash / 1.0% PIK	N/A	7/13/2017	1/13/2023	8,942	8,881	8,843	5.1
Common Equity (71,250 Class A units) (10)				7/13/2017			713	813	0.5
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	9.10%	(L +6.50%)	10/31/2011	8/27/2018	3,591	3,591	3,427	2.0
Envocore Holding, LLC (FKA LRI Holding, LLC) (4)	Electrical Contractors and Other Wiring Installation					8,942	9,594	9,656	5.6



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Contractors									
Senior Secured Loan		11.85%	(L +9.25%)	6/30/2017	6/30/2022	17,112	16,993	15,760	9.0
Preferred Equity (238,095 Series B units) (10)				6/30/2017			300	74	—
Preferred Equity (13,315 Series C units) (10)				8/13/2018			13	15	—
						17,112	17,306	15,849	9.0
Excelin Home Health, LLC Senior Secured Loan	Home Health Care Services	12.10%	(L +9.50%)	10/25/2018	4/25/2024	4,250	4,172	4,161	2.4
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing								
Senior Secured Loan		11.37%	(L +8.75%)	12/29/2017	9/8/2024	5,000	4,898	4,000	2.3
Common Equity (368,852 Class A units) (10)				12/29/2017			450	140	0.1
Common Equity (40,984 Class B units) (10)				12/29/2017			50	6	—
						5,000	5,398	4,146	2.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets	
GOBP Holdings, Inc.,	Supermarkets and Other Grocery (except Convenience) Stores	9.85%	(L +7.25%)	10/17/2018	10/22/2026	\$ 1,400	\$ 1,387	\$ 1,403	0.8 %	
Hyland Software, Inc.	Software Publishers	6.00%	(L +3.50%)	10/24/2018	7/1/2024	173	173	173	0.1	
Senior Secured Loan		9.50%	(L +7.00%)	10/24/2018	7/7/2025	2,601	2,619	2,598	1.5	
Senior Secured Loan						2,774	2,792	2,771	1.6	
Inergex Holdings, LLC	Other Computer Related Services	9.80%	(L +7.00%)	10/1/2018	10/1/2024	13,092	12,911	12,790	7.3	
Senior Secured Loan		11.50%	(Prime + 6.00%)	10/1/2018	10/1/2024	516	490	504	0.3	
Senior Secured Loan (Revolver)							13,608	13,401	13,294	7.6
Institutional Shareholder Services Inc.	Administrative Management and General Management Consulting Services	11.12%	(L +8.50%)	3/4/2019	3/5/2027	6,244	6,058	6,058	3.5	
Senior Secured Loan										
MAI Holdings, Inc. (4)	Printing Machinery and Equipment Manufacturing	9.50%	N/A	6/21/2018	6/1/2023	5,000	5,000	2,950	1.7	
Senior Secured Loan										

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My Alarm Center, LLC (4) (10) (13)	Security Systems Services (except Locksmiths)									
Preferred Equity (1,485 Class A units), 8% PIK				7/14/2017			1,571	1,221	0.7	
Preferred Equity (1,198 Class B units)				7/14/2017			1,198	—	—	
Preferred Equity (335 Class Z units)				9/12/2018			325	1,038	0.6	
Common Equity (64,149 units)				7/14/2017			—	—	—	
							3,094	2,259	1.3	
Online Tech Stores, LLC (4)	Stationary & Office Supply Merchant Wholesaler									
Subordinated Loan		10.50% cash / 1.0% PIK	N/A	2/1/2018	8/1/2023	16,188	15,936	16,121	9.3	
OnSite Care, PLLC (4) (8)	Home Health Care Services									
Senior Secured Loan		10.34% (L +7.83%)		8/10/2018	8/10/2023	7,100	7,038	6,994	4.0	

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores	11.36%	(L +8.75%)	11/16/2017	6/30/2025	\$ 6,320	\$ 6,333	\$ 6,352	3.6 %
Pelican Products, Inc.	Unlaminated Plastics Profile Shape Manufacturing	10.23%	(L +7.75%)	9/24/2018	5/1/2026	6,055	6,060	5,982	3.4
Performance Team LLC (4)	General Warehousing and Storage	12.50%	(L +10.00%)	5/24/2018	11/24/2023	20,300	20,128	20,502	11.8
PM Acquisition LLC	All Other General Merchandise Stores	11.50%	N/A	9/30/2017	10/29/2021	5,497	5,424	5,195	3.0
Common Equity (499 units) (10) (13)		cash / 2.5% PIK		9/30/2017			499	107	0.1
Resource Label Group, LLC	Commercial Printing (except Screen and Books)					5,497	5,923	5,302	3.1
Senior Secured Loan		11.30%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,769	4,739	2.7

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Rocket Software, Inc.	Software Publishers	Senior Secured Loan	6.75%	(L +4.25%)	11/20/2018	11/28/2025	670	667	670	0.4
		Senior Secured Loan	10.75%	(L +8.25%)	11/20/2018	11/19/2026	6,275	6,165	6,319	3.6
							6,945	6,832	6,989	4.0
RPLF Holdings, LLC (10) (13)	Software Publishers	Common Equity (254,110 Class A units)			1/17/2018			254	285	0.2
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services	Senior Secured Loan (15)	13.50%	(L +11.50%)	1/25/2016	7/24/2020	8,850	8,805	8,757	5.0
		Common Equity (5,000 Series C units) (10) (13)			3/31/2014		—	500	1,160	0.7
							8,850	9,305	9,917	5.7

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Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1)	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Southern Technical Institute, LLC (4) (6) (10)	Colleges, Universities, and Professional Schools	6.00% PIK	N/A	6/27/2018	12/31/2021	\$ 1,540	\$ —	—	— %
Subordinated Loan				6/27/2018		1,540	—	—	—
Other				6/27/2018			—	—	—
Spring Education Group, Inc. (F/K/A SSH Group Holdings, Inc.) Senior Secured Loan	Child Day Care Services	6.75%	(L +4.25%)	7/26/2018	7/30/2025	979	977	951	0.5
Senior Secured Loan		10.75%	(L +8.25%)	7/26/2018	7/30/2026	7,216	7,150	7,122	4.1
						8,195	8,127	8,073	4.6
Stancor, L.P. (4)	Pump and Pumping Equipment Manufacturing								
Preferred Equity (1,250,000 Class A units), 8% PIK (10)				8/19/2014			1,501	1,350	0.8
STS Operating, Inc.	Industrial Machinery and Equipment Merchant Wholesalers								
Senior Secured Loan		6.75%	(L +4.25%)	5/16/2018	12/11/2024	637	635	629	0.4
Senior Secured Loan		10.50%	(L +8.00%)	5/15/2018	4/30/2026	9,073	9,068	8,936	5.1
						9,710	9,703	9,565	5.5
The Escape Game, LLC (4)	Other amusement and recreation industries								
Senior Secured Loan		11.25%	(L +8.75%)	12/22/2017	12/22/2022	7,000	6,961	6,843	3.9
		11.25%		7/20/2018	12/22/2022	6,067	6,067	5,931	3.4

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Senior Secured Loan (Delayed Draw)		(L +8.75%)				13,067	13,028	12,774.3
Truck Hero, Inc. Senior Secured Loan	Truck Trailer Manufacturing	10.75%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,978	6,8954.0
United Biologics Holdings, LLC (4) (10) Preferred Equity (151,787 units) Warrants (29,374 units)	Medical Laboratories			4/16/2013			9	20 —
				7/26/2012	3/05/2022 (12)		82	18 —
						—	91	38 —
Wastebuilt Environmental Solutions, LLC. (4) Senior Secured Loan	Industrial Supplies Merchant Wholesalers	11.35%	(L +8.75%)	10/11/2018	10/11/2024	7,000	6,865	6,8783.9

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Total Debt and Equity Investments						306,708,429	306,429,150	100.0	100.1
Structured Finance Note Investments (7)									
Elevation CLO 2017-7, Ltd									
Subordinated Notes		15.27% (9)		2/6/2019	7/15/2030 (17)	10,000	7,781 (16)	7,700.4	0.4
Flatiron CLO 18, Ltd									
Subordinated Notes		17.77% (9)		1/2/2019	4/17/2031 (17)	9,680	7,574 (16)	8,034.6	
Total Structured Finance Note Investments						19,680	15,355	17,735	0.1
Total Non-control/Non-affiliate Investments						326,326	326,794	100.0	100.1
Affiliate Investments									
3rd Rock Gaming Holdings, LLC									
Senior Secured Loan	Software Publishers	10.30%	(L +7.50%)	3/13/2018	3/12/2023	21,500	20,240	20,231.6	
Common Equity (2,547,250 units) (10) (13)				3/13/2018			2,547	1,246.7	
						21,500	22,791	21,478.3	
Chemical Resources Holdings, Inc.									
Custom Compounding of Purchased Resins									
Senior Secured Loan (4)		10.88%	(L +8.05%)	1/25/2019	1/25/2024	13,743	13,564	13,565.8	
Common Equity (1,832 Class A shares) (10) (13)				1/25/2019			1,813	1,813.0	
						13,743	15,377	15,388	
Contract Datascan Holdings, Inc. (4)									
Office Machinery and Equipment Rental and Leasing									
Subordinated Loan		11.50%	N/A	8/5/2015 8/5/2015	2/5/2021	8,000	7,991	8,000.6	
							5,102	6,673.8	



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Preferred Equity (3,061 Series A shares), 10% PIK					
Common Equity (11,273 shares) (10)			6/28/2016		104 — — 8,0003,1974,6874
DRS Imaging Services, LLC	Data Processing, Hosting, and Related Services				
Senior Secured Loan (4) (8)	12.23% (L +9.39%)		3/8/2018	11/20/2023	10,864,7800,6571
Common Equity (453 units) (10) (13)			3/8/2018		1,1351,657.0 10,864,9152,3741

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Master Cutlery, LLC (4) (6) (10)	Sporting and Recreational Goods and Supplies Merchant Wholesalers								
Subordinated Loan (11)		13.00%	N/A	4/17/2015	4/17/2020	\$ 5,403	\$ 4,764	\$ 732	0.4 %
Preferred Equity (3,723 Series A units), 8% PIK				4/17/2015			3,483	—	—
Common Equity (15,564 units)				4/17/2015			—	—	—
						5,403	8,247	732	0.4
NeoSystems Corp. (4) Preferred Equity (521,962 convertible shares), 10% PIK	Other Accounting Services			8/14/2014			1,575	2,250	1.3
Pfanstiehl Holdings, Inc. (4) Subordinated Loan	Pharmaceutical Preparation Manufacturing	10.50%	N/A	1/1/2014	9/29/2022	3,788	3,813	3,788	2.2
Common Equity (400 Class A shares)				1/1/2014			217	8,960	5.1
						3,788	4,030	12,748	7.3
Professional Pipe Holdings, LLC Senior Secured Loan	Plumbing, Heating, and Air-Conditioning Contractors	8.75% cash / 1.50%	(L +8.75%)	3/23/2018	3/23/2023	7,543	7,422	7,294	4.2

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		PIK							
Common Equity (1,414 Class A units) (10)				3/23/2018		1,414	1,753	1.0	
						7,543	8,836	9,047	5.2
TRIS Services, LLC (4) (11)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance								
Senior Secured Loan		11.25% cash / 1.00% PIK	(L +8.75%)	12/10/2014	3/16/2020	14,666	14,627	14,181	8.1
Preferred Equity (329,266 Class AA units), 15% PIK				6/30/2016			483	453	0.3
Preferred Equity (3,000,000 Class A units), 11% PIK (10)				12/10/2014			3,374	—	—
Common Equity (3,000,000 units) (10)				12/10/2014			572	—	—
						14,666	19,056	14,634	8.4
TTG Healthcare, LLC	Diagnostic Imaging Centers								
Senior Secured Loan (4)		11.49%	(L +9.00%)	3/1/2019	3/1/2024	12103	11,866	11,866	6.8
Preferred Equity ( 2,309 Class B units) (10) (13)				3/1/2019			2,309	2,309	1.3
						12,103	14,175	14,175	8.1

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type Total Affiliate Investments Control Investment	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing	14.10% cash / 1.5% PIK	(L +11.50%)	11/25/2015	11/25/2020	\$7,323	\$7,299	\$7,322	4.2 %
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.) Common Equity (554 shares)				11/25/2015			3,069	2,824	1.6
Total Control Investment						7,323	10,368	10,146	5.8
Total Investments						7,323	10,368	10,146	5.8
						\$431,329	\$454,361	\$437,667	251.2%

Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The (1) Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.

Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of \$344,896 include LIBOR (2) reference rate floor provisions of generally 1% to 2%; at March 31, 2019, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at March 31, 2019. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.

(4)

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

(5) Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity through September 26, 2019. The investment shall continue to accrue interest as the borrower has continued to make interest and amortization payments.

(6) Investment was on non-accrual status as of March 31, 2019, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 4 for further details.

(7) Structured Finance Notes are considered CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The table below provides additional details as of March 31, 2019:

Portfolio Company	Reported Interest Rate	Interest Rate per Credit Agreement	Additional Interest per Annum
Carolina Lubes, Inc.	10.61%	10.05%	0.56%
Cenexel Clinical Holding (F/K/A JBR Clinical Research, Inc.)	10.61%	9.05%	1.56%
Chemical Resources Holdings, Inc.	10.88%	8.77%	2.11%
DRS Imaging Services, LLC	12.23%	10.80%	1.43%
OnSite Care, PLLC	10.34%	8.74%	1.60%

(9) The rate disclosed is an estimated effective yield based upon the current projection of the amount and timing of distributions in addition to the estimated amount and timing of terminal principal payments. Effective yields for the Company's Structured Finance Note investments are monitored and evaluated at each reporting date. The estimated yield and investment cost may ultimately not be realized.

(10) Non-income producing.

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued

March 31, 2019

(Dollar amounts in thousands)

(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of March 31, 2019:

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00%
Eblens Holdings, Inc.	Subordinated Loan	0% or 1.00%	13.00% or 12.00%	1.00%
Master Cutlery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00%
TRS Services, LLC	Senior Secured Loan	0% or 1.00%	10.84% or 1.00%	1.00%

(12) Represents expiration date of the warrants.

(13) All or portion of investment held by a wholly-owned subsidiary subject to income tax.

The PIK provision is reset at the beginning of each interest period equal to the excess of reference rate over the reference rate floor of 1.00%. The PIK interest rate in the schedule represents the current PIK interest rate in effect.

(15) Maximum interest rate allowable under the terms of this investment is 13.50%.

(16) Amortized cost reflects accretion of effective yield less any cash distributions received or entitled to be received from CLO Structured Finance Note investments.

(17) Maturity represents the contractual maturity date of the structured finance notes. Expected maturity and cash flows, not contractual maturity and cash flows, were utilized in deriving the effective yield of the investments.

(18) Commitment fee on undrawn funds.

See Notes to Consolidated Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Non-control/Non-affiliate Investments									
BayMark Health Services	Outpatient Mental Health and Substance Abuse Centers	10.60%	(L +8.25%)	3/22/2018	3/1/2025	\$ 4,000	\$ 3,964	\$3,933	2.2 %
Brookfield WEC Holdings Inc.,	Business to Business Electronic Markets	9.27%	(L +6.75%)	12/6/2018	8/3/2026	1,959	1,959	1,914	1.1
Carolina Lubes, Inc. (4)	Automotive Oil Change and Lubrication Shops	10.24%	(L +7.82%)	8/23/2017	8/23/2022	20,840	20,705	20,839	11.9
Senior Secured Loan (8)		9.65%	(L +7.25%)	8/23/2017	8/23/2022	—	(11 )	—	—
Senior Secured Loan (Revolver) (7)						20,840	20,694	20,839	11.9
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services	11.05%	(L +8.25%)	3/5/2018	10/19/2022	12,926	12,779	12,732	7.3
Senior Secured Loan		11.05%	(L +8.25%)	3/5/2018	10/19/2022	1,280	1,280	1,261	0.7
Senior Secured Loan (Revolver) (7)						14,206	14,059	13,993	8.0
Community Intervention Services, Inc. (4) (6) (10) (11)	Outpatient Mental Health and Substance Abuse Centers	7.0% cash / 6.0% PIK	N/A	7/16/2015	1/16/2021	9,060	7,639	—	—

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Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages	Senior Secured Loan	11.24%	(L +8.50%)	7/7/2015	11/1/2025	9,678	9,489	9,290	5.3
Constellis Holdings, LLC	Other Justice, Public Order, and Safety Activities	Senior Secured Loan	11.52%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,832	9,437	5.4
Convergint Technologies	Security Systems Services (except Locksmiths)	Senior Secured Loan	9.27%	(L +6.75%)	9/28/2018	2/2/2026	3,481	3,422	3,327	1.9



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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Davis Vision, Inc.	Direct Health and Medical Insurance Carriers	9.28%	(L +6.75%)	7/17/2018	12/1/2025	\$ 5,854	\$ 5,700	\$ 5,570	3.2 %
DuPage Medical Group	Offices of Physicians, Mental Health Specialists	9.50%	(L +7.00%)	8/22/2017	8/15/2025	10,098	10,185	9,771	5.6
Eblens Holdings, Inc.	Shoe Store	12.0% cash / 1.00% PIK	N/A	7/13/2017	1/13/2023	8,920	8,855	8,821	5
Subordinated Loan (11)				7/13/2017					
Common Equity (71,250 Class A units) (10)				7/13/2017			713	722	0.4
						8,920	9,568	9,543	5.4
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	9.30%	(L +6.50%)	10/31/2011	8/27/2018	3,645	3,645	3,509	2.0
Envocore Holding, LLC (FKA LRI Holding, LLC) (4)	Electrical Contractors and Other Wiring Installation Contractors	12.05%	(L +9.25%)	6/30/2017	6/30/2022	17,344	17,212	16,821	9.6
Senior Secured Loan				6/30/2017			300	300	0.2
Preferred Equity (238,095 Series B									

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units) (10) Preferred Equity (13,315 Series C units) (10)			8/13/2018			13	13	—
					17,344	17,525	17,134	9.8
Excelin Home Health, LLC Senior Secured Loan	Home Health Care Services	12.31% (L +9.50%)	10/25/2018	4/25/2024	4,250	4,168	4,168	2.4
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing							
Senior Secured Loan		11.49% (L +8.75%)	12/29/2017	9/8/2024	5,000	4,894	4,033	2.3
Common Equity (368,852 Class A units) (10)			12/29/2017			450	104	0.1
Common Equity (40,984 Class B units) (10)			12/29/2017			50	4	—
					5,000	5,394	4,141	2.4
GOBP Holdings, Inc.,	Supermarkets and Other Grocery (except Convenience) Stores							
Senior Secured Loan		10.05% (L +7.25%)	10/17/2018	10/22/2026	1,400	1,386	1,349	0.8

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Hyland Software, Inc.	Software Publishers								
Senior Secured Loan		6.02%	(L +3.50%)	10/24/2018	7/1/2024	\$ 173	\$ 173	\$ 166	0.1 %
Senior Secured Loan		9.52%	(L +7.00%)	10/24/2018	7/7/2025	2,601	2,620	2,534	1.4
						2,774	2,793	2,700	1.5
Inergex Holdings	Other Computer Related Services								
Senior Secured Loan		9.39%	(L +7.00%)	10/1/2018	10/1/2024	13,092	12,904	12,904	7.4
Senior Secured Loan (Revolver) (7)		0.50%		10/1/2018	10/1/2024	—	(27 )	—	—
						13,092	12,877	12,904	7.4
JBR Clinical Research, Inc. (4) (8)	Research and Development in the Social Sciences and Humanities								
Senior Secured Loan		9.10%	(L +6.71%)	8/2/2018	8/2/2023	29,943	29,693	29,016	16.5
MAI Holdings, Inc. (4)	Printing Machinery and Equipment Manufacturing								
Senior Secured Loan		9.50%	N/A	6/21/2018	6/1/2023	5,000	5,000	4,841	2.8
My Alarm Center, LLC (4) (10) (13)	Security Systems Services (except Locksmiths)								
Preferred Equity (1,485 Class A units), 8% PIK				7/14/2017			1,571	1,536	0.9
Preferred Equity (1,198 Class B units)				7/14/2017			1,198	—	—
Preferred Equity (335)				9/12/2018			325	1,038	0.6

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Class Z units) 25% PIK Common Equity (64,149 units)				7/14/2017			—	—	—
							3,094	2,574	1.5
Online Tech Stores, LLC (4)	Stationery and Office Supplies Merchant Wholesalers								
Subordinated Loan		10.50% cash / 1.0% PIK	N/A	2/1/2018	8/1/2023	16,150	15,882	15,785	8.9
OnSite Care, PLLC (4) (8) Senior Secured Loan	Home Health Care Services	10.22%	(L +7.85%)	8/10/2018	8/10/2023	7,100	7,035	7,008	4.0
Parfums Holding Company, Inc. Senior Secured Loan	Cosmetics, Beauty Supplies, and Perfume Stores	11.56%	(L +8.75%)	11/16/2017	6/30/2025	6,320	6,334	6,292	3.6

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Pelican Products, Inc.	Unlaminated Plastics Profile Shape Manufacturing	10.13%	(L +7.75%)	9/24/2018	5/1/2026	\$ 6,055	\$ 6,060	\$ 5,901	3.4 %
Performance Team LLC (4)	General Warehousing and Storage	12.52%	(L +10.00%)	5/24/2018	11/24/2023	20,300	20,118	20,647	11.7
PM Acquisition LLC	All Other General Merchandise Stores	11.50%	N/A	9/30/2017	10/29/2021	5,512	5,431	5,217	3.0
Senior Secured Loan		cash / 2.50% PIK							
Common Equity (499 units) (10) (13)				9/30/2017			499	137	0.1
						5,512	5,930	5,354	3.1
Resource Label Group, LLC	Commercial Printing (except Screen and Books)	10.90%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,767	4,772	2.7
Rocket Software, Inc.	Software Publishers	6.77%	(L +4.25%)	11/20/2018	11/19/2025	670	667	645	0.4
Senior Secured Loan		10.77%	(L +8.25%)	11/20/2018	11/19/2026	5,187	5,136	5,046	2.9
Senior Secured Loan						5,857	5,803	5,691	3.3
RPLF Holdings, LLC	Software Publishers								

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(10) (13) Common Equity (254,110 Class A units)				1/17/2018		254	291	0.2	
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services								
Senior Secured Loan (14) Common Equity (5,000 Series C units) (10) (13)		13.50%	(L +11.50%)	1/25/2016	7/24/2020	8,855	8,802	8,753	5.0
				3/31/2014		—	500	983	0.6
						8,855	9,302	9,736	5.6
Southern Technical Institute, LLC (4) (6) (10) Subordinated Loan Other	Colleges, Universities, and Professional Schools	6.00% PIK	N/A	6/27/2018	12/31/2021	1,517	—	—	—
				6/27/2018		—	—	—	—
						1,517	—	—	—

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
SSH Group Holdings, Inc., Senior Secured Loan	Child Day Care Services	6.77%	(L +4.25%)	7/26/2018	7/30/2025	\$ 982	\$ 979	\$ 920	0.5 %
		10.77%	(L +8.25%)	7/26/2018	7/30/2026	7,216	7,147	6,839	3.9
						8,198	8,126	7,759	4.4
Stancor, L.P. (4) (10)	Pump and Pumping Equipment Manufacturing			8/19/2014		—	1,501	1,416	0.8
Preferred Equity (1,250,000 Class A units), 8% PIK									
STS Operating, Inc.	Industrial Machinery and Equipment Merchant Wholesalers	6.77%	(L +4.25%)	5/16/2018	12/11/2024	638	637	602	0.3
		10.52%	(L +8.00%)	5/15/2018	4/30/2026	9,073	9,069	8,484	4.8
						9,711	9,706	9,086	5.1
The Escape Game, LLC (4)	Other amusement and recreation industries	11.27%	(L +8.75%)	12/22/2017	12/22/2022	7,000	6,958	6,855	3.9
Senior Secured Loan (Delayed Draw) (7)		11.22%	(L +8.75%)	7/20/2018	12/22/2022	3,733	3,733	3,656	2.1
						10,733	10,691	10,511	6.0
Truck Hero, Inc. Senior Secured Loan	Truck Trailer Manufacturing	10.76%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,977	6,808	3.9

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United Biologics Medical Holdings, LLC (4) Laboratories (10)									
Preferred Equity (151,787 units)				7/26/2012		—	9	20	—
Warrants (29,374 units)				7/26/2012	3/5/2022	—	82	25	—
						—	91	45	—
Wand Intermediate I LP	Automotive Body, Paint, and Interior Repair and Maintenance								
Senior Secured Loan		9.84%	(L +7.25%)	5/14/2018	9/19/2022	3,770	3,802	3,747	2.1
Wastebuilt Environmental Solutions, LLC.	Industrial Supplies Merchant Wholesalers								
Senior Secured Loan		11.27%	(L +8.75%)	10/11/2018	10/11/2024	7,000	6,858	6,858	3.9



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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Other						\$ 900	\$ 89	0.1	%
Total Non-control/Non-affiliate Investments						309,307	223,297	74,069	9.9
Affiliate Investments									
3rd Rock Gaming Holdings, LLC	Software Publishers								
Senior Secured Loan		10.30%	(L +7.50%)	3/13/2018	3/12/2023	21,626	16,353	20,023	11.4
Common Equity (2,547,250 units) (10) (13)				3/13/2018		—	2,547	1,073	0.6
						21,626	18,900	21,096	12.0
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing								
Subordinated Loan		11.50%	N/A	8/5/2015	2/5/2021	8,000	7,990	8,000	4.6
Preferred Equity (3,061 Series A shares), 10% PIK				8/5/2015		—	4,944	6,652	3.8
Common Equity (11,273 shares) (10)				6/28/2016		—	104	2,313	1.3
						8,000	3,038	16,965	9.7
DRS Imaging Services, LLC	Data Processing, Hosting, and Related Services								
Senior Secured Loan (4) (8)		12.23%	(L +9.42%)	3/8/2018	11/20/2023	10,860	10,774	10,617	6.1
Common Equity (1,135 units) (10) (13)				3/8/2018		—	1,135	1,197	0.7
						10,860	11,909	11,814	6.8
Master Cutlery, LLC (4) (6) (10)	Sporting and Recreational Goods and Supplies Merchant								

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		Wholesalers						
Subordinated Loan (11)		13.00% PIK	N/A	4/17/2015	4/17/2020	5,229,764	850	0.5
Preferred Equity (3,723 Series A units), 8% PIK				4/17/2015		— 3,483	—	—
Common Equity (15,564 units)				4/17/2015		— —	—	—
						5,229,247	850	0.5
		Other						
NeoSystems Corp. (4) (10)	Accounting Services							
Preferred Equity (521,962 convertible shares), 10% PIK				8/14/2014		— 1,537	2,250	1.3

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Pfanstiehl Holdings, Inc. (4) Subordinated Loan	Pharmaceutical Preparation Manufacturing	10.50%	N/A	1/1/2014	9/29/2022	\$3,788	\$3,814	\$3,788	2.2 %
Common Equity (400 Class A shares)				1/1/2014		—	217	8,360	4.8
						3,788	4,031	12,148	7.0
Professional Pipe Holdings, LLC Senior Secured Loan	Plumbing, Heating, and Air-Conditioning Contractors	12.77%	(L +10.25%)	3/23/2018	3/23/2023	7,779	7,647	7,466	4.3
Common Equity (1,414 Class A units) (10)				3/23/2018		—	1,414	769	0.4
						7,779	9,061	8,235	4.7
TRS Services, LLC (4) (11) Senior Secured Loan	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	11.27%	(L +8.75%)	12/10/2014	12/10/2019	14,681	14,617	14,446	8.3
Preferred Equity (329,266 Class AA units), 15%				6/30/2016		—	465	473	0.3

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PIK Preferred Equity (3,000,000 Class A units), 11% PIK (10) Common Equity (3,000,000 units) (10)	12/10/2014	—	3,374	826	0.5			
	12/10/2014	—	572	—	—			
		14,681	19,028	15,745	9.1			
Total Affiliate Investments		71,967	90,751	89,103	51.1			
Control Investment MTE Holding Corp. (4) Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.) Common Equity (554 shares)	Travel Trailer and Camper Manufacturing	14.00% cash / (L 1.50% +11.50%) PIK	11/25/2015	11/25/2020	7,296	7,268	7,296	4.2
			11/25/2015		—	3,069	2,649	1.5
					7,296	10,337	9,945	5.7
Total Control Investment					7,296	10,337	9,945	5.7
Total Investments					\$388,670	\$413,311	\$396,797	226.7%

Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The (1) Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.

Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset (2) monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of \$316,260 include LIBOR reference rate floor provisions of generally 1% to 2%. At December 31, 2018, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the



OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2018

(Dollar amounts in thousands)

spread over the reference rate and current interest rate in effect at December 31, 2018. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.

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

Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity through September 26, 2019. The investment shall continue to accrue interest as the borrower has continued to make interest and amortization payments.

(5) Investment was on non-accrual status as of December 31, 2018, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 5 for further details.

(6) Subject to unfunded commitments. See Note 6 for further details.

The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its principal payment after the repayment of certain co-lenders pursuant to a payment waterfall. The table below provides additional details as of December 31, 2018:

Portfolio Company	Reported Interest Rate	Interest Rate per Credit Agreement	Additional Interest per Annum
Carolina Lubes, Inc.	10.24%	9.65%	0.59%
DRS Imaging Services, LLC	12.23%	10.80%	1.43%
JBR Clinical Research, Inc.	9.10%	8.64%	0.46%
OnSite Care, PLLC	10.22%	8.60%	1.62%

(9) Reserved.

(10) Non-income producing.

(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of December 31, 2018

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00%
Eblens Holdings, Inc.	Subordinated Loan	0% or 1.00%	14.00% or 12.00%	1.50%
Master Cutlery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00%
TRS Services, LLC	Senior Secured Loan	0% or 1.00%	11.25% or 1.00%	1.00%

(12) Represents expiration date of the warrants.

(13) All or portion of investment held by a wholly-owned subsidiary subject to corporate income tax. See Note 8 for further details.

(14) Maximum interest rate allowable under the terms of this investment is 13.50%

See Notes to Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

Note 1. Organization

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

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

In addition, OFS Advisor serves as the investment adviser for HPCI, a non-traded BDC with an investment strategy and objective similar to the Company. OFS Advisor also serves as the investment adviser for OCCI, a non-diversified, externally managed, closed-end management investment company that has registered as an investment company under the 1940 Act that primarily invests in the equity tranche of CLOs.

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

Note 2. Summary of Significant Accounting Policies

**Basis of presentation:** The Company is an investment company as defined in the accounting and reporting guidance under ASC Topic 946, Financial Services—Investment Companies. The accompanying interim consolidated financial statements of the Company and related financial information have been prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6, 10 and 12 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. However, in the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal and recurring accruals and adjustments, necessary for fair presentation as of and for the periods presented. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation. These consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

**Significant Accounting Policies:** The following information supplements the description of significant accounting policies contained in Note 2 to the Company's consolidated financial statements included in the Company's 2018 Form 10-K.

**Investments:** The Company acquired Structured Finance Notes of CLO investment vehicles. In valuing such investments, the Company considers the indicative prices provided by a recognized industry pricing service as a primary source, and the implied yield of such prices, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests as well as defaults, restructuring activity, and prepayments on the outstanding loans, if any.

**Interest income:** Interest income from investments in Structured Finance Notes is recognized on the basis of the estimated effective yield to expected redemptions utilizing assumed cash flows in accordance with ASC Sub-topic 325-40, Beneficial Interests in Securitized Financial Assets. The Company monitors the expected cash flows from its Structured Finance Notes and the effective yield is determined and updated periodically.



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

Concentration of credit risk: Aside from its debt instruments, including investments in Structured Finance Notes of CLOs, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. The Company places cash deposits only with high credit quality institutions, which OFS Advisor believes will mitigate the risk of loss due to credit risk. The amount of loss due to credit risk from debt investments if borrowers fail to perform according to the terms of the contracts, and the collateral or other security for those instruments proved to be of no value to the Company, is equal to the

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

Company's recorded investment in debt instruments and the unfunded loan commitments as disclosed in Note 6. The amount of loss due to credit risk from investments in Structured Finance Notes, if underlying funds and managers fail to perform according to the terms of the indentures and collateral management agreements, and the collateral or other security for those instruments proved to be of no value to the Company is equal to the Company's recorded investment in Structured Finance Notes.

**New Accounting Standards:** In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted this guidance effective September 30, 2018.

The Company did not adopt any other new accounting pronouncements during the three months ended March 31, 2019 that had, or is expected to have, a material impact on the Company's consolidated financial statements.

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

Standard	Description	Effect of Adoption on the Financial Statements
Standards that are not yet adopted		
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.	Annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's consolidated financial statements.

### Note 3. Related Party Transactions

**Investment Advisory and Management Agreement:** OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company pursuant to the Investment Advisory Agreement. The continuation of the Investment Advisory Agreement was most recently approved by the Board on April 4, 2019. Under the terms of the Investment Advisory Agreement, which are in accordance with the 1940 Act and subject to the overall supervision of the Company's Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis.

OFS Advisor's services under the Investment Advisory Agreement are not exclusive to the Company and OFS Advisor is free to furnish similar services to other entities, including other funds affiliated with OFS Advisor, so long as its services to the Company are not impaired. OFS Advisor also serves as the investment adviser or collateral manager to CLO funds and other companies, including HPCI and OCCI.

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

The incentive fee has two parts. The first part ("Income Incentive Fee") is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income

(including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (defined below) and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest or dividend

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

feature (such as OID, debt instruments with PIK interest, equity investments with accruing or PIK dividend and zero coupon securities), accrued income that the Company has not yet received in cash.

Pre-incentive fee net investment income is expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter and adjusted for any share issuances or repurchases during such quarter.

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

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

The second part of the incentive fee (the "Capital Gain Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.0% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the Capital Gain Fee.

The Company accrues the Capital Gain Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. If, on a cumulative basis, the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation) decreases during a period, the Company will reverse any excess Capital Gain Fee previously accrued such that the amount of Capital Gains Fee accrued is no more than 20% of the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation).

On May 1, 2018, OFS Advisor agreed to irrevocably waive the receipt of \$22 in Income Incentive Fees (based on net investment income) related to net investment income, that it would otherwise be entitled to receive under the Investment Advisory Agreement for the three months ended March 31, 2018. As a result of the voluntary fee waiver, the Company incurred Income Incentive Fee expense of \$714 for the three months ended March 31, 2018, which is equal to the Income Incentive Fee expense the Company incurred for the three months ended December 31, 2017. The voluntary fee waiver did not include Capital Gain Fees, which was \$0 for the three months ended March 31, 2018.

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

**Administration Agreement:** OFS Services furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to the Administration Agreement. Under the Administration Agreement, OFS Services performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial

records that the Company is required to maintain and preparing reports to its stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, OFS Services also provides managerial assistance on the Company's behalf to those portfolio companies that have accepted the Company's offer to provide such assistance. Payment under the Administration Agreement is equal to an amount based upon the Company's allocable portion of OFS Services's overhead in performing its obligations under the Administration Agreement, including, but not limited to, rent, information technology services and the Company's allocable portion of the cost of its officers, including its chief executive officer, chief financial officer, chief compliance officer, chief accounting officer and their respective staffs.

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## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

the extent that OFS Services outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without profit to OFS Services.

Expenses recognized for the three months ended March 31, 2019 and 2018, under agreements with OFS Advisor and OFS Services are presented below:

	Three Months Ended March 31,	
	2019	2018
Base management fees	\$1,843	\$1,360
Incentive fees:		
Income Incentive Fee	1,163	736
Capital Gain Fee	—	—
Incentive fee waiver	—	(22 )
Administration fee expense	437	583

## Note 4. Investments

As of March 31, 2019, the Company had loans to 46 portfolio companies, of which 88% were senior secured loans and 12% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held equity investments in five portfolio companies in which it did not hold a debt investment and two investments in Structured Finance Notes. At March 31, 2019, the Company's investments consisted of the following:

	Percentage of Total			Percentage of Total		
	Amortized Cost	Amortized Cost	Net Assets	Fair Value	Fair Value	Net Assets
Senior secured debt investments <sup>(1)</sup>	\$ 348,021	76.5 %	199.7 %	\$ 340,939	78.0 %	195.8 %
Subordinated debt investments	56,323	12.4	32.3	44,806	10.2	25.7
Preferred equity	21,243	4.7	12.2	15,407	3.5	8.8
Common equity and warrants	13,419	3.0	7.7	20,781	4.7	11.9
Total debt and equity investments	439,006	96.6	251.9	421,933	96.4	242.2
Structured Finance Notes	15,355	3.4	8.8	15,734	3.6	9.0
Total investments	\$ 454,361	100.0 %	260.7 %	\$ 437,667	100.0 %	251.2 %

Includes debt investments, typically referred to as unitranche, 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. Amortized cost and fair value of these investments were \$74,237 and \$74,195, respectively.

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

As of March 31, 2019, all of the Company's debt and equity investments were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's debt and equity investment portfolio was as follows:

	Amortized Cost	Percentage of Total Amortized Cost	Net Assets	Fair Value	Percentage of Total Fair Value	Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	\$ 6,518	1.5%	3.7%	\$5,692	1.3%	3.3%
Temporary Help Services	12,725	2.9	7.3	12,598	3.0	7.2
Arts, Entertainment, and Recreation						
Other amusement and recreation industries	13,028	3.0	7.5	12,774	3.0	7.3
Construction						
Electrical Contractors and Other Wiring Installation Contractors	17,306	3.9	9.9	15,849	3.8	9.1
Plumbing, Heating, and Air-Conditioning Contractors	8,836	2.0	5.1	9,047	2.1	5.2
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Finance and Insurance						
Direct Health and Medical Insurance Carriers	5,705	1.3	3.3	5,749	1.4	3.3
Insurance Agencies and Brokerages	9,495	2.2	5.4	9,417	2.2	5.4
Health Care and Social Assistance						
Child Day Care Services	8,127	1.9	4.7	8,073	1.9	4.6
Diagnostic Imaging Centers	14,175	3.2	8.1	14,175	3.4	8.1
Home Health Care Services	11,210	2.6	6.4	11,155	2.6	6.4
Medical Laboratories	91	—	0.1	38	—	—
Offices of Physicians, Mental Health Specialists	10,181	2.3	5.8	10,079	2.4	5.8
Outpatient Mental Health and Substance Abuse Centers	11,605	2.6	6.7	3,960	0.9	2.3
Information						
Data Processing, Hosting, and Related Services	11,915	2.7	6.8	12,314	2.9	7.1
Software Publishers	33,669	7.7	19.4	31,521	7.5	18.2
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,591	0.8	2.1	3,427	0.8	2.0
Commercial Printing (except Screen and Books)	4,769	1.1	2.7	4,739	1.1	2.7
Custom Compounding of Purchased Resins	15,377	3.5	8.8	15,378	3.6	8.8
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,398	1.2	3.1	4,146	1.0	2.4
Pharmaceutical Preparation Manufacturing	4,030	0.9	2.3	12,748	3.0	7.3
Printing Machinery and Equipment Manufacturing	5,000	1.1	2.9	2,950	0.7	1.7
Pump and Pumping Equipment Manufacturing	1,501	0.3	0.9	1,350	0.3	0.8

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

	Amortized Cost	Percentage of Total Amortized Cost	Net Assets	Fair Value	Percentage of Total Fair Value	Net Assets
Travel Trailer and Camper Manufacturing	10,368	2.4	5.9	10,146	2.4	5.8
Truck Trailer Manufacturing	6,978	1.6	4.0	6,895	1.6	4.0
Unlaminated Plastics Profile Shape Manufacturing	6,060	1.4	3.5	5,982	1.4	3.4
Other Services (except Public Administration)						
Automotive Oil Change and Lubrication Shops	20,562	4.8	11.8	20,920	5.1	12.0
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,056	4.3	10.9	14,634	3.5	8.4
Professional, Scientific, and Technical Services						
Administrative Management and General Management Consulting Services	6,058	1.4	3.5	6,058	1.4	3.5
Other Accounting Services	1,575	0.4	0.9	2,250	0.5	1.3
Other Computer Related Services	13,401	3.1	7.7	13,294	3.2	7.6
Other Professional, Scientific, and Technical Services	9,305	2.1	5.3	9,917	2.4	5.7
Research and Development in the Social Sciences and Humanities	22,283	5.1	12.8	22,059	5.2	12.7
Public Administration						
Other Justice, Public Order, and Safety Activities	9,836	2.2	5.6	9,442	2.2	5.4
Real Estate and Rental and Leasing						
Office Machinery and Equipment Rental and Leasing	13,197	3.0	7.6	14,677	3.5	8.4
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	6,333	1.4	3.6	6,352	1.5	3.6
Shoe store	9,594	2.2	5.5	9,656	2.3	5.5
Supermarkets and Other Grocery (except Convenience) Stores	1,387	0.3	0.8	1,403	0.3	0.8
All Other General Merchandise Stores	5,923	1.3	3.4	5,302	1.3	3.0
Transportation and Warehousing						
General Warehousing and Storage	20,128	4.6	11.7	20,502	4.9	11.8
Wholesale Trade						
Business to Business Electronic Markets	1,959	0.4	1.1	1,969	0.5	1.1
Industrial Machinery and Equipment Merchant Wholesalers	9,703	2.2	5.6	9,565	2.3	5.5
Industrial Supplies Merchant Wholesalers	6,865	1.6	3.9	6,878	1.6	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	1.9	4.7	732	0.2	0.4
Stationary & Office Supply Merchant Wholesaler	15,936	3.6	9.1	16,121	3.8	9.3
Total debt and equity investments	\$439,006	100.0%	251.9%	\$421,933	100.0%	242.1%
Structured Finance Notes	15,355	—	8.8%	15,734	—	9.0%
Total investments	\$454,361	100.0%	260.7%	\$437,667	100.0%	251.1%





OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

As of December 31, 2018, the Company had loans to 44 portfolio companies, of which 88% were senior secured loans and 12% were subordinated loans, at fair value, as well as equity investments in 13 of these portfolio companies. The Company also held an equity investment in six portfolio companies in which it did not hold a debt investment.

At December 31, 2018, the Company's debt and equity investments consisted of the following:

	Percentage of Total			Percentage of Total		
	Amortized Cost	Amortized Cost	Net Assets	Fair Value	Fair Value	Net Assets
Senior secured debt investments	\$ 325,873	78.8 %	186.2 %	\$ 319,017	80.4 %	182.3 %
Subordinated debt investments	56,212	13.6	32.1	44,540	11.2	25.4
Preferred equity	19,620	4.7	11.2	14,613	3.7	8.4
Common equity and warrants	11,606	2.8	6.6	18,627	4.7	10.6
Total	\$ 413,311	100.0 %	236.1 %	\$ 396,797	100.0 %	226.7 %

At December 31, 2018, all of the Company's debt and equity investments were domiciled in the United States. The industry compositions of the Company's debt and equity investment portfolio were as follows:

	Percentage of Total			Percentage of Total		
	Amortized Cost	Amortized Cost	Net Assets	Fair Value	Fair Value	Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	\$ 6,516	1.6 %	3.7 %	\$ 5,901	1.5 %	3.4 %
Temporary Help Services	14,059	3.4	8.0	13,993	3.5	8.0
Arts, Entertainment, and Recreation						
Other Amusement and Recreation Industries	10,691	2.6	6.1	10,511	2.6	6.0
Construction						
Electrical Contractors and Other Wiring Installation Contractors	17,525	4.2	10.0	17,134	4.3	9.8
Plumbing, Heating, and Air-Conditioning Contractors	9,061	2.2	5.2	8,235	2.1	4.7
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Finance and Insurance						
Direct Health and Medical Insurance Carriers	5,700	1.4	3.3	5,570	1.4	3.2
Insurance Agencies and Brokerages	9,489	2.3	5.4	9,290	2.3	5.3
Health Care and Social Assistance						
Child Day Care Services	8,126	2.0	4.6	7,759	2.0	4.4
Home Health Care Services	11,203	2.7	6.4	11,176	2.8	6.4
Medical Laboratories	91	—	0.1	45	—	—
Offices of Physicians, Mental Health Specialists	10,185	2.5	5.8	9,771	2.5	5.6
Outpatient Mental Health and Substance Abuse Centers	11,603	2.8	6.6	3,933	1.0	2.2
Information						
Data Processing, Hosting, and Related Services	11,909	2.9	6.8	11,814	3.0	6.7
Software Publishers	32,750	7.9	18.6	29,778	7.5	16.9



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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

	Amortized Cost	Percentage of Total Amortized Cost Assets		Fair Value	Percentage of Total Fair Net Value Assets	
<b>Manufacturing</b>						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,645	0.9	2.1	3,509	0.9	2.0
Commercial Printing (except Screen and Books)	4,767	1.2	2.7	4,772	1.2	2.7
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,394	1.3	3.1	4,141	1.0	2.4
Pharmaceutical Preparation Manufacturing	4,031	1.0	2.3	12,148	3.1	6.9
Printing Machinery and Equipment Manufacturing	5,000	1.2	2.9	4,841	1.2	2.8
Pump and Pumping Equipment Manufacturing	1,501	0.4	0.9	1,416	0.4	0.8
Travel Trailer and Camper Manufacturing	10,337	2.5	5.9	9,945	2.5	5.7
Truck Trailer Manufacturing	6,977	1.7	4.0	6,808	1.7	3.9
Unlaminated Plastics Profile Shape Manufacturing	6,060	1.5	3.5	5,901	1.5	3.4
<b>Other Services (except Public Administration)</b>						
Automotive Body, Paint, and Interior Repair and Maintenance	3,802	0.9	2.2	3,747	0.9	2.1
Automotive Oil Change and Lubrication Shops	20,694	5.0	11.8	20,835	5.3	11.9
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,028	4.6	10.9	15,745	4.0	9.0
Professional, Scientific, and Technical Services						
Other Accounting Services	1,537	0.4	0.9	2,250	0.6	1.3
Other Computer Related Services	12,877	3.1	7.4	12,904	3.3	7.4
Other Professional, Scientific, and Technical Services	9,302	2.3	5.3	9,736	2.5	5.6
Research and Development in the Social Sciences and Humanities	29,693	7.2	17.0	29,017	7.3	16.5
<b>Public Administration</b>						
Other Justice, Public Order, and Safety Activities	9,832	2.4	5.6	9,437	2.4	5.4
<b>Real Estate and Rental and Leasing</b>						
Home Health Equipment Rental	900	0.2	0.5	89	—	0.1
Office Machinery and Equipment Rental and Leasing	13,038	3.2	7.4	16,965	4.3	9.7
<b>Retail Trade</b>						
Cosmetics, Beauty Supplies, and Perfume Stores	6,334	1.5	3.6	6,292	1.6	3.6
Shoe store	9,568	2.2	5.5	9,543	2.4	5.5
Supermarkets and Other Grocery (except Convenience) Stores	1,386	0.3	0.8	1,349	0.3	0.8
All Other General Merchandise Stores	5,930	1.4	3.4	5,354	1.2	3.1
<b>Transportation and Warehousing</b>						

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

	Amortized Cost	Percentage of Total Amortized Cost	Net Assets	Fair Value	Percentage of Total Fair Value	Net Assets
General Warehousing and Storage	20,118	4.9	11.5	20,647	5.2	11.8
Wholesale Trade						
Business to Business Electronic Markets	1,959	0.5	1.1	1,914	0.5	1.1
Industrial Machinery and Equipment Merchant Wholesalers	9,706	2.3	5.5	9,086	2.3	5.2
Industrial Supplies Merchant Wholesalers	6,858	1.7	3.9	6,858	1.7	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	2.0	4.7	850	0.2	0.5
Stationery and Office Supplies Merchant Wholesalers	15,882	3.7	9.1	15,785	4.0	9.0
	\$413,311	100.0%	236.1%	\$396,797	100.0%	226.7%

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 \$12,403 and \$732, respectively, at March 31, 2019, and \$12,403 and \$850 at December 31, 2018, respectively.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date through September 26, 2019, subject to other terms and conditions. The investment will continue to accrue interest as the borrower has continued to make interest and amortization payments.

On January 31, 2019, Maverick Healthcare Equity, LLC was acquired in a purchase transaction. Proceeds from this transaction were insufficient to redeem the class of equity held by the Company. Accordingly, the Company recognized a net loss of \$89, which is comprised of \$900 realized loss net of \$811 unrealized loss reversal, in the three months ended March 31, 2019.

## Note 5. Fair Value of Financial Instruments

The Company's investments are valued at fair value as determined in good faith by management under the supervision, and review and approval of the Board.

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

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

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: (i) quoted prices for similar assets or liabilities in active markets,

(ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived principally from or corroborated by observable market data.

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

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## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

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

Beginning in the first quarter of 2019 and with the addition of Structured Finance Notes to the Company's portfolio, the Company values Structure Finance Notes at non-binding indicative bid ("NBIB") prices. In valuing such investments, the Company considers the indicative prices provided by a recognized industry pricing service as a primary source, and the implied yield of such prices, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests as well as defaults, restructuring activity and prepayment, and prepayments on the outstanding loans, if any. The Company engages a third-party valuation firm to provide assistance to the Company's Board in valuing our investments, which they will evaluate and consider in determining fair value.

There were no transfers among Level 1, 2 and 3 for the three months ended March 31, 2019 and 2018.

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

The following tables provide quantitative information about valuation techniques and the Company's significant inputs to the Company's Level 3 fair value measurements as of March 31, 2019 and December 31, 2018. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

	Fair Value at March 31, 2019 (1)	Valuation technique	Unobservable inputs	Range (Weighted average)
<b>Debt investments:</b>				
Senior secured	\$309,451 31,488	Discounted cash flow Transaction Price	Discount rates	6.27% - 19.86% (12.43%)
Subordinated	36,751 8,055	Discounted cash flow Enterprise value	Discount rates EBITDA multiples	6.57% - 15.44% (11.61%) 4.25x - 6.00x (5.25x)

## Structured Finance Notes:

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Subordinated notes	15,734	Market quotes	NBIB	75.5% - 84.5% (80.0%)
Equity investments:				
Preferred equity	10,839	Enterprise value	EBITDA multiples	4.75x - 8.5x (7.39x)
	2,259	Enterprise value	Reoccurring monthly revenue	38.0x - 42.0x (40.0x)
	2,309	Transaction Price		
Common equity and warrants	18,968	Enterprise value	EBITDA multiples	4.00x - 11.5x (9.50x)
	1,813	Transaction Price		



## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

	Fair Value at December 31, 2018 (1)	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$ 295,087	Discounted cash flow	Discount rates	6.94% - 19.70%
	23,930	Transaction Price		(12.49%)
Subordinated	36,394	Discounted cash flow	Discount rates	7.16% - 15.40% (7.21%)
	8,146	Market approach	EBITDA multiples	3.50x - 7.65x (5.10x)
Equity investments				
Preferred equity	12,039	Market approach	EBITDA multiples	4.50x - 8.50x (7.42x)
	2,574	Market approach	Reoccurring Monthly Revenue	38.0x - 42.0x (40.0x)
Common equity and warrants	18,627	Market approach	EBITDA multiples	3.50x - 11.00x (8.68x)

Averages in the preceding two tables were weighted by the fair value of the related instruments.

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

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

The following tables present changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2019 and March 31, 2018.

	Three Months Ended March 31, 2019					
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Structured Finance Notes	Total
Level 3 assets, January 1, 2019	\$319,017	\$ 44,540	\$14,613	\$ 18,627	\$—	\$396,797
Net realized gain (loss) on investments	73	—	(900 )	—	—	(827 )
Net unrealized appreciation (depreciation) on investments	(225 )	155	(829 )	341	379	(179 )
Amortization of Net Loan Fees	157	21	—	—	—	178
Accretion of interest income on structured-finance notes	—	—	—	—	467	467
Capitalized PIK interest and dividends	71	90	214	—	—	375
Purchase and origination of portfolio investments	44,187	—	2,309	1,813	15,321	63,630
Proceeds from principal payments on portfolio investments	(6,013 )	—	—	—	—	(6,013 )
Sale and redemption of portfolio investments	(16,328 )	—	—	—	—	(16,328 )
Proceeds from distributions received from portfolio investments	—	—	—	—	(433 )	(433 )
Level 3 assets, March 31, 2019	\$340,939	\$ 44,806	\$15,407	\$ 20,781	\$ 15,734	\$437,667

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

	Three Months Ended March 31, 2018				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2018	\$195,112	\$ 51,198	\$19,200	\$11,989	277,499
Net realized gain (loss) on investments	401	—	60	(541 )	(80 )
Net unrealized appreciation (depreciation) on investments	(122 )	(1,400 )	(1,112 )	2,398	(236 )
Amortization of Net Loan Fees	245	30	—	—	275
Capitalized PIK interest, dividends	263	110	339	—	712
Purchase and origination of portfolio investments	72,350	20,930	2,547	2,381	98,208
Proceeds from principal payments on portfolio investments	(7,828 )	(5,197 )	—	—	(13,025 )
Sale and redemption of portfolio investments	(27,097 )	—	(578 )	(214 )	(27,889 )
Level 3 assets, March 31, 2018	\$233,324	\$ 65,671	\$20,456	\$16,013	\$335,464

The net unrealized appreciation (depreciation) reported in the Company's consolidated statements of operations for the three months ended March 31, 2019 and 2018, attributable to the Company's Level 3 assets still held at those respective period ends was as follows:

	Period ended	
	March 31, 2019	2018
Senior secured debt investments	\$(280 )	\$(75 )
Subordinated debt investments	155	(1,400)
Preferred equity	(1,640 )	(1,112)
Common equity and warrants	341	1,944
Structured Finance Notes	379	—
Net unrealized depreciation on investments held	\$(1,045)	\$(643)

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

## Other Financial Assets and Liabilities

GAAP requires disclosure of the fair value of financial instruments for which it is practical to estimate such value.

The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. The PWB Facility is a variable rate instrument and fair value is approximately book value.

The following tables present the fair value measurements of the Company's debt and indicate the fair value hierarchy of the significant unobservable inputs utilized by the Company to determine such fair values as of March 31, 2019 and December 31, 2018:

Description	March 31, 2019			Total
	Level 1	Level 2	Level 3 <sup>(1)</sup>	
PWB Facility	\$—	\$	—\$35,750	\$35,750
OFS Capital Corporation 6.375% Notes due 2025	50,760	—	—	50,760
OFS Capital Corporation 6.5% Notes due 2025	48,176	—	—	48,176
SBA-guaranteed debentures	—	—	150,086	150,086
Total debt, at fair value	\$98,936	\$	—\$185,836	\$284,772

Description	December 31, 2018			Total
	Level 1	Level 2	Level 3 <sup>(1)</sup>	
PWB Facility	\$—	\$	—\$12,000	\$12,000
OFS Capital Corporation 6.375% Notes due 2025	48,500	—	—	48,500
OFS Capital Corporation 6.5% Notes due 2025	46,603	—	—	46,603
SBA-guaranteed debentures	—	—	147,956	147,956
Total debt, at fair value	\$95,103	\$	—\$159,956	\$255,059

(1) For Level 3 measurements, fair value is estimated by discounting remaining payments using current market rates for similar instruments at the measurement date and considering such factors as the legal maturity date.

The following are the carrying values and fair values of the Company's debt as of March 31, 2019 and December 31, 2018:

Description	As of March 31, 2019		As of December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
PWB Facility	\$35,750	\$35,750	\$12,000	\$12,000
OFS Capital Corporation 6.375% Notes due 2025	48,440	50,760	48,377	48,500
OFS Capital Corporation 6.5% Notes due 2025	46,909	48,176	46,849	46,603
SBA-guaranteed debentures	147,692	150,086	147,600	147,956
Total debt, at fair value	\$278,791	\$284,772	\$254,826	\$255,059

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

## Note 6. Commitments and Contingencies

The Company has the following unfunded commitments to portfolio companies as of March 31, 2019:

Name of Portfolio Company	Investment Type	Commitment
Carolina Lubes, Inc.	Senior Secured Loan (Revolver)	\$ 2,920
Cirrus Medical Staffing, Inc.	Senior Secured Loan (Revolver)	1,383
Inergex Holdings, LLC	Senior Secured Loan (Revolver)	1,359
The Escape Game, LLC	Senior Secured Loan (Delayed Draw)	933
TTG Healthcare, LLC	Senior Secured Loan (Delayed Draw)	2,775
		\$ 9,370

From time to time, the Company is involved in legal proceedings in the normal course of its business. Although the outcome of such litigation cannot be predicted with any certainty, management is of the opinion, based on the advice of legal counsel, that final disposition of any litigation should not have a material adverse effect on the financial position of the Company as of March 31, 2019.

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

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

## Note 7. Borrowings

**SBA Debentures:** The SBA Debentures issued by SBIC I LP and other SBA regulations generally restrict assets held by SBIC I LP. On a stand-alone basis, SBIC I LP held \$249,494 and \$251,060 in assets at March 31, 2019, and December 31, 2018, respectively, which accounted for approximately 54% and 57% of the Company's total consolidated assets, respectively. These assets can not be pledged under any debt obligation of the Company.

**PWB Credit Facility:** The Company had up to \$50,000 of available credit under its PWB Credit Facility maturing January 31, 2020, of which \$35,750 was drawn as of March 31, 2019. The average dollar amount of borrowings outstanding during the three months ended March 31, 2019 and 2018, were \$23,602 and \$22,379, respectively. The effective interest rate on the PWB Credit Facility was 6.58% at March 31, 2019. Availability under the PWB Credit Facility as of March 31, 2019 was \$14,250 based on the stated advance rate of 50% of the borrowing base.

On April 10, 2019, the BLA was amended to, among other things: (i) increase the maximum amount available from \$50.0 million to \$100.0 million; (ii) change the interest rate from a variable rate of Prime Rate plus a 0.75% margin to a variable rate of Prime Rate plus a 0.25% margin (with a floor of 5.25%); (iii) extend the maturity date from January 31, 2020 to February 28, 2021; (iv) increase the minimum quarterly net investment income covenant from \$2.0 million to \$3.0 million; (v) reduce the statutory asset coverage ratio test from 200% to 150%; and (vi) add a total liabilities to Net Asset Value (as defined in the Secured Revolver Amendment) covenant of 300%.

**Unsecured Notes:** The Company has Unsecured Notes with an aggregate outstanding principal of \$98,525. The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all current and future unsecured indebtedness of the Company. Because the Unsecured Notes are not secured by any of the Company's assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which the Company 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.



## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

Interest expense for the three months ended March 31, 2019 and 2018 on the Company's outstanding borrowings is presented below:

	Three Months Ended	
	March 31,	
	2019	2018
SBA Debentures	\$1,267	\$1,267
PWB Credit Facility	462	367
Unsecured Notes Due April 2025	860	—
Unsecured Notes Due October 2025	866	—
Total interest expense	\$3,455	\$1,634
Average dollar borrowings	\$272,007	\$172,259
Average interest rate	4.98	% 3.71 %

## Note 8. Federal Income Tax

The Company has elected to be taxed as a RIC under Subchapter M of the Code. The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based on its ICTI and distributions for the full year.

The Company records reclassifications to its capital accounts for permanent and temporary differences between the GAAP and tax treatment of components of income and the bases of assets and liabilities.

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of March 31, 2019, and December 31, 2018, were as follows:

	March 31, December 31,	
	2019	2018
Tax-basis amortized cost of investments	\$449,597	\$ 408,715
Tax-basis gross unrealized appreciation on investments	18,537	18,426
Tax-basis gross unrealized depreciation on investments	(30,467 )	(30,344 )
Tax-basis net unrealized appreciation (depreciation) on investments	(11,930 )	(11,918 )
Fair value of investments	\$437,667	\$ 396,797

For further information, see the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

## Note 9. Financial Highlights

The following is a schedule of financial highlights for the three months ended March 31, 2019 and 2018:

	Three Months Ended			
	March 31,			
	2019		2018	
Per share operating performance:				
Net asset value per share at beginning of period	\$	13.10	\$	14.12
Distributions	(0.34	)	(0.71	)
Net investment income <sup>(4)</sup>	0.36		0.29	
Net realized gain (loss) on non-control/non-affiliate investments <sup>(4)</sup>	(0.06	)	0.03	
Net realized loss on affiliate investments <sup>(4)</sup>	—		(0.04	)
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments <sup>(4)</sup>	0.05		(0.12	)
Net unrealized appreciation (depreciation) on affiliate investments <sup>(4)</sup>	(0.08	)	0.09	
Net unrealized appreciation on control investment <sup>(4)</sup>	0.01		0.01	
Net asset value per share at end of period	\$	13.04	\$	13.67
Per share market value, end of period	\$	11.75	\$	11.22
Total return based on market value <sup>(1)</sup>	14.1	%	0.3	%
Total return based on net asset value <sup>(2)</sup>	2.4	%	2.0	%
Shares outstanding at end of period	13,361,134		13,348,774	
Weighted average shares outstanding	13,357,464		13,340,502	
Ratio/Supplemental Data (in thousands except ratios)				
Average net asset value <sup>(3)</sup>	\$	174,654	\$	185,395
Net asset value at end of period	\$	174,258	\$	182,453
Net investment income	\$	4,828	\$	3,816
	17.2	%	11.2	%



Ratio of total expenses, net to average net assets <sup>(5) (7)</sup>

Ratio of net investment income to average net assets <sup>(5) (8)</sup>	11.1	%	8.2	%
Portfolio turnover <sup>(6)</sup>	5.5	%	13.5	%

(1) Calculation is ending market value less beginning market value, adjusting for distributions reinvested at prices based on the Company's dividend reinvestment plan for the respective distributions.

(2) Calculation is ending net asset value less beginning net asset value, adjusting for distributions reinvested at the Company's dividend reinvestment plan for the respective distributions.

(3) Based on the average of the net asset value at the beginning of the indicated period and the preceding calendar quarter.

(4) Calculated on the average share method.

(5) Annualized.

(6) Portfolio turnover rate is calculated using the lesser of period-to-date sales and principal payments or period-to-date purchases over the average of the invested assets at fair value.

(7) Ratio of total expenses before incentive fee waiver to average net assets was 11.2% for the three months ended March 31, 2018.

(8) Ratio of net investment income before incentive fee waiver to average net assets was 8.2% for the three months ended March 31, 2018.

#### Note 10. Capital Transactions

Distributions: The Company intends to distribute to stockholders, on a quarterly basis, substantially all of its net investment income. In addition, although the Company intends to distribute at least annually net realized capital gains, net of taxes if any, out of assets legally available for such distribution, the Company may also retain such capital gains for investment through a deemed distribution.

## OFS Capital Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

The Company may be limited in its ability to make distributions due to the BDC asset coverage requirements of the 1940 Act. The Company's ability to make distributions may also be affected by SBIC I LP's distributions to the Company, which are governed by SBA regulations. Net assets of SBIC I LP were \$101,292, and consolidated cash at March 31, 2019 includes \$12,943 held by SBIC I LP, of which \$11,031 was available for distribution to the Company. The following table summarizes distributions declared and paid for the three months ended March 31, 2019 and 2018:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Three Months Ended March 31, 2018						
February 12, 2018 <sup>(1)</sup>	March 22, 2018	March 29, 2018	\$ 0.37	\$ 4,886	4,459	\$ 50
February 27, 2018	March 22, 2018	March 29, 2018	0.34	4,490	4,098	46
			\$ 0.71	\$ 9,376	\$ 8,557	\$ 96
Three Months Ended March 31, 2019						
March 5, 2019	March 22, 2019	March 29, 2019	\$ 0.34	\$ 4,497	3,797	\$ 45
			\$ 0.34	\$ 4,497	\$ 3,797	\$ 45

(1) Special dividend representing undistributed net long-term capital gains realized by the Company in 2017.

Distributions in excess of the Company's current and accumulated ICTI would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based upon its 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 the Company's distributions for a full year. Each year, a statement on Form 1099-DIV identifying the tax character of distributions is mailed to the Company's stockholders.

Stock repurchase program:

The Company maintains a Stock Repurchase Program under which the Company may acquire up to \$10.0 million of its outstanding common stock. No shares of common stock were repurchased under the Stock Repurchase Program during the three months ended March 31, 2019 and 2018, respectively.

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

Note 11. Consolidated Schedule of Investments In and Advances To Affiliates

Period ended March 31, 2019

Name of Portfolio Company	Investment Type (1)	Net Realized Gain (Loss)	Net change in unrealized appreciation/(depreciation)	Interest & PIK Interest	Dividends	Total Income	December 31, 2018, Fair Value	Gross Additions	Gross Reductions	March 31, 2019, Fair Value	
		(Loss)				(2)		(3)	(4)	(5)	
<b>Control Investment</b>											
MTE Holding Corp.	Subordinated Loan	\$—	(5 )	\$ 286	\$ —	\$ 15	\$ 301	\$ 7,296	\$ 31	\$ (5 )	\$ 7,322
	Common Equity	—175		—	—	—	2,649	175	—	2,824	
		—170		286	—	15	301	206	(5 )	10,146	
<b>Total Control Investment</b>		<b>—170</b>		<b>286</b>	<b>—</b>	<b>15</b>	<b>301</b>	<b>9,945</b>	<b>206</b>	<b>(5 )</b>	<b>10,146</b>
<b>Affiliate Investments</b>											
3rd Rock Gaming Holdings, LLC	Senior Secured Loan	—318		573	—	—	573	20,023	333	(125 )	20,231
	Preferred Equity (6)	—172		—	—	—	1,073	172	—	1,245	
		—490		573	—	—	573	21,096	505	(125 )	21,476
Chemical Resources Holdings, Inc.	Senior Secured Loan	—		281	—	204	485	—	13,565	—	13,565
	Common Equity (6)	—		—	—	—	—	1,813	—	1,813	
		—		281	—	204	485	15,378	—	15,378	
Contract Datascan Holdings, Inc.	Subordinated Loan	—(1 )		225	—	—	225	8,000	1	(1 )	8,000
	Preferred Equity A (7)	—(133 )		158	—	—	158	6,652	158	(133 )	6,677
	Common Equity (6)	—(2,313 )		—	—	—	2,313	—	(2,313 )	—	
		—(2,447 )		383	—	—	383	16,965	159	(2,447 )	14,677
DRS Imaging Services, LLC	Senior Secured Loan	—35		337	—	—	337	10,617	40	—	10,657
	Common Equity (6)	—460		—	—	—	1,197	460	—	1,657	
		—495		337	—	—	337	11,814	500	—	12,314
		—(118 )		—	—	—	850	—	(118 )	732	

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Master Cutlery, LLC	Subordinated Loan (6)										
	Preferred Equity (6)	—	—	—	—	—	—	—	—	—	—
	Common Equity (6)	—	—	—	—	—	—	—	—	—	—
		—(118 )	—	—	—	—	850	—	(118 )	732	
NeoSystems Corp.	Convertible Preferred Stock (7)	—(38 )	38	—	—	38	2,250	38	(38 )	2,250	

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

Name of Portfolio Company	Investment Type (1)	Period ended March 31, 2019				Total Income (2)	December 31, 2018, Fair Value (3)	Gross Additions (3)	Gross Reductions (4)	March 31, 2019, Fair Value (5)
		Net change in Realized Gain/(Loss) (Appreciation/Depreciation)	Interest & PIK Interest (depreciation)	Dividends	Fees					
Pfanstiehl Holdings, Inc	Subordinated Loan	—2	96	—	—	96	3,788	2	(2	) 3,788
	Class A Common Equity	—600	—	173	—	173	8,360	600	—	8,960
		—602	96	173	—	269	12,148	602	(2	) 12,748
Professional Pipe Holdings, LLC	Senior Secured Loan	—52	259	—	—	259	7,466	64	(236	) 7,294
	Common Equity (6)	—984	—	—	—	—	769	984	—	1,753
		—1,036	259	—	—	259	8,235	1,048	(236	) 9,047
TRS Services, Inc.	Senior Term Loan	—(276	) 476	—	—	476	14,446	62	(327	) 14,181
	Class AA Units in IGT Holdings, LLC (7)	—(38	) 18	—	—	18	473	18	(38	) 453
	Class A Units in IGT Holdings, LLC (6)	—(826	) —	—	—	—	826	—	(826	) —
	Common Equity (6)	—	—	—	—	—	—	—	—	—
		—(1,140	) 494	—	—	494	15,745	80	(1,191	) 14,634
TTG Healthcare, LLC	Senior Secured Loan	—	124	—	1	125	—	11,866	—	11,866
	Preferred Equity (6)	—	—	—	—	—	—	2,309	—	2,309
		—	124	—	1	125	—	14,175	—	14,175
Total Affiliate Investments		—(1,120	) 2,585	173	205	2,963	89,103	32,485	(4,157	) 117,431
		\$— (950	) \$2,871	\$ 173	\$ 220	\$3,264	\$99,048	\$32,691	\$(4,162	) \$127,577

Total Control  
and Affiliate  
Investments

Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated (1) schedule of investments. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.

(2) Represents the total amount of interest, fees or dividends included in income for the three months ended March 31, 2019, that an investment was included in Control or Affiliate Investment categories, respectively.

Gross additions include increases in cost basis resulting from a new portfolio investment, PIK interest, fees and (3) dividends, accretion of OID, and net increases in unrealized net appreciation or decreases in net unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any, and net decreases in net unrealized appreciation or net increases in unrealized depreciation.

(5) Fair value was determined using significant unobservable inputs. See Note 5 for further details.

(6) Non-income producing.

(7) Dividends credited to income include dividends contractually earned but not declared.

OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

Note 12. Subsequent Events Not Disclosed Elsewhere

On April 30, 2019, the Company's Board declared a distribution of \$0.34 per share for the second quarter of 2019, payable on June 28, 2019, to stockholders of record as of June 21, 2019.

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

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

### Overview

We are an externally managed, closed-end, non-diversified management investment company 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 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 "Item 1. Business—Regulation—Small Business Investment Company Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2018. On a stand-alone basis, SBIC I LP held approximately \$249.5 million and \$251.6 million in assets at March 31, 2019 and December 31, 2018, respectively, which accounted for approximately 54% and 57% 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 March 31, 2019, floating rate and fixed rate loans comprised 88% and 12%, respectively, of our current debt investment portfolio at fair value. Our Structured Finance Notes comprise 3.6% of our 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 distribute at least annually net realized capital gains, net of taxes if any, out of assets legally available for such distributions, we may also retain such capital gains for investment through a deemed distribution. 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. Additionally, 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. For a discussion of the risks associated with leverage, see "Item 1A. Risk Factors—Risks Related to our Business and Structure" in our Annual Report on Form 10-K for the year ended December 31, 2018 as supplemented by our other reports filed with the SEC. 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 "Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2018.

#### 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 "Item 8. Financial Statements - Notes to Financial Statements - Note 2" and "Management's Discussion and Analysis - Critical Accounting Policies and Significant Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Fair value estimates. As of March 31, 2019, approximately 95% of our total assets were carried at fair value, which was generally measured using the discounted cash flow or market-approach valuation techniques. Our discounted cash flow valuations involve a determination of a discount rate commensurate with the risk inherent of each investment. Management uses two primary methods to estimate discount rates: the weighted-average cost of capital method, which is a method based upon a hypothetical recapitalization of the entity given its current operating performance and current market conditions; and a hypothetical debt rating method, which assigns a surrogate debt rating to the entity based on known industry standards for assigning such ratings and then estimates the discount rate based on observed market yields for actual rated debt. Management may also use a relative value method to estimate yields, which involves measuring the discount rate of non-traded subject debt investments based on an expected or assumed relationship between NBIB or observed prices on traded debt and the subject debt for a portfolio company. All three methods generally involve calibration of the internal rate of return on the subject investment at close or purchase date to the observable inputs utilized in each method as of or near that date. These methods generally produce a range of discount rates, and management, under the supervision of the Board, generally selects the midpoint of the range for fair value measures. Such midpoint values may be further limited based on the portfolio company's ability to prepay the investment without penalty.

Our market approach valuations, generally applied to equity investments and investments in non-performing debt, involve a determination of an enterprise value multiple to a financial performance metric for the portfolio company, generally EBITDA. These determinations are based on identification of a comparable set of publicly traded companies and determination of a public-to-private liquidity adjustment factor, generally through calibration to transaction prices in the subject investment instrument. This method generally produces a range of multiplier values and management, under the supervision of the Board, generally select the midpoint of the range for fair value measures.

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The following table illustrates the impact of our fair value measures if we selected the low or high end of the range of values for all investments at March 31, 2019 (dollar amounts in thousands):

Investment Type	Fair	Range of Fair Value	
	Value at March 31, 2019	Low-end	High-end
<b>Debt investments:</b>			
Senior secured	\$309,451	\$303,987	\$314,926
Senior secured (valued at Transaction Prices)	31,488	31,488	31,488
Subordinated	44,806	44,112	45,504
<b>Investment:</b>			
Structured finance notes	15,734	15,439	16,030
<b>Equity investments:</b>			
Preferred equity	13,098	11,749	13,926
Preferred equity (valued at Transaction Prices)	2,309	2,309	2,309
Common equity and warrants	18,968	15,450	22,923
Common equity and warrants (valued at Transaction Prices)	1,813	1,813	1,813
	\$437,667	\$426,347	\$448,919

### 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 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 “Item 1–Financial Statements–Note 3”.

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 “Item 1–Financial Statements–Note 3”.

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 funds 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 and OCCI. Additionally, OFS Advisor expects to provide sub-advisory services to CIM Real Assets & Credit Fund, a newly organized externally managed registered investment company that intends to operate as an interval fund that expects to invest primarily in a combination of real estate, credit and related investments.

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 the Order from the SEC to permit us to co-invest in portfolio companies with certain BDCs, registered investment companies and private funds managed by OFS Advisor, or any adviser that controls, is controlled by, or is under common control with, OFS Advisor and is registered as an investment adviser under the Advisers Act, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Pursuant to the Order, we are generally permitted to participate in a co-investment transaction if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and

our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We have applied for a new exemptive order, which, if granted, would

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supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

Portfolio Composition and Investment Activity

Portfolio Composition

As of March 31, 2019, the fair value of our debt investment portfolio totaled \$385.7 million in 46 portfolio companies, of which 88% and 12% were senior secured loans and subordinated loans, respectively, and approximately \$36.2 million in equity investments, at fair value, in 15 portfolio companies in which we also held debt investments. We also have five portfolio companies in which we solely held an equity investment, as well as two investments in Structured Finance Notes. We had unfunded commitments of \$9.4 million to five portfolio companies at March 31, 2019. Set forth in the tables and charts below is selected information with respect to our portfolio as of March 31, 2019 and December 31, 2018.

The following table summarizes the composition of our portfolio of direct investments in the debt and equity securities of portfolio companies as of March 31, 2019, and December 31, 2018 (dollar amounts in thousands):

	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Senior secured debt investments <sup>(1)</sup>	\$348,021	\$340,939	\$325,873	\$319,017
Subordinated debt investments	56,323	44,806	56,212	44,540
Preferred equity	21,243	15,407	19,620	14,613
Common equity and warrants	13,419	20,781	11,606	18,627
Total direct investments in the debt and equity securities of portfolio companies	\$439,006	\$421,933	\$413,311	\$396,797
Total number of portfolio companies	51	51	50	50

<sup>(1)</sup> 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 \$74,237 and \$74,195 at March 31, 2019, respectively, and \$68,207 and \$67,480, at December 31, 2018, respectively

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

	Amortized Cost				Fair Value			
	March 31, 2019		December 31, 2018		March 31, 2019		December 31, 2018	
South - US	\$124,774	28.4 %	\$124,795	30.2 %	\$121,536	28.8 %	\$123,344	31.1 %
Northeast - US	169,168	38.6	109,899	26.6	151,302	35.8	92,570	23.4
West - US	95,292	21.7	124,991	30.2	93,120	22.1	120,788	30.4
Midwest - US	49,772	11.3	53,626	13.0	55,975	13.3	60,095	15.1
Total	\$439,006	100.0%	\$413,311	100.0%	\$421,933	100.0%	\$396,797	100.0%

As of March 31, 2019, our investment portfolio's three largest industries by fair value, were (1) Manufacturing (16.1%), (2) Professional, Scientific, and Technical Services (12.7%), and (3) Health Care and Social Assistance (11.2%), totaling approximately 40.0% of the investment portfolio. For a full summary of our investment portfolio by industry, see "Item 1—Financial Statements—Note 4."

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The following table presents our debt investment portfolio by investment size as of March 31, 2019, and December 31, 2018 (dollar amounts in thousands):

	Amortized Cost			Fair Value				
	March 31, 2019		December 31, 2018		March 31, 2019		December 31, 2018	
Up to \$4,000	\$20,932	5.2 %	\$24,785	6.4 %	\$28,433	7.4 %	\$25,117	6.9 %
\$4,001 to \$7,000	73,858	18.3	66,756	17.5	65,992	17.1	60,151	16.5
\$7,001 to \$10,000	92,236	22.8	92,389	24.2	76,713	19.9	92,687	25.5
\$10,001 to \$13,000	45,552	11.3	44,527	11.7	57,974	15.0	34,032	9.4
Greater than \$13,000	171,766	42.4	153,628	40.2	156,633	40.6	151,570	41.7
Total	\$404,344	100.0 %	\$382,085	100.0 %	\$385,745	100.0 %	\$363,557	100.0 %

The following table displays the composition of our performing debt investment and Structured Finance Note portfolio by weighted average yield as of March 31, 2019, and December 31, 2018:

	March 31, 2019				December 31, 2018			
	Senior Secured Debt	Subordinated Debt	Structured Finance Notes	Total	Senior Secured Debt	Subordinated Debt	Structured Finance Notes	Total
Weighted Ave. Yield <sup>(1)</sup>								
Less than 8%	1.7 %	— %	— %	1.4 %	0.7 %	— %	— %	0.7 %
8% - 10%	8.3	—	—	7.1	22.5	—	—	19.8
10% - 12%	57.0	26.9	—	51.6	42.9	26.9	—	41.0
12% - 14%	28.9	56.5	—	30.8	29.5	56.5	—	32.7
Greater than 14%	4.1	16.6	100.0	9.1	4.4	16.6	—	5.8
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Weighted average yield - performing debt and Structured Finance Note investments <sup>(1)</sup>	11.46 %	12.84 %	16.50 %	11.80 %	11.33 %	12.74 %	— %	11.50 %
Weighted average yield - total debt and Structured Finance Note investments <sup>(2)</sup>	11.46 %	10.02 %	16.50 %	11.45 %	11.33 %	9.93 %	— %	11.12 %

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

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

The weighted average yield on total investments was 10.74% and 10.49% at March 31, 2019 and December 31, 2018, respectively. Weighted average yield on total investments is computed as (a) the sum of (i) the annual stated accruing interest on our debt investments at the balance sheet date plus the annualized accretion of Net Loan Fees, (ii) the effective yield on our performing preferred equity investments, and (iii) the annual effective yield on Structured Finance Notes, 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 on performing direct investments in portfolio-company debt securities increased slightly to 11.80% at March 31, 2019, from 11.50% at December 31, 2018.

As of March 31, 2019, and December 31, 2018, floating rate loans at fair value were 88% and 87% of our debt portfolio of direct investments in the debt securities of portfolio companies, respectively, and fixed rate loans at fair value were 12% and 13% of this portfolio, respectively.



## Investment Activity

The following is a summary of our direct investment activity for the three months ended March 31, 2019 (dollar amounts in millions).

	Debt Investments	Equity Investments
Investments in new portfolio companies	\$ 31.5	\$ 4.1
Investments in existing portfolio companies		
Follow-on investments	9.9	—
Delayed draw and revolver funding	2.8	—
Total investments in existing portfolio companies	12.7	—
Total investments in new and existing portfolio companies	\$ 44.2	\$ 4.1
Number of new portfolio company investments	3	2
Number of existing portfolio company investments	7	—
Proceeds/distributions from principal payments/ equity investments	\$ 6.0	\$ —
Proceeds from investments sold or redeemed	16.3	—
Total proceeds from principal payments, equity distributions and investments sold	\$ 22.3	\$ —

Notable investments in new portfolio companies during the three months ended March 31, 2019, include Chemical Resources Holdings, Inc. (\$13.6 million senior secured loan and \$1.8 million in common equity) and TTG Healthcare, LLC (\$11.9 million senior secured loan and \$2.3 million preferred equity).

The weighted-average yield of direct debt investments in new portfolio companies during the three months ended March 31, 2019 was 11.9%.

We also invested \$15.3 million in Structure Finance Notes with a weighted average annual effective yield of 16.50% during the three months ended March 31, 2019.

The following is a summary of our direct investment activity for the three months ended March 31, 2018 (dollar amounts in millions).

	Debt Investments	Equity Investments
Investments in new portfolio companies	\$ 68.4	\$ 4.6
Investments in existing portfolio companies		
Follow-on investments	23.5	0.3
Delayed draw and revolver funding	1.4	—
Total investments in existing portfolio companies	24.9	0.3
Total investments in new and existing portfolio companies	\$ 93.3	\$ 4.9
Number of new portfolio company investments	7	4
Number of existing portfolio company investments	5	1
Proceeds/distributions from principal payments/ equity investments	13.0	—
Proceeds from investments sold or redeemed	27.1	1.1
Total proceeds from principal payments, equity distributions and investments sold	40.1	1.1

Notable investments in new portfolio companies during the three months ended March 31, 2018, included Online Tech Stores, LLC (\$16.1 million subordinated loan) and 3rd Rock Gaming, LLC (\$21.6 million senior secured loan



and \$2.5 million common equity).

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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 direct investments in the debt securities of portfolio companies 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 “Item 1. Business–Portfolio Review/Risk Monitoring” in our Annual Report on Form 10-K for the year ended December 31, 2018. The following table shows the classification of our direct investments in the debt securities of portfolio companies by credit risk rating as of March 31, 2019 and December 31, 2018 (dollar amounts in thousands):

Risk Category	Debt Investments, at Fair Value					
	March 31, 2019		December 31, 2018			
1 (Low Risk)	\$—	—	%	\$—	—	%
2 (Below Average Risk)	3,788	1.0		3,788	1.0	
3 (Average)	328,390	85.1		329,635	90.7	
4 (Special Mention)	52,835	13.7		29,284	8.1	
5 (Substandard)	—	—		—	—	
6 (Doubtful)	732	0.2		850	0.2	
7 (Loss)	—	—		—	—	
	\$385,745	100.0%		\$363,557	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 gains on the sale of investments, as well as the change in PM Acquisitions, LLC, Envocore Holdings, LLC and MAI Holdings, Inc. from risk category 3 to risk category 4, with an total amortized cost and fair value of \$27.4 million and \$23.9 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 \$12,403 and \$732, respectively, at March 31, 2019, and \$12,403 and \$850, respectively, at December 31, 2018.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date through September 26, 2019, subject to other terms and conditions. The investment will continue to accrue interest as the borrower has continued to make interest and amortization payments.

## 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 direct debt investments in portfolio companies and Structured Finance Notes, as well as dividend income from our equity investments. Our direct debt investments in portfolio companies typically have a term of three to eight years and bear interest at fixed and floating rates. As of March 31, 2019, floating rate and fixed rate loans comprised 88% and 12%, respectively, of our direct debt investments in portfolio companies 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 direct debt investments in portfolio companies 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 that 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 syndication fees for sourcing, structuring, and arranging the lending group, 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.

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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 months ended March 31, 2019, and 2018

Consolidated operating results for the three months ended March 31, 2019 and 2018, are as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Investment income		
Interest income:		
Cash interest income (including accretion of interest on Structured Finance Notes)	\$10,980	\$7,713
Net Loan Fee amortization	178	275
Other interest income	76	94
Total interest income	11,234	8,082
PIK income:		
PIK interest income	161	373
Preferred equity PIK dividends	215	339
Total PIK income	376	712
Dividend income:		
Common equity dividends	173	163
Total dividend income	173	163
Fee income:		
Management, valuation and syndication	562	33
Prepayment and other fees	—	13
Total fee income	562	46
Total investment income	12,345	9,003
Total expenses, net	7,517	5,187
Net investment income	4,828	3,816
Net loss on investments	(1,096 )	(323 )
Net increase in net assets resulting from operations	\$3,732	\$3,493

Interest and PIK income by debt investment type for the three months ended March 31, 2019 and 2018, is summarized below (in thousands):

	Three Months Ended March 31,	
	2019	2018
Interest income and PIK interest income:		
Senior secured debt investments	\$9,547	\$6,615
Subordinated debt investments	1,380	2,214
Structured Finance Notes	468	—
Total interest income and PIK interest income	11,395	8,829
Plus purchased premiums (less Net Loan Fees) accelerations	25	(12 )

Recurring interest income and PIK interest income	\$11,420	\$8,817
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## Investment Income

We consider our interest income on direct debt investments to portfolio companies, other than acceleration of Net Loan Fees recognized upon the repayment of a loan, PIK interest income, and the accretable yield on Structured Finance Notes to be recurring in nature. Such recurring interest income and PIK interest income increased by \$2.6 million for the three months ended March 31, 2019, compared to the three months ended March 31, 2018, primarily due to a \$3.6 million increase from an approximately \$106.0 million increase in the average outstanding performing loan balance and a (\$1.0) million decrease resulting from a 96 basis point decrease in the recurring earned yield on our portfolio.

Syndication fees, prepayment fees and the acceleration of Net Loan Fees generally result from periodic transactions rather than from holding portfolio investments and are considered to be non-recurring. Syndication fees of \$505,000 included in management, valuation and syndication fees for the three months ended March 31, 2019, resulted from approximately \$60.5 million in loan originations during that period in which OFS Advisor sourced, structured, and arranged the lending group, and for which we were additionally compensated.

Fee income increased \$0.5 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to an increase in syndication fees.

## Expenses

Operating expenses for the three months ended March 31, 2019 and 2018, are presented below (in thousands):

	Three Months Ended March 31,	
	2019	2018
Interest expense	\$3,455	\$1,634
Management fees	1,843	1,360
Incentive fee	1,163	736
Professional fees	535	201
Administration fee	437	583
Other expenses	84	695
Total expenses before incentive fee waiver	7,517	5,209
Incentive fee waiver	—	(22 )
Total expenses, net of incentive fee waiver	\$7,517	\$5,187

Interest expense for the three months ended March 31, 2019 increased over the corresponding period in the prior year primarily due to the issuance of the Unsecured Notes. Interest expense incurred on our debt during the three months ended March 31, 2019 and 2018 is summarized below (in thousands):

	Three Months Ended March 31,	
	2019	2018
SBA Debentures	\$1,267	\$1,267
PWB Credit Facility	462	367
Unsecured Notes Due April 2025	860	—
Unsecured Notes Due October 2025	866	—
Total interest expense	\$3,455	\$1,634

Management fee expense for the three months ended March 31, 2019, increased over the corresponding period in the prior year due to an increase in our average total assets, resulting from the issuance of the Unsecured Notes.

The \$0.4 million increase in incentive fee expense for the three ended March 31, 2019, compared to the corresponding period in the prior year was attributable to an increase in net investment income resulting from the increase in the size of the portfolio. On May 1, 2018, OFS Advisor irrevocably waived Income Incentive Fees of approximately \$22,000 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.

Professional fees for the three months ended March 31, 2019, increased over the corresponding period in the prior year due to out-of-scope fees relating to the 2018 audit, as well as the retention of additional third-party valuation services, which did not occur during the three months ended March 31, 2018.

Administration fee expense for the three months ended March 31, 2019 decreased \$0.1 million over the corresponding period in the prior year primarily due to an decrease in our allocable portion of OFS Services's overhead. The three months



ended March 31, 2018 included OFS Services's overhead costs in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions, which did not reoccur during the three months ended March 31, 2019.

Other expenses for the three months ended March 31, 2019, decreased 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 for the three months ended March 31, 2019 remained stable over the corresponding period in the prior year.

#### Net Gain (Loss) on Investments

Net gain (loss) by investment type for the three months ended March 31, 2019 and 2018, were as follows (in thousands):

	Three Months	
	Ended March 31,	
	2019	2018
Senior secured debt	\$(129 )	\$279
Subordinated debt	155	(1,400)
Preferred equity	(1,729 )	(1,112)
Common equity and warrants	228	1,910
Structured Finance Notes	379	—
Net gain (loss) on investments	\$(1,096)	\$(323)

#### Three months ended March 31, 2019

We recognized net losses of \$0.1 million on senior secured debt during the three months ended March 31, 2019, primarily as a result of the unrealized depreciation of \$1.9 million on MAI Holdings, Inc., and other loans partially offset by unrealized appreciation of \$2.2 million on broadly syndicated loans due to net positive impact of mark-to-market adjustments in the first quarter. Additional unrealized losses of \$0.5 million for the three months ended March 31, 2019 were primarily a result of net negative impact of portfolio company-specific performance factors. We also recognized a realized gain of \$0.1 million as a result of the partial sale of our investment in Cenexel Clinical Research Holdings, Inc.

We recognized net gains of \$0.2 million on subordinated debt during the three months ended March 31, 2019, primarily due to unrealized appreciation of \$0.3 million recognized on our subordinated debt investment in Online Tech Stores, LLC. We recognized net losses of \$0.1 million for the three months ended March 31, 2019, primarily as a result of net negative impact of portfolio company-specific performance factors.

We recognized net losses of \$1.7 million on preferred equity investments for the three months ended March 31, 2019, primarily as a result of unrealized depreciation of \$0.8 million recognized on our investment in TRS Services, LLC Class A units. Additional unrealized losses of \$0.9 million in other preferred equity securities for the three months ended March 31, 2019 were primarily due to the net negative impact of portfolio company-specific performance factors.

We recognized net gains of \$0.2 million on common equity and warrant investments for the three months ended March 31, 2019, primarily as a result of unrealized appreciation of \$2.5 million across several portfolio company investments from the positive impact of portfolio company-specific performance factors, offset by unrealized depreciation of \$2.3 million in Contract Datascan Holdings, Inc. as a result of negative portfolio company-specific performance factors.

We recognized net gains of \$0.4 million on Structured Finance Notes for the three months ended March 31, 2019, primarily as a result of unrealized appreciation due to net positive impact of mark-to-market adjustments in the first quarter.

#### Three months ended March 31, 2018

We recognized net gains of \$0.3 million on senior secured debt during the three months ended March 31, 2018, primarily as a result of realized gains of \$0.4 million from the sale of five senior secured loans, offset by unrealized losses of \$0.2 million, primarily as 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 \$1.4 million on subordinated debt during the three months ended March 31, 2018, primarily as a result of the negative impact of portfolio company-specific performance factors, including an unrealized depreciation of \$1.2 million recognized on our subordinated debt investment in Southern Technical Institute, LLC, which was placed on non-accrual during 2017 and written down to a fair value of \$0 at March 31, 2018.

We recognized net losses of \$1.1 million on preferred equity investments for the three months ended March 31, 2018, primarily as a result of the net negative impact of portfolio company-specific performance factors.

We recognized net gains of \$1.9 million on common equity and warrant investments for the three months ended March 31, 2018, primarily as a result of the positive impact of portfolio company-specific performance factors.

#### Liquidity and Capital Resources

At March 31, 2019, we held cash of \$15.2 million, which includes cash of \$12.9 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 three months ended March 31, 2019, the Parent received \$0.0 million in cash distributions from SBIC I LP. At March 31, 2019, the Parent had \$13.2 million of cash available for general corporate activities, which includes \$11.0 million held by SBIC I LP that was available to it for distribution. Additionally, the Parent had available borrowings of \$14.3 million under its PWB Credit Facility at March 31, 2019. The Parent may make unsecured loans to SBIC I LP the aggregate of which cannot exceed \$35 million at any given time, and no interest may be charged on the unpaid principal balance. There were no intercompany loans between the Parent and SBIC I LP as of March 31, 2019.

#### Sources and Uses of Cash

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 "Item 1.—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):

	Three Months Ended March 31,	
	2019	2018
Cash from net investment income	\$1,713	\$2,153
Cash received from realized gains	22	374
Net (purchases and originations) repayments of portfolio investments	(44,002 )	(57,354 )
Net cash used in operating activities	(42,267 )	(54,827 )
Distributions paid to stockholders <sup>(1)</sup> :		
From net investment income	(4,496 )	(4,886 )
From realized gains	—	(4,490 )
Net borrowings under line of credit	23,750	23,350
Other financing	—	(173 )
Decrease in cash	\$(23,013)	\$(41,026)

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 (1) 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 "Item 1—Financial Statements—Note 10."

Cash from net investment income

Cash from net investment income decreased \$0.4 million for the three months ended March 31, 2019, compared to the three months ended March 31, 2018 principally due to an increase in collected net interest and fee income of \$1.0 million and \$0.5 million, respectively, offset by an increase in fees paid to OFS Advisor and affiliates of \$1.1 million, as well as increase in other expenses paid of \$0.8 million.

#### 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) repayments of portfolio investments

During the three months ended March 31, 2019, net purchases and originations of portfolio investments were primarily due to \$63.6 million of cash we used to purchase portfolio investments, offset by \$22.7 million of cash we received from amortized cost repayments and sales on our portfolio investments. During the three months ended March 31, 2018, net repayments were due to \$41.2 million of cash we received from principal payments and sales on our portfolio investments, offset by \$98.2 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 allows it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to 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 March 31, 2019 and 2018, 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 \$249.5 million, and \$251.1 million in assets at March 31, 2019, and December 31, 2018, respectively, which accounted for approximately 54% and 57% 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 our subsidiaries OFS Capital WM and OFSCC-MB, Inc. 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 and certain other financing subsidiaries.

On April 10, 2019, we executed an amendment (the "Secured Revolver Amendment") to our PWB Credit Facility. The Secured Revolver Amendment, among other things: (i) increases the maximum amount available under the PWB Credit Facility from \$50.0 million to \$100.0 million; (ii) changes the interest rate from a variable rate of Prime Rate plus a 0.75% margin to a variable rate of Prime Rate plus a 0.25% margin (with a floor of 5.25%); (iii) extends the maturity date from January 31, 2020 to February 28, 2021; (iv) increases the minimum quarterly net investment income covenant from \$2.0 million to \$3.0 million; (v) reduces the statutory asset coverage ratio test from 200% to 150%; and (vi) adds a total liabilities to Net Asset Value (as defined in the Secured Revolver Amendment) covenant of 300%.

In connection with the Secured Revolver Amendment, we incurred a 1.0% upfront fee on the \$50.0 million incremental increase in the maximum amount available under the PWB Credit Facility, which equates to \$500,000.

As of March 31, 2019, we had \$35.8 million outstanding at a variable interest rate of 5.50% per annum, and \$14.2 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 March 31, 2019, the Company was in compliance with the applicable covenants.

#### Unsecured Notes

In April 2018, we publicly offered the Unsecured Notes Due April 2025 with aggregate principal of \$50.0 million. The total net proceeds to the Company from the Unsecured Notes Due April 2025, after deducting underwriting discounts and offering costs of \$1.8 million were \$48.2 million. In October and November 2018, the Company publicly offered the Unsecured Notes Due October 2025 with aggregate principal of \$48.5 million, which included a partial exercise of the underwriters overallotment option. The total net proceeds to the Company from the Unsecured Notes Due October 2025, after deducting underwriting discounts and offering expenses of \$1.7 million, were \$46.8 million. The combined Unsecured Notes totaled \$98.5 million in aggregate principal debt, with net proceeds of \$95.0 million to the Company.

The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all of our current and future unsecured indebtedness. Because the Unsecured Notes are not secured by any of our assets, they are effectively subordinated to all 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 the PWB Credit Facility.

As of March 31, 2019, the Unsecured Notes had the following terms and balances (amounts in thousands):

Unsecured Notes	Principal	Stated Interest Rate (1)	Effective Interest Rate (2)	Maturity (3)	Interest Expense (4)
Unsecured Notes Due April 2025	\$ 50,000	6.375 %	6.875 %	4/30/2025	\$ 860
Unsecured Notes Due October 2025	48,525	6.50 %	7.01 %	10/31/2025	866
Total	\$ 98,525				\$ 1,726

(1) The weighted-average fixed cash interest rate on the Unsecured Notes as of March 31, 2019 was 6.44%.

(2) The effective interest rate on the Unsecured Notes includes deferred debt issuance cost amortization.

The Unsecured Notes Due April 2025 may be redeemed in whole or in part at any time or from time to time at the (3) Company's option on or after April 30, 2020. The Unsecured Notes Due October 2025 may be redeemed in whole or in part at any time or from time to time at the Company's option on or after October 31, 2020.

(4) Interest expense includes deferred issuance costs amortization.

#### 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 March 31, 2019), of at least 200% (or 150% on and after May 3, 2019). 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 March 31, 2019. As of March 31, 2019, the aggregate amount outstanding of the senior securities issued by the Company was \$284.16 million, for which the Company’s asset coverage was 227%. 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 effective November 26, 2013. 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.

#### Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our contractual obligations as of March 31, 2019 (in thousands):

Contractual Obligation <sup>(1)</sup>	Payments due by period			
	Total	Less 1-3 than years year <sup>(2)</sup>	3-5 years	After 5 years <sup>(2)</sup>
PWB Credit Facility	\$35,750	\$ —	\$ —	\$ —
Unsecured Notes	98,525	—	—	98,525
SBA Debentures	149,880	—	21,000	128,880
Total	\$284,155	\$ —	\$21,000	\$227,405

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

The PWB Credit Facility is scheduled to mature on February 28, 2021. The SBA debentures are scheduled to (2) mature between September 2022 and 2025. The Unsecured Notes are scheduled to mature between April 2025 and October 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 \$9.4 million in unfunded commitments to five portfolio companies at March 31, 2019.

#### 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 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 deferral 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. 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.

#### Recent Developments

On April 30, 2019, our Board declared a distribution of \$0.34 per share for the second quarter of 2019, payable on June 28, 2019, to stockholders of record as of June 21, 2019.

On April 10, 2019, the BLA was amended to, among other things: (i) increase the maximum amount available from \$50.0 million to \$100.0 million; (ii) change the interest rate from a variable rate of Prime Rate plus a 0.75% margin to a variable rate of Prime Rate plus a 0.25% margin (with a floor of 5.25%); (iii) extend the maturity date from January 31, 2020 to February 28, 2021; (iv) increase the minimum quarterly net investment income covenant from \$2.0 million to \$3.0 million; (v) reduce the statutory asset coverage ratio test from 200% to 150%; and (vi) add a total liabilities to Net Asset Value (as defined in the Secured Revolver Amendment) covenant of 300%.

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

We are subject to financial market risks, including changes in interest rates. As of March 31, 2019, 88% 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 March 31, 2019, all of our floating rate loans were based on a floating LIBOR (not subject to a floor).

Our outstanding SBA debentures and Unsecured Notes bear interest at fixed rates. Our PWB Credit Facility has a floating interest rate provision based on the Prime Rate with a 5.25% interest rate floor, which resulted in an effective interest rate of 6.25% as of March 31, 2019.

Assuming that the interim and unaudited consolidated balance sheet as of March 31, 2019 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	\$ 2,006	\$ (191 )	\$ 1,815
100	3,840	(383 )	3,457
150	5,675	(574 )	5,101
200	7,509	(765 )	6,744
250	9,343	(957 )	8,386
Basis point decrease	Interest income	Interest expense	Net decrease
50	\$(1,662)	\$ 191	\$(1,471)
100	(3,479 )	383	(3,096 )
150	(5,186 )	—	(5,186 )
200	(5,839 )	—	(5,839 )
250	(6,268 )	—	(6,268 )

#### Item 4. Controls and Procedures

##### Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. The term “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the foregoing evaluation of our disclosure controls and procedures as of March 31, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

We, OFS Advisor and OFS Services, are not currently subject to any material pending legal proceedings threatened against us as of March 31, 2019. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition, results of operations or cash flows.

## Item 1A. Risk Factors

Investing in our common stock may be speculative and involves a high degree of risk. In addition to the other information contained in this Quarterly Report on Form 10-Q, including our financial statements, and the related notes, schedules and exhibits, you should carefully consider the risk factors described in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, which should be read together with the other information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

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

During the three month period ended March 31, 2019, we issued 3,797 shares of common stock to stockholders in connection with our DRIP. These issuances were not subject to the registration requirements of the Securities Act. The aggregate value of the shares of our common stock issued under our distribution reinvestment plan was approximately \$45,000.

## Issuer Purchases of Equity Securities

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.

During the three months ended March 31, 2019, we repurchased -0- shares of common stock on the open market for under the Stock Repurchase Program. The following table provides information regarding the Stock Repurchase Program (amount in thousands except shares):

Period	Total Number of Shares Purchased	Cost of Shares Purchased	Average Price Paid Per Share	Maximum Number (or Dollar Value) of Shares that May Yet Be Purchased Under the Stock
(1)				

Repurchase  
Program

January  
1, 2019  
through  
March —        \$        —\$        —\$ 9,997  
31,  
2019

(1) Excludes shares purchased on the open market and reissued in order to satisfy the DRIP obligation.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information  
Not applicable.

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Item 6. Exhibits

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

Exhibit Number	Description	Incorporated by Reference		Filed with this 10-Q
		Form and SEC File No.	Filing Date with SEC	
11.1	Computation of Per Share Earnings			+
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended</u>			*
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended</u>			*
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>			†
32.2	<u>Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>			†

+Included in the consolidated statements of operations contained in this report

\* Filed herewith

† Furnished herewith



SIGNATURES

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

Dated: May 3, 2019 OFS CAPITAL  
CORPORATION

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

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