

Edgar Filing: OFS Capital Corp - Form 10-Q

OFS Capital Corp  
Form 10-Q  
August 03, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

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

Commission file number 814-00813

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  (do not check if a smaller reporting company) 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 August 1, 2018 was 13,350,458.

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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
ASC	Accounting Standards Codification, as issued by the FASB
ASU	Accounting Standards Updates, as issued by the FASB
BDC	Business Development Company under the 1940 Act
BLA	Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility
Board	The Company's board of directors
CLO	Collateralized loan obligation funds
Code	Internal Revenue Code of 1986, as amended
DRIP	Distribution reinvestment plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
HPCI	Hancock Park Corporate Income, Inc., a Maryland corporation and non-traded BDC for whom OFS Advisor serves as investment adviser
ICTI	Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses
Investment Advisory Agreement	Investment Advisory and Management Agreement between the Company and OFS Advisor dated November 7, 2012
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
Net Loan Fees	The cumulative amount of fees, such as discounts, premiums and amendment fees that are deferred and recognized as income over the life of the loan.
Offering	The April 2017 follow-on public offering 3,625,000 shares of our common stock at an offering price of \$14.57 per share.
OFS Advisor	OFS Capital Management, LLC, a wholly owned subsidiary of OFSAM and registered investment advisor under the 1940 Act
OFS Capital WM	OFS Capital WM, LLC, a wholly owned investment company subsidiary
OFS Services	OFS Capital Services, LLC, a wholly owned subsidiary of OFSAM and affiliate of OFS Advisor
OFSAM	Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. corporations
PIK	Payment-in-kind, non-cash interest or dividends payable as an addition to the loan or equity security producing the income.
Prime Rate	United States Prime interest rate
PWB Credit Facility	Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender
RIC	Regulated investment company under the Code
SBA	U.S. Small Business Administration
SBCAA	Small Business Credit Availability Act
SBIC	A fund licensed under the SBA small business investment company program



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Term	Explanation or Definition
SBIC Acquisition	The Company's acquisition of the remaining ownership interests in SBIC I LP and OFS SBIC I GP, LLC on December 4, 2013
SBIC Act	Small Business Investment Act of 1958
SBIC I LP	OFS SBIC I, LP, a wholly owned SBIC subsidiary of the Company
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Stock Repurchase Program	The open market stock repurchase program for shares of the Company's common stock under Rule 10b-18 of the Exchange Act
Unsecured Notes	The Company's \$50.0 million aggregate principal amount of 6.375% notes due April 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;
- competition for investment opportunities;
- the ability of SBIC I LP and any other portfolio companies to make distributions enabling us to meet RIC requirements;
- our ability to raise debt or equity capital as a BDC;
- the timing, form and amount of any distributions from our portfolio companies;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the general economy and its impact on the industries in which we invest;
- uncertain valuations of our portfolio investments; and
- the effect of new or modified laws or regulations governing our operations, including the ability to incur additional leverage under the Small Business Credit Availability Act.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include, among others, those described or identified in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q.

We have based the forward-looking statements on information available to us on the date of this Quarterly Report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The forward-looking statements and projections contained in this Quarterly Reports on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act, and Section 21E of the Exchange Act.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## OFS Capital Corporation and Subsidiaries

## Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Investments, at fair value:		
Non-control/non-affiliate investments (amortized cost of \$249,111 and \$209,360, respectively)	\$ 241,071	\$ 197,374
Affiliate investments (amortized cost of \$106,689 and \$70,402, respectively)	111,017	69,557
Control investments (amortized cost of \$10,275 and \$10,213, respectively)	10,744	10,568
Total investments at fair value (amortized cost of \$366,075 and \$289,975, respectively)	362,832	277,499
Cash and cash equivalents	22,665	72,952
Interest receivable	2,919	2,734
Prepaid expenses and other assets	4,257	4,593
Total assets	\$ 392,673	\$ 357,778
Liabilities		
Revolving line of credit	\$ 8,000	\$ 17,600
SBA debentures (net of deferred debt issuance costs of \$2,470 and \$2,657, respectively)	147,410	147,223
Unsecured notes (net of deferred debt issuance costs of \$1,701 and \$0, respectively)	48,299	—
Interest payable	2,260	1,596
Management and incentive fees payable	2,683	1,987
Administration fee payable	478	476
Accrued professional fees	444	433
Other liabilities	170	127
Total liabilities	209,744	169,442
Commitments and contingencies (Note 6)		
Net assets		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of June 30, 2018, and December 31, 2017, respectively	\$ —	\$ —
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,350,458 and 13,340,217 shares issued and outstanding as of June 30, 2018, and December 31, 2017, respectively	134	133
Paid-in capital in excess of par	187,549	187,398
Accumulated undistributed net investment income	7,088	9,404
Accumulated undistributed net realized gain (loss)	(8,497)	)3,881
Net unrealized depreciation on investments	(3,345)	)(12,480)
Total net assets	182,929	188,336
Total liabilities and net assets	\$ 392,673	\$ 357,778
Number of shares outstanding	13,350,458	13,340,217
Net asset value per share	\$ 13.70	\$ 14.12



See Notes to Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Investment income				
Interest income:				
Non-control/non-affiliate investments	\$6,326	\$ 4,446	\$12,084	\$ 9,058
Affiliate investments	2,768	1,646	4,853	3,477
Control investment	250	542	489	1,066
Total interest income	9,344	6,634	17,426	13,601
Payment-in-kind interest and dividend income:				
Non-control/non-affiliate investments	122	319	346	626
Affiliate investments	285	374	746	726
Control investment	27	39	54	77
Total payment-in-kind interest and dividend income	434	732	1,146	1,429
Dividend income:				
Non-control/non-affiliate investments	—	45	—	50
Affiliate investments	—	—	130	85
Control investments	94	137	127	170
Total dividend income	94	182	257	305
Fee income:				
Non-control/non-affiliate investments	387	169	413	325
Affiliate investments	3	176	5	234
Control investments	16	85	34	118
Total fee income	406	430	452	677
Total investment income	10,278	7,978	19,281	16,012
Expenses				
Interest expense	2,169	1,339	3,803	2,726
Management fee	1,548	1,224	2,908	2,416
Incentive fee	1,135	(22)	1,872	1,159
Professional fees	200	293	401	556
Administration fee	358	307	941	708
Other expenses	310	521	1,005	791
Total expenses before incentive fee waiver	5,720	3,662	10,929	8,356
Incentive fee waiver (see Note 3)	—	—	(22)	—
Total expenses, net of incentive fee waiver	5,720	3,662	10,907	8,356
Net investment income	4,558	4,316	8,374	7,656
Net realized and unrealized gain (loss) on investments				
Net realized gain (loss) on non-control/non-affiliate investments	(5,464)	)163	(5,003)	)163
Net realized gain (loss) on affiliate investments	(3,477)	)874	(4,018)	)874
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments	5,411	(5,505)	)3,848	(8,546)
Net unrealized appreciation (depreciation) on affiliate investments	3,928	(3,366)	)5,173	658
Net unrealized appreciation on control investment	39	1,237	114	1,780
Net gain (loss) on investments	437	(6,597)	)114	(5,071)
Net increase (decrease) in net assets resulting from operations	\$4,995	\$ (2,281)	)\$8,488	\$ 2,585
Net investment income per common share – basic and diluted	\$0.34	\$ 0.33	\$0.63	\$ 0.67
	\$0.37	\$ (0.17)	)\$0.64	\$ 0.23

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Net increase (decrease) in net assets resulting from operations per common share – basic and diluted				
Distributions declared per common share	\$0.34	\$ 0.34	\$1.05	\$ 0.68
Basic and diluted weighted average shares outstanding	13,348,793	13,197,759	13,344,670	11,458,706
See Notes to Financial Statements.				

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

	Six Months Ended June 30,	
	2018	2017
Increase in net assets resulting from operations:		
Net investment income	\$8,374	\$7,656
Net realized gain (loss) on investments	(9,021 )	1,037
Net unrealized appreciation (depreciation) on investments	9,135	(6,108 )
Net increase in net assets resulting from operations	8,488	2,585
Distributions to stockholders from:		
Accumulated net investment income	(9,075 )	(7,830 )
Accumulated net realized gain (loss)	(4,936 )	—
Total distributions to stockholders	(14,011 )	(7,830 )
Common stock transactions:		
Public offering of common stock, net of expenses	—	53,373
Reinvestment of stockholder distributions	116	90
Net increase in net assets resulting from capital transactions	116	53,463
Net increase (decrease) in net assets	(5,407 )	48,218
Net assets:		
Beginning of period	188,336	143,778
End of period	\$182,929	\$191,996
Accumulated undistributed net investment income	\$7,088	\$6,888
Common stock activity:		
Common stock issued from reinvestment of stockholder distributions	10,241	6,358
Common stock issued and outstanding at beginning of period	13,340,217	9,700,297
Common stock issued and outstanding at end of period	13,350,458	13,331,655

See Notes to Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$8,488	\$2,585
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized loss (gain) on investments	9,021	(1,037 )
Net unrealized depreciation (appreciation) on investments	(9,135 )	6,108
Amortization of Net Loan Fees	(583 )	(669 )
Payment-in-kind interest and dividend income	(1,146 )	(1,428 )
Amortization of deferred debt issuance costs	332	260
Amortization of intangible asset	98	98
Purchase and origination of portfolio investments	(145,213)	(72,219 )
Proceeds from principal payments on portfolio investments	19,161	51,409
Proceeds from sale or redemption of portfolio investments	42,657	2,400
Changes in other operating assets and liabilities:		
Interest receivable	(185 )	520
Interest payable	664	(3 )
Management and incentive fees payable	696	(635 )
Administration fee payable	2	(66 )
Other assets and liabilities	277	(297 )
Net cash provided used in operating activities	(74,866 )	(12,947 )
Cash flows from financing activities		
Proceeds from common stock offering, net of expenses	—	53,448
Distributions paid to stockholders	(13,895 )	(7,740 )
Borrowings under revolving line of credit	54,250	11,000
Repayments under revolving line of credit	(63,850 )	(14,500 )
Issuance of unsecured notes	48,247	—
Other financing activities	(173 )	—
Net cash provided by financing activities	24,579	42,208
Net increase (decrease) in cash and cash equivalents	(50,287 )	29,261
Cash and cash equivalents — beginning of period	72,952	17,659
Cash and cash equivalents — end of period	\$22,665	\$46,920
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$2,807	\$2,469
Distributions paid by issuance of common stock	116	90

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

June 30, 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									
Armor Holdings II LLC	Other Professional, Scientific, and Technical Services	11.10%	(L +9.00%)	7/20/2016	12/26/2020	\$3,500	\$3,480	\$3,500	1.9 %
Baymark Health Services, Inc.	Outpatient Mental Health & Sub. Abuse Centers	10.57%	(L +8.25%)	3/22/2018	3/1/2025	4,000	3,962	3,979	2.2
Carolina Lubes, Inc. (4)	Automotive Oil Change and Lubrication Shops	10.21%	(L +7.90%)	8/23/2017	8/23/2022	21,125	20,970	21,423	11.7
Senior Secured Loan (8)		9.56%	(L +7.25%)	8/23/2017	8/23/2022	1,363	1,350	1,363	0.7
Senior Secured Loan (Revolver)						22,488	22,320	22,786	12.4
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services	10.58%	(L +8.25%)	3/5/2018	10/19/2022	7,729	7,657	7,668	4.2
Senior Secured Loan		10.58%	(L +8.25%)	3/5/2018	10/19/2022	128	128	117	0.1
Senior Secured Loan (Revolver)						7,857	7,785	7,785	4.3
Community Intervention Services, Inc. (4)	Outpatient Mental Health and Substance								

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	Abuse Centers	7.0%							
Subordinated Loan (6) (10) (11)		cash / 6.0%	N/A	7/16/2015	1/16/2021	8,789	7,639	—	—
		PIK							
	Insurance Agencies and Brokerages								
Confie Seguros Holdings II Co.									
Senior Secured Loan		11.81%	(L +9.50%)	7/7/2015	5/8/2019	9,678	9,615	9,473	5.2
	Other Justice, Public Order, and Safety Activities								
Constellis Holdings, LLC									
Senior Secured Loan		11.33%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,823	10,050	5.5
	Offices of Physicians, Mental Health Specialists								
DuPage Medical Group									
Senior Secured Loan		9.09%	(L +7.00%)	8/22/2017	8/15/2025	7,098	7,176	7,134	3.9

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2018

(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
Eblens Holdings, Inc.	Shoe Store	12.0% cash / 1.0% PIK	N/A	7/13/2017	1/13/2023	\$ 8,874	\$ 8,802	\$ 8,728	4.8 %
Subordinated Loan (11)									
Common Equity (71,250 Class A units) (10)				7/13/2017			713	1,029	0.6
						8,874	9,515	9,757	5.4
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	9.08%	(L +6.75%)	10/31/2011	8/27/2018	3,753	3,744	3,489	1.9
Senior Secured Loan									
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing	11.05%	(L +8.75%)	12/29/2017	9/8/2024	5,000	4,884	4,936	2.7
Senior Secured Loan									
Common Equity (368,852 Class A units) (10)				12/29/2017			450	368	0.2
Common Equity (40,984 Class B units) (10)				12/29/2017			50	15	—
						5,000	5,384	5,319	2.9
LRI Holding, LLC (4)	Electrical Contractors and Other Wiring Installation Contractors	11.59%	(L +9.25%)	6/30/2017	6/30/2022	17,806	17,682	17,675	9.7
Senior Secured Loan									
Preferred Equity (238,095 Series B units) (10)				6/30/2017			300	300	0.2



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						17,806	17,982	17,975	9.9
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	5,000	2.7
Maverick Healthcare Equity, LLC (4)	Home Health Equipment Rental								
Preferred Equity (1,250,000 units) (10)				12/10/2014		900	64	—	
Common Equity (1,250,000 Class A units) (10)				12/10/2014		—	—	—	
						900	64	—	
My Alarm Center, LLC (4)	Security Systems Services (except Locksmiths)								
Preferred Equity (1,485 Class A units), 8% PIK (7) (10) (13)				7/14/2017		1,571	1,602	0.9	
Preferred Equity (1,198 Class B units) (10) (13)				7/14/2017		1,198	245	0.1	
Common Equity (64,149 units) (10) (13)				7/14/2017		—	—	—	
						2,769	1,847	1.0	

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 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
O2 Holdings, LLC (4)	Fitness and Recreational Sports Centers	15.09%	(L +13.00%)	9/2/2016	9/2/2021	\$ 13,850	\$ 13,519	\$ 13,850	7.6 %
Online Tech Stores, LLC (4)	Stationary & Office Supply Merchant Wholesaler	10.50% cash / 1.0% PIK	N/A	2/1/2018	8/1/2023	16,066	15,770	15,703	8.6
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores	10.85%	(L +8.75%)	11/16/2017	6/30/2025	6,320	6,335	6,393	3.5
Performance Team LLC (4)	General Warehousing and Storage	12.09%	(L +10.00%)	5/24/2018	11/24/2023	20,300	20,101	20,101	11.0
Planet Fitness Midwest LLC (4)	Fitness and Recreational Sports Centers	13.00%	N/A	6/16/2016	12/16/2021	5,000	4,969	4,987	2.7
PM Acquisition LLC	All Other General Merchandise Stores	11.50% cash /	N/A	9/30/2017	10/29/2021	5,520	5,456	5,358	2.9

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		1.0%								
		PIK								
Common Equity (499 units) (10) (13)			9/30/2017		499	263	0.1			
					5,520	5,955	5,621	3.0		
Resource Label Group, LLC	Commercial Printing (except Screen and Books)									
Senior Secured Loan		10.80%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,761	4,728	2.6	
RPLF Holdings, LLC	Software Publishers									
Common Equity (254,110 Class A units) (10) (13)			1/17/2018		254	315	0.2			
Security Alarm Financing Enterprises, L.P. (4)	Security Systems Services (except Locksmiths)									
Subordinated Loan (14)		14.00%	cash / 3.33%	(L +14.00%)	10/14/2016	6/19/2020	12,588	12,521	12,701	6.9
			PIK							

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 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
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services	13.50%	(L +11.50%)	1/25/2016	7/24/2020	\$ 8,870	\$ 8,799	\$ 8,819	4.8 %
Senior Secured Loan (15)									
Preferred Equity (5,000 Series C units), 8% PIK (10) (13)				3/31/2014			548	962	0.5
						8,870	9,347	9,781	5.3
Southern Technical Institute, LLC (4)	Colleges, Universities, and Professional Schools	6.00% PIK	N/A	6/27/2018	12/31/2021	1,471	—	—	—
Subordinated Loan (6)(10)									
Common Equity (1,764,720 Class A-1 units) (10)				6/27/2018			—	—	—
						1,471	—	—	—
Stancor, L.P. (4)	Pump and Pumping Equipment Manufacturing	10.09%	(L +8.00%)	8/19/2014	8/19/2019	11,093	11,078	11,093	6.1
Senior Secured Loan									
Preferred Equity (1,250,000 Class A units), 8% PIK (7) (10)				8/19/2014			1,501	1,585	0.9
						11,093	12,579	12,678	7.0
STS Operating, Inc.	Industrial Machinery and								

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	Equipment Merchant Wholesalers								
Senior Secured Loan		5.84%	(L +3.75%)	5/16/2018	12/11/2024	642	640	640	0.3
Senior Secured Loan		10.09%	(L +8.00%)	5/15/2018	4/30/2026	9,073	9,069	9,153	5.0
						9,715	9,709	9,793	5.3
The Escape Game, LLC (4)	Other amusement and recreation industries								
Senior Secured Loan		10.84%	(L +8.75%)	12/22/2017	12/22/2022	7,000	6,953	6,934	3.8
Truck Hero, Inc.	Truck Trailer Manufacturing								
Senior Secured Loan		10.34%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,974	7,060	3.9
United Biologics Holdings, LLC (4)	Medical Laboratories								
Preferred Equity (151,787 units) (10)				4/16/2013			9	20	—
Warrants (29,374 units) (10)				7/26/12	3/05/2022 (12)		82	72	—
						—	91	92	—

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 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
Wand Intermediate I LP	Automotive Body, Paint, and Interior Repair and Maintenance	9.14%	(L +7.25%)	5/14/2018	9/19/2022	\$2,158	\$2,179	\$2,176	1.2 %
Total						245,579	249,111	241,071	125.3
Non-control/Non-affiliate Investments									
Affiliate Investments									
3rd Rock Gaming Holdings, LLC	Software Publishers	9.59%	(L +7.50%)	3/13/2018	3/12/2023	21,875	21,567	21,589	11.8
Common Equity (2,547,250 units) (10) (13)							2,547	2,218	1.2
						21,875	24,114	23,807	13
All Metals Holding, LLC (4)	Metal Service Centers and Other Metal Merchant Wholesalers	12.0% cash / 1.0% PIK	N/A	12/31/2014	12/28/2021	19,401	18,892	19,122	10.5
Common Equity (797,443 units) (10)							523	2,252	1.2
						19,401	19,415	21,374	11.7
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing	12.00%	N/A	8/5/2015 8/5/2015	2/5/2021	8,000	7,987 4,638	8,000 6,255	4.4 3.4

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Preferred Equity (3,061 Series A shares), 10% PIK (10)									
Common Equity (11,273 shares) (10)			6/28/2016			104	2,437	1.3	
					8,000	12,729	16,692	9.1	
DRS Imaging Services, LLC (4)									
Senior Secured Loan (9)	12.8%	(L +10.50%)	3/8/2018	3/8/2023	5,446	5,348	5,297	2.9	
Common Equity (453 units) (10) (13)			3/8/2018			454	340	0.2	
					5,446	5,802	5,637	3.1	
Master Cutlery, LLC (6)									
Subordinated Loan (11)	13.00%	N/A	4/17/2015	4/17/2020	4,941	4,764	2,286	1.2	
Preferred Equity (3,723 Series A units), 8% PIK (7) (10)			4/17/2015			3,483	—	—	
Common Equity (15,564 units) (10)			4/17/2015			—	—	—	
					4,941	8,247	2,286	1.2	

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 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
NeoSystems Corp. (4)	Other Accounting Services	10.50%							
Subordinated Loan		cash / 2.75% PIK	N/A	8/29/2014	8/13/2019	\$2,162	\$2,157	\$2,162	1.2 %
Preferred Equity (521,962 convertible shares), 10% PIK (10)				8/14/2014			1,462	2,250	1.2
						2,162	3,619	4,412	2.4
Pfanstiehl Holdings, Inc. (4)	Pharmaceutical Preparation Manufacturing								
Subordinated Loan		10.50%	N/A	1/1/2014	9/29/2022	3,788	3,818	3,844	2.1
Common Equity (400 Class A shares)				1/1/2014			217	6,735	3.7
						3,788	4,035	10,579	5.8
Professional Pipe Holdings, LLC	Plumbing, Heating, and Air-Conditioning Contractors								
Senior Secured Loan		12.23%	(L +10.25%)	3/23/2018	3/23/2023	8,486	8,325	8,341	4.6
Common Equity (1,414 Class A units) (10)				3/23/2018			1,414	2,064	1.1
						8,486	9,739	10,405	5.7
TRS Services, LLC (4)	Commercial and Industrial Machinery and Equipment (except								



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	Automotive and Electronic) Repair and Maintenance								
Senior Secured Loan		10.84% cash / (L 1.00% +8.75%) PIK	12/10/2014	12/10/2019	14,709	14,611	14,390	7.9	
Preferred Equity (329,266 Class AA units), 15% PIK (10)			6/30/2016			432	440	0.2	
Preferred Equity (3,000,000 Class A units), 11% PIK (7) (10)			12/10/2014			3,374	995	0.5	
Common Equity (3,000,000 units) (10)			12/10/2014			572	—	—	
Total Affiliate Investments Control Investments					14,709	18,989	15,825	8.6	
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	13.59% cash / (L 1.5% +11.50%) PIK	11/25/2015	11/25/2020	7,240	7,206	7,250	4.0	
			11/25/2015			3,069	3,494	1.9	
					7,240	10,275	10,744	5.9	
Total Control Investment					7,240	10,275	10,744	5.9	

Total  
Investments

\$341,627 \$366,075 \$362,832 191.8%

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

June 30, 2018

(Dollar amounts in thousands)

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

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 \$250,457 include LIBOR reference rate floor provisions of generally 1% to 2%; at June 30, 2018, 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 June 30, 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.

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

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

Reserved.

Investment was on non-accrual status as of June 30, 2018, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 4 for further details.

The fair value of the accrued PIK dividend at June 30, 2018 was \$-0-

The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 10.21% at June 30, 2018, includes additional interest of 0.65% per annum as specified under the contractual arrangement among the Company and the co lenders.

The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 12.55% at June 30, 2018, includes additional interest of 2.5% per annum as specified under the contractual arrangement among the Company and the co lenders.

Non-income producing.

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 June 30, 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%	13.00% or 12.00%	1.00 %
Master Cultery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00 %
TRS Services, LLC	Senior Secured Loan	0% or 1.00%	11.84% or 1.00%	1.00 %

Represents expiration date of the warrants.

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

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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%.

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2017

(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	Percent of Net Assets
Non-control/Non-affiliate Investments									
Aegis Acquisition, Inc. Senior Secured Loan	Testing Laboratories	10.17%	(L +8.50%)	10/31/2017	8/24/2021	\$ 3,520	\$ 3,470	\$3,439	1.8 %
Armor Holdings II LLC Senior Secured Loan	Other Professional, Scientific, and Technical Services	10.70%	(L +9.00%)	7/20/2016	12/26/2020	3,500	3,476	3,570	1.9
Avison Young Canada, Inc. Senior Secured Loan (5) (6)	Offices of Real Estate Agents and Brokers	9.50%	N/A	12/23/2016	12/15/2021	4,000	3,939	4,070	2.3
BJ's Wholesale Club, Inc. Senior Secured Loan	Warehouse Clubs and Supercenters	8.95%	(L +7.50%)	5/9/2017	2/3/2025	9,268	9,158	9,063	4.8
Carolina Lubes, Inc. (5) (9) Senior Secured Loan	Automotive Oil Change and Lubrication Shops	9.28%	(L +7.25%)	8/23/2017	8/23/2022	21,411	21,236	21,430	11.4
Senior Secured Loan (Revolver)		8.59%	(L +7.25%)	8/23/2017	8/23/2022	487	473	489	0.3
Preferred Equity (973 units) 14% PIK				8/23/2017			3,039	3,065	1.6
Community Intervention Services, Inc. (5)	Outpatient Mental Health and Substance					21,898	24,748	24,984	13.3

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	Abuse Centers	7.0%							
Subordinated Loan (7) (11)		cash / 6.0% PIK	N/A	7/16/2015	1/16/2021	8,530	7,639	—	—
	Insurance Agencies and Brokerages								
Confie Seguros Holdings II Co. Senior Secured Loan		10.98%	(L +9.50%)	7/7/2015	5/8/2019	9,678	9,579	9,417	5.0
	Other Justice, Public Order, and Safety Activities								
Constellis Holdings, LLC Senior Secured Loan		10.69%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,813	9,919	5.3
	Offices of Physicians, Mental Health Specialists								
DuPage Medical Group Senior Secured Loan		8.42%	(L +7.00%)	8/22/2017	8/15/2025	5,600	5,547	5,503	2.9

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2017

(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	Percent of Net Assets
Eblens Holdings, Inc.	Shoe Store	12.0% cash / 1.00% PIK	N/A	7/13/2017	1/13/2023	\$ 8,830	\$ 8,749	\$ 8,726	4.6 %
Subordinated Loan									
Common Equity (71,250 Class A units)				7/13/2017			713	771	0.4
						8,830	9,462	9,497	5.0
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	8.44%	(L +6.75%)	10/31/2011	8/27/2018	3,888	3,873	3,544	1.9
Senior Secured Loan									
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing	10.23%	(L +8.75%)	12/29/2017	9/8/2024	5,000	4,875	4,875	2.6
Senior Secured Loan									
Common Equity (368,852 Class A units)				12/29/2017			450	450	0.2
Common Equity (40,984 Class B units)				12/29/2017			50	50	—
						5,000	5,375	5,375	2.8
LRI Holding, LLC (5)	Electrical Contractors and Other Wiring Installation Contractors	10.94%	(L +9.25%)	6/30/2017	6/30/2022	18,269	18,125	18,205	9.7
Senior Secured Loan									
Preferred Equity (238,095 Series B				6/30/2017			300	300	0.2

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units)						18,269	18,425	18,505	9.9
Maverick Healthcare Equity, LLC (5)	Home Health Equipment Rental								
Preferred Equity (1,250,000 units) (10)				12/10/2014		900	141	0.1	
Common Equity (1,250,000 Class A units) (10)				12/10/2014		—	—	—	
						900	141	0.1	
My Alarm Center, LLC (5)	Security Systems Services (except Locksmiths)								
Preferred Equity (1,485 Class A units), 8% PIK (10) (13)				7/14/2017		1,540	1,540	0.8	
Preferred Equity (1,198 Class B units)				7/14/2017		1,198	1,198	0.6	
Common Equity (64,149 units) (13)				7/14/2017		—	43	—	
						2,738	2,781	1.4	
NVA Holdings, Inc.	Veterinary Services								
Senior Secured Loan		8.69%	(L +7.00%)	5/18/2016	8/14/2022	743	743	748	0.4
O2 Holdings, LLC (5)	Fitness and Recreational Sports Centers								
Senior Secured Loan		14.56%	(L +13.00%)	9/2/2016	9/2/2021	13,350	12,977	13,617	7.2

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2017

(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	Percent of Net Assets
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores	10.45%	(L +8.75%)	11/16/2017	6/30/2025	\$ 3,520	\$ 3,492	\$ 3,472	1.8 %
Planet Fitness Midwest LLC (5) Subordinated Loan	Fitness and Recreational Sports Centers	13.00%	N/A	6/16/2016	12/16/2021	5,000	4,964	5,011	2.7
PM Acquisition LLC	All Other General Merchandise Stores	11.50%	N/A	9/30/2017	10/29/2021	6,187	6,108	6,059	3.2
Senior Secured Loan		cash / 1.00% PIK							
Common equity (499 units) (10)				9/30/2017			499	278	0.1
						6,187	6,607	6,337	3.3
Resource Label Group, LLC	Commercial Printing (except Screen and Books)	10.19%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,755	4,767	2.5
Senior Secured Loan									
Security Alarm Financing Enterprises, L.P. (5)	Security Systems Services (except Locksmiths)	14.00%	(L +13.00%)	10/14/2016	6/19/2020	12,525	12,441	12,364	6.6
Subordinated Loan (14)		cash / 0.69% PIK							

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Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services								
Senior Secured Loan		13.07%	(L +11.50%)	1/25/2016	7/24/2019	4,195	4,156	4,259	2.3
Preferred Equity (5,000 Series C units), 8% PIK (10) (13)				3/31/2014			527	527	0.3
						4,195	4,683	4,786	2.6
Southern Technical Institute, LLC (5)	Colleges, Universities, and Professional Schools								
Subordinated Loan (10)		15.00% PIK	N/A	12/2/2014	12/2/2020	3,520	3,451	1,201	0.6
Preferred Equity (1,764,720 Class SP-1 units), 15.75% PIK (8) (10)				3/30/2016			2,094	—	—
Warrants (2,174,905 Class A units) (10)				3/30/2016	3/30/2026		46	—	—
						3,520	5,591	1,201	0.6

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Consolidated Schedule of Investments - Continued

December 31, 2017

(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	Percent of Net Assets
Stancor, L.P. (5)	Pump and Pumping Equipment Manufacturing	9.56%	(L +8.00%)	8/19/2014	8/19/2019	\$7,919	\$7,896	\$7,919	4.2 %
Senior Secured Loan									
Preferred Equity (1,250,000 Class A units), 8% PIK (8) (10)				8/19/2014			1,501	1,486	0.8
						7,919	9,397	9,405	5.0
The Escape Game, LLC (5)	Other amusement and recreation industries	10.32%	(L +8.75%)	12/22/2017	12/20/2022	7,000	6,948	6,948	3.7
Senior Secured Loan									
TravelCLICK, Inc.	Computer Systems Design and Related Services	9.32%	(L +7.75%)	10/16/2015	11/6/2021	7,334	7,303	7,334	3.9
Senior Secured Loan									
Truck Hero, Inc.	Truck Trailer Manufacturing	9.89%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,971	7,064	3.8
Senior Secured Loan									
United Biologics Holdings, LLC (5)	Medical Laboratories	12.00%							
Senior Secured Loan (11)		cash / 2.00% PIK	N/A	7/26/2012	4/30/2018	4,266	4,248	4,266	2.3
Subordinated Loan (10)		8.00 % PIK	N/A	7/6/2016	4/30/2019	7	7	7	—
Preferred Equity (151,787 units) (10)				4/16/2013			9	92	—

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Warrants (29,374 units) (10)			7/26/2012	3/5/2022	82	147	0.1	
					4,273	4,346	4,512	2.4
Total Non-control/Non-affiliate Investments					199,332	209,360	197,374	104.9
Affiliate Investments								
All Metals Holding, LLC (5)	Metal Service Centers and Other Metal Merchant Wholesalers							
Senior Secured Loan		12.00% cash / 1.00% PIK	N/A	12/31/2014	12/28/2021	12,869	12,288	12,759 6.8
Common Equity (637,954 units) (10)				12/31/2014		565	1,785	0.9
						12,869	12,853	14,544 7.7

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2017

(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	Percent of Net Assets
Contract Datascan Holdings, Inc. (5) Subordinated Loan	Office Machinery and Equipment Rental and Leasing	12.00%	N/A	8/5/2015	2/5/2021	\$ 8,000	\$ 7,985	\$ 8,000	4.2 %
Preferred Equity (3,061 Series A shares), 10% PIK (10)				8/5/2015			4,347	5,964	3.2
Common Equity (11,273 shares) (10)				6/28/2016			104	260	0.1
						8,000	12,436	14,224	7.5
Jobson Healthcare Information, LLC (5) (9)	Other Professional, Scientific, and Technical Services	10.13% cash / 5.30% PIK	(L +13.43%)	7/23/2014	7/21/2019	15,447	15,241	12,910	6.9
Senior Secured Loan (11)									
Common Equity (13 member units)				12/15/2017			—	—	—
Warrants (1 member unit) (10)				7/23/2014	7/21/2019		454	—	—
						15,447	15,695	12,910	6.9
Master Cutlery, LLC (5)	Sporting and Recreational Goods and Supplies Merchant Wholesalers								
Subordinated Loan		13.00%	N/A	4/17/2015	4/17/2020	4,705	4,692	2,873	1.5
Preferred Equity (3,723 Series A units),				4/17/2015			3,483	—	—

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8% PIK (8) (10) Common Equity (15,564 units) (10)				4/17/2015		—	—	—	
						4,705	8,175	2,873	1.5
NeoSystems Corp.(5)	Other Accounting Services								
		10.50%							
Subordinated Loan		cash / 1.25%	N/A	8/29/2014	8/13/2019	2,143	2,136	2,143	1.1
		PIK							
Preferred Equity (521,962 convertible shares), 10% PIK (10)				8/14/2014			1,390	2,248	1.2
						2,143	3,526	4,391	2.3
Pfanstiehl Holdings, Inc. (5)	Pharmaceutical Preparation Manufacturing								
Subordinated Loan		10.50%	N/A	1/1/2014	9/29/2021	3,788	3,823	3,755	2.0
Common Equity (400 Class A shares)				1/1/2014			217	4,755	2.5
						3,788	4,040	8,510	4.5

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

December 31, 2017

(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	Percent of Net Assets
TRS Services, LLC (5)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	10.07%	(L +8.50%)	12/10/2014	12/10/2019	\$9,466	\$9,330	\$9,466	5.0 %
Senior Secured Loan Preferred Equity (329,266 Class AA units), 15% PIK (10)				6/30/2016			401	409	0.2
Preferred Equity (3,000,000 Class A units), 11% PIK (8) (10)				12/10/2014			3,374	2,230	1.2
Common Equity (3,000,000 units) (10)				12/10/2014			572	—	—
Total Affiliate Investments						9,466	13,677	12,105	6.4
						56,418	70,402	69,557	36.8
Control Investments									
MTE Holding Corp. (2) (5)	Travel Trailer and Camper Manufacturing	13.07%	(L +13.50%)	11/25/2015	11/25/2020	7,186	7,144	7,118	3.8
Subordinated Loan (to Mirage)		1.50%							

Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.) Common Equity (554 shares)	PIK	11/25/2015	3,069	3,450	1.8
			7,186	10,213	5.6
Total Control Investment			7,186	10,213	5.6
Total Investments			\$262,936	\$289,975	\$277,499 147.3%

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

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 \$189,022 include LIBOR reference rate floor provisions of generally 1% to 2%; at December 31, 2017, approximately 7% of the Company's

LIBOR referenced amounts are subject to a reference rate floor of 2.00%. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2017. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 6 for further details.

The negative amount represents the excess of the par value of an unfunded commitment in excess of its fair value.

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

Non-qualifying assets under Section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2017, 97.53% of the Company's assets were qualifying assets.

Investment was on non-accrual status as of December 31, 2017, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 4 for further details.

The fair value of the most-recently recognized PIK dividend as of December 31, 2017, was \$0.

The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 9.28% at December 31, 2017, includes additional interest of 0.69% per annum as specified under the contractual arrangement among the Company and the co lenders.

Non-income producing.



## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued

December 31, 2017

(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 December 31, 2017:

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00 %
Eblens Holdings, Inc.	Subordinated Loan	0% or 1.00%	13.00% or 12.00%	1.00 %
Jobson Healthcare Information, LLC	Senior Secured Loan	1.50% to 5.30%	13.93% to 10.13%	5.30 %
United Biologics Holdings, LLC	Senior Secured Loan	0% or 2.00%	14.00% or 12.00%	2.00 %

(12)Represents expiration date of the warrants.

(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

(14)reference rate floor of 1.00%. The PIK interest rate in the schedule represents the current PIK interest rate in effect.

See Notes to Financial Statements.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

Note 1. Organization

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

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

In addition, OFS Advisor also serves as the investment adviser for HPCI, a non-traded BDC with an investment strategy and objective similar to the Company.

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; and 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, 2017. 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 2017 Form 10-K.

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, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. To mitigate this risk, the Company places cash deposits only with high credit quality institutions; management believes this risk of loss is minimal. 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 Company's recorded investment in debt instruments and the unfunded loan commitments as disclosed in Note 6.

New Accounting Standards: In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Revenue Recognition (ASC Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The application of this guidance did not have a material impact on the Company's consolidated financial statements. The Company did not adopt any other new accounting pronouncements during the three or six months ended June 30, 2018 that had or is expected to have a material impact to the Company's consolidated financial statements.

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

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.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	Shortens the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Securities held at a discount are to continue to be amortized to maturity.	Annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The adoption of ASU 2017-08 is not expected to have a material effect on the Company's consolidated financial statements.
ASU 2017-12, Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities	Eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. Additionally, the guidance also expands an entity's ability to apply hedge accounting for nonfinancial and financial risk components, simplifies the hedge documentation and hedge effectiveness assessment requirements, and modifies certain disclosure requirements.	Annual reporting periods beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures.

## 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 Investment

Advisory Agreement was most recently re-approved by the Board on April 5, 2018. 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 BDCs affiliated with OFS Advisor, so long as its services to the Company are not impaired. OFS Advisor also serves as the investment adviser to collateralized loan obligation ("CLO") funds and other assets, including HPCI.

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

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

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 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), commencing on December 31, 2012, and equals 20.0% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the Capital Gain Fee; provided that the incentive fee determined as of December 31, 2012, was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation for the period beginning on the date of the Company's election to be a BDC and ending December 31, 2012.

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

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 \$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

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

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. To 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 and six months ended June 30, 2018 and 2017, under agreements with OFS Advisor and OFS Services are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Base management fees	\$1,548	\$1,224	\$2,908	\$2,416
Incentive fees:				
Income Incentive Fee	1,135	261	1,872	1,159
Capital Gain Fee	—	(283)	—	—
Incentive fee waiver	—	—	(22)	—
Administration fee expense	358	307	941	708

## Note 4. Investments

As of June 30, 2018, the Company had loans to 38 portfolio companies, of which 80% were senior secured loans and 20% were subordinated loans, at fair value, as well as equity investments in 17 of these portfolio companies. The Company also held equity investments in four portfolio companies in which it did not hold a debt investment. At June 30, 2018, investments consisted of the following:

	Amortized Cost	Percentage of Net Assets	Fair Value	Percentage of Net Assets
Senior secured debt investments <sup>(1)</sup>	\$260,078	142.2 %	\$260,851	142.5 %
Subordinated debt investments	75,633	41.3	65,661	35.9
Preferred equity	19,416	10.6	14,718	8.0
Common equity and warrants	10,948	6.0	21,602	11.8
Total investments	\$366,075	200.1 %	\$362,832	198.2 %

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. Amortized cost and fair value of these investments was \$20,970 and \$21,423, respectively.

At June 30, 2018, all of the Company's 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 investment portfolio were as follows:



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	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)	\$ 15,290	4.1 %	8.5 %	\$ 14,548	4.0 %	8.0 %

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OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

	Amortized Cost	Percentage of Total Amortized Cost Assets	Percentage of Total Fair Value Assets	Amortized Cost	Percentage of Total Amortized Cost Assets	Percentage of Total Fair Value Assets
Temporary Help Services	7,785	2.0	4.3	7,785	2.0	4.3
Arts, Entertainment, and Recreation						
Fitness and Recreational Sports Centers	18,488	5.1	10.1	18,837	5.2	10.3
Other amusement and recreation industries	6,953	1.9	3.8	6,934	1.9	3.8
Construction						
Electrical Contractors and Other Wiring Installation Contractors	17,982	4.9	9.8	17,975	5.0	9.8
Plumbing, Heating, and Air-Conditioning Contractors	9,739	2.7	5.3	10,402	2.9	5.7
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Finance and Insurance						
Insurance Agencies and Brokerages	9,615	2.6	5.3	9,473	2.6	5.2
Health Care and Social Assistance						
Medical Laboratories	91	—	—	92	—	0.1
Offices of Physicians, Mental Health Specialists	7,176	2.0	3.9	7,134	2.0	3.9
Outpatient Mental Health and Substance Abuse Centers	11,601	3.2	6.3	3,979	1.1	2.2
Information						
Data Processing, Hosting, and Related Services	5,802	1.6	3.2	5,637	1.6	3.1
Software Publishers	24,368	6.7	13.3	24,126	6.6	13.2
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,744	1.0	2.0	3,489	1.0	1.9
Commercial Printing (except Screen and Books)	4,761	1.3	2.6	4,728	1.3	2.6
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,384	1.5	2.9	5,319	1.5	2.9
Pharmaceutical Preparation Manufacturing	4,035	1.1	2.2	10,572	2.9	5.8
Printing Machinery and Equipment Manufacturing	5,000	1.4	2.7	5,000	1.4	2.7
Pump and Pumping Equipment Manufacturing	12,579	3.4	6.9	12,678	3.5	6.9
Travel Trailer and Camper Manufacturing	10,275	2.8	5.6	10,744	3.0	5.9
Truck Trailer Manufacturing	6,974	1.9	3.8	7,060	1.9	3.9
Other Services (except Public Administration)						
Automotive Body, Paint, and Interior Repair and Maintenance	2,179	0.6	1.2	2,176	0.6	1.2
Automotive Oil Change and Lubrication Shops	22,320	6.1	12.2	22,786	6.3	12.5
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	18,989	5.2	10.4	15,825	4.4	8.7
Professional, Scientific, and Technical Services						
Other Accounting Services	3,619	1.0	2.0	4,412	1.2	2.4
Other Professional, Scientific, and Technical Services	12,827	3.5	7.0	13,283	3.7	7.3
Public Administration						
Other Justice, Public Order, and Safety Activities	9,823	2.7	5.4	10,050	2.8	5.5

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OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.2	0.5	64	—	—
Office Machinery and Equipment Rental and Leasing	12,729	3.5	7.0	16,692	4.6	9.1
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	6,335	1.7	3.5	6,393	1.8	3.5
Shoe store	9,515	2.6	5.2	9,757	2.7	5.3
All Other General Merchandise Stores	5,955	1.6	3.3	5,621	1.5	3.1
Transportation and Warehousing						
General Warehousing and Storage	20,101	5.5	11.0	20,101	5.5	11.0
Wholesale Trade						
Industrial Machinery and Equipment Merchant Wholesalers	9,709	2.7	5.3	9,793	2.7	5.4
Metal Service Centers and Other Metal Merchant Wholesalers	19,415	5.3	10.6	21,374	5.9	11.7
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	2.3	4.5	2,286	0.6	1.2
Stationary & Office Supply Merchant Wholesaler	15,770	4.3	8.6	15,703	4.3	8.6
	\$366,075	100.0%	200.1%	\$362,832	100.0%	198.3%

As of December 31, 2017, the Company had loans to 35 portfolio companies, of which 79% were senior secured loans and 21% were subordinated loans, at fair value, as well as equity investments in 17 of these portfolio companies. The Company also held an equity investment in two portfolio companies in which it did not hold a debt investment.

At December 31, 2017, investments consisted of the following:

	Amortized Cost	Percentage of Net Assets	Fair Value	Percentage of Net Assets
Senior secured debt investments <sup>(1)</sup>	\$ 196,020	104.1 %	\$ 195,112	103.5 %
Subordinated debt investments	63,031	33.5	51,198	27.2
Preferred equity	24,103	12.8	19,200	10.2
Common equity and warrants	6,821	3.6	11,989	6.4
Total investments	\$ 289,975	154.0 %	\$ 277,499	147.3 %

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. Amortized cost and fair value of these investments was \$21,709 and \$21,919, respectively.

At December 31, 2017, all but one (domiciled in Canada) of the Company's investments, with an amortized cost and fair value of \$3,939 and \$4,070, respectively, were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's investment portfolio were as follows:

	Percentage of Total:	Percentage of Total:
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	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)	\$ 15,179	5.2%	8.1 %	\$15,145	5.5%	8.0 %

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## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

Arts, Entertainment, and Recreation						
Fitness and Recreational Sports Centers	17,9416.2	9.5	18,6286.7	9.9		
Other Amusement and Recreation Industries	6,948	2.4	6,948	2.5	3.7	
Construction						
Electrical Contractors and Other Wiring Installation Contractors	18,4256.4	9.8	18,5056.7	9.8		
Education Services						
Colleges, Universities, and Professional Schools	5,591	1.9	1,201	0.4	0.6	
Finance and Insurance						
Insurance Agencies and Brokerages	9,579	3.3	9,417	3.4	5.0	
Offices of Real Estate Agents and Brokers	3,939	1.4	4,070	1.5	2.2	
Health Care and Social Assistance						
Medical Laboratories	4,346	1.5	4,512	1.6	2.4	
Offices of Physicians, Mental Health Specialists	5,547	1.9	5,503	2.0	2.9	
Outpatient Mental Health and Substance Abuse Centers	7,639	2.6	—	—	—	
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,873	1.3	3,544	1.3	1.9	
Commercial Printing (except Screen and Books)	4,755	1.6	4,767	1.7	2.5	
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,375	1.9	5,375	1.9	2.9	
Pharmaceutical Preparation Manufacturing	4,040	1.4	8,510	3.1	4.5	
Pump and Pumping Equipment Manufacturing	9,397	3.2	9,405	3.4	5.0	
Travel Trailer and Camper Manufacturing	10,2133.5	5.5	10,5683.7	5.5		
Truck Trailer Manufacturing	6,971	2.4	7,064	2.5	3.7	
Other Services (except Public Administration)						
Automotive Oil Change and Lubrication Shops	24,7488.5	13.1	24,9849.0	13.3		
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	13,6774.8	7.3	12,1054.4	6.4		
Professional, Scientific, and Technical Services						
Computer Systems Design and Related Services	7,303	2.5	7,334	2.6	3.9	
Other Accounting Services	3,526	1.2	4,391	1.6	2.3	
Other Professional, Scientific, and Technical Services	23,8548.2	12.7	21,2667.7	11.3		
Testing Laboratories	3,470	1.2	3,439	1.2	1.8	
Veterinary Services	743	0.3	748	0.3	0.4	
Public Administration						
Other Justice, Public Order, and Safety Activities	9,813	3.4	9,919	3.6	5.3	
Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.3	141	0.1	0.1	
Office Machinery and Equipment Rental and Leasing	12,4364.3	6.6	14,2245.1	7.6		

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

## Retail Trade

Cosmetics, Beauty Supplies, and Perfume Stores	3,492	1.2	1.9	3,472	1.3	1.8
Shoe store	9,462	3.3	5.0	9,497	3.4	5.0
Warehouse Clubs and Supercenters	9,158	3.2	4.9	9,063	3.3	4.8
All Other General Merchandise Stores	6,607	2.3	3.5	6,337	2.3	3.4

## Wholesale Trade

Metal Service Centers and Other Metal Merchant Wholesalers	12,853	4.4	6.8	14,544	5.2	7.7
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,175	2.8	4.3	2,873	1.0	1.5

	\$289,975	100.0%	154.0%	\$277,499	100.0%	147.3%
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In December 2017, the Company's investment in Jobson Healthcare Information, LLC ("Jobson") was restructured, whereby the lender group, including the Company, purchased all the outstanding equity of Jobson for a nominal purchase price. During the six months ending June 30, 2018, the Company sold its debt and equity securities in Jobson and recognized a realized loss \$3,931, of which \$2,786 was recognized as unrealized losses as of December 31, 2017. In June 2018, the Company's investment in Southern Technical Institute, LLC was restructured. The Company converted its subordinated note, SP-1 preferred shares, and warrants for a \$1,471 subordinated loan and 1,764 shares of Class A-1 common units. The cost and fair value of the securities received were \$-0- and \$-0- as of June 30, 2018. The Company recognized a realized loss on the restructuring of \$5,608 for the three and six months ended June 30, 2018, of which \$4,407 was recognized as unrealized losses as of December 31, 2017.

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 \$2,286, respectively at June 30, 2018, and \$11,090 and \$1,201 at December 31, 2017, respectively.

## Note 5. Fair Value of Financial Instruments

The Company's investments are valued at fair value as determined in good faith by Company management under the supervision, and review and approval of the Board. These fair values are determined in accordance with a documented valuation policy and a consistently applied valuation process.

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

Each portfolio company or investment is valued by OFS Advisor.

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

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

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

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

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

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

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

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

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

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the measurement date. All of the Company's investments, which are measured at fair value, were categorized as Level 3 based upon the lowest level of significant input to the valuations. There were no transfers among Level 1, 2 and 3 for the three and six months ended June 30, 2018 and 2017.

Each quarter, for investments for which unadjusted quoted prices in active markets are not available, the Company assesses whether market quotations, prices from pricing services or bids from brokers or dealers (collectively, "Indicative Prices") are available, as well as the Company's ability to transact at such Indicative Prices. Investments for which sufficient Indicative Prices exist are generally valued consistent with such Indicative Prices. The Company periodically corroborates observed Indicative Prices with its actual investment purchase prices and/or other valuation techniques, such as the discounted cash flow method described below. Based on the corroborating analysis and the experience of the Company's management in purchasing and selling these investments, the Company believes that these Indicative Prices may be reasonable indicators of fair value. In certain instances, the Company may partially rely on Indicative Prices when the Company determines such Indicative Prices are not of sufficient strength to rely on as the sole indication of fair value. In such instances, the Company applies a weighting factor to the Indicative Price and an alternative fair value analysis, typically a discounted cash flow analysis. The weighting factor placed on an Indicative Price is applied consistently based upon its relative strength, which considers, among other factors, and when available, the depth and liquidity of the Indicative Price. Weighting factors are not significant to the overall fair value measurement, but rather are applied to incorporate relevant market data when available.

In addition, each quarter, the Company assesses whether an arm's length transaction occurred in the same security, including the Company's new investments during the quarter, the cost of which ("Transaction Prices"), may be considered a reasonable indication of fair value for up to three months after the transaction date.



Due to the private nature of this marketplace (meaning actual transactions are not publicly reported), and the non-binding nature of the Indicative Prices, and the general inability to observe the input for the full length of the term of an investment, the Company believes that these valuation inputs are classified as Level 3 within the fair value hierarchy.

In the absence of sufficient, actionable Indicative Prices or Transaction Prices, as an indication of fair value, and consistent with the policies and methodologies adopted by the Board, the Company performs detailed valuations of its debt and equity investments, including an analysis on the Company's unfunded loan commitments, using both the market and income approaches as appropriate. There is no one methodology to estimate fair value and, in fact, for any one portfolio company, enterprise value is generally best expressed as a range of values. The Company may also engage one or more independent valuation firms(s) to conduct independent appraisals of its investments to develop the range of values, from which the Company derives a single estimate of value.

OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

The primary method used to estimate the fair value of the Company's debt investments is the income approach. Under the income approach, the Company typically prepares and analyzes discounted cash flow models to estimate the present value of future cash flows of either an individual debt investment or of the underlying portfolio company itself. However, if there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other valuation techniques under other valuation methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The discounted cash flow technique to determining fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including the latest arm's length or market transactions involving the subject security, a benchmark credit spread or other indication of market yields, and company performance. The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment, which may include a weighting factor applied to multiple valuation methods and techniques. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date.

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

Application of these valuation methodologies involves a significant degree of judgment by management. 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.

## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

The following tables provide quantitative information about the Company's significant Level 3 fair value inputs to the Company's fair value measurements as of June 30, 2018, and December 31, 2017. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

	Fair Value at June 30, 2018 <sup>(1)</sup>	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$205,917	Discounted cash flow	Discount rates	6.94% - 16.66% (13.15%)
Subordinated	63,374	Discounted cash flow	Discount rates	10.45% - 18.60% (14.59%)
	2,286	Enterprise value	EBITDA multiple	5.25x - 8.25x (6.75x)

## Equity investments:

Preferred equity	14,717	Enterprise value	EBITDA multiples	5.00x - 26.42x (7.49x)
Common equity and warrants	21,601	Enterprise value	EBITDA multiples	4.36x - 11.22x (6.41x)

(1) Excludes \$54,937, \$0, and \$0, of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at Transaction Prices.

	Fair Value at December 31, 2017 <sup>(1)</sup>	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$152,231	Discounted cash flow	Discount rates	10.01% - 16.50% (12.24%)
	12,910	Enterprise value	EBITDA multiples	7.50x - 7.50x (7.50x)
	9,063	Indicative Prices	Broker-dealers' quotes	N/A
Subordinated	47,117	Discounted cash flow	Discount rates	11.24% - 16.90% (14.69%)
	4,074	Enterprise value	EBITDA multiples	4.25x - 7.25x (6.37x)

## Equity investments:

Preferred equity	19,200	Enterprise value	EBITDA multiples	4.25x - 13.48x (7.80x)
Common equity and warrants	11,489	Enterprise value	EBITDA multiples	4.25x - 8.28x (6.27x)

(1) Excludes \$20,908, \$7, and \$500 of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at a Transaction Price.

Changes in market credit spreads or the credit quality of the underlying portfolio company (both of which could impact the discount rate), as well as changes in EBITDA and/or EBITDA multiples, among other things, could have a significant impact on 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.

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OFS Capital Corporation and Subsidiaries

Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

The following tables present changes in investments measured at fair value using Level 3 inputs for the six months ended June 30, 2018 and June 30, 2017.

	Six Months Ended June 30, 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	(3,076 )	(3,469 )	(1,890 )	(586 )	(9,021 )
Net unrealized appreciation (depreciation) on investments	1,680	1,861	205	5,485	9,231
Amortization of Net Loan Fees	518	64	—	—	582
Capitalized PIK interest and dividends	365	241	540	—	1,146
Purchase and origination of portfolio investments	119,355	20,930	—	4,928	145,213
Proceeds from principal payments on portfolio investments	(13,997 )	(5,164 )	—	—	(19,161 )
Sale and redemption of portfolio investments	(39,106 )	—	(3,337 )	(214 )	(42,657 )
Level 3 assets, June 30, 2018	\$ 260,851	\$ 65,661	\$ 14,718	\$ 21,602	\$ 362,832
	Six Months Ended June 30, 2017				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2017	\$ 180,955	\$ 63,410	\$ 23,721	\$ 13,541	281,627
Net realized gain (loss) on investments	—	—	—	558	558
Net unrealized appreciation (depreciation) on investments	(4,237 )	(2,354 )	2,679	(2,196 )	(6,108 )
Amortization of Net Loan Fees	628	41	—	—	669
Capitalized PIK interest, dividends, and fees	431	218	779	—	1,428
Purchase and origination of portfolio investments	71,419	—	800	—	72,219
Proceeds from principal payments on portfolio investments	(36,801 )	(14,608 )	—	—	(51,409 )
Sale and redemption of portfolio investments	—	—	—	(2,058 )	(2,058 )
Conversion from subordinated to senior secured debt investment	(9,631 )	9,631	—	—	—
Other	—	(18 )	—	—	(18 )
Level 3 assets, June 30, 2017	\$ 202,764	\$ 56,320	\$ 27,979	\$ 9,845	\$ 296,908

The net unrealized appreciation (depreciation) reported in the Company's consolidated statements of operations for the six months ended June 30, 2018 and June 30, 2017, attributable to the Company's Level 3 assets held at those respective period ends was \$4,373 and \$(5,360), respectively.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since fair value measurements are only required for a portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.



## OFS Capital Corporation and Subsidiaries

## Notes to 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 Company's SBA-guaranteed debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar instruments and considering such factors as the legal maturity date. As of June 30, 2018, and December 31, 2017, the fair value of the Company's SBA debentures using Level 3 inputs is estimated at \$149,597 and \$155,510, respectively.

## Note 6. Commitments and Contingencies

Unfunded commitments as of June 30, 2018, were as follows:

Name of Portfolio Company	Investment Type	Commitment
Carolina Lubes, Inc.	Senior Secured Loan (Revolver)	\$ 1,557
Cirrus Medical Staffing, Inc.	Senior Secured Loan (Revolver)	1,280
The Escape Game, LLC	Senior Secured Loan	7,000
TRS Services, LLC	Senior Secured Loan	1,000
		\$ 10,837

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 June 30, 2018.

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

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

## Note 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 \$249,551 and \$251,601 in assets at June 30, 2018 and December 31, 2017, respectively, which accounted for approximately 64% and 70% of the Company's total consolidated assets, respectively. These assets can not be pledged under any debt obligation of the Company.

**PWB Credit Facility:** The Company has up to \$50,000 of available credit under its PWB Credit Facility maturing January 31, 2020, of which \$8,000 was drawn as of June 30, 2018. The average dollar amount of borrowings outstanding during the six months ended June 30, 2018 and 2017, were \$14,678 and \$3,155, respectively. The effective interest rate on the PWB Credit Facility was 6.12% at June 30, 2018. Availability under the PWB Credit Facility as of June 30, 2018, was \$42,000 based on the stated advance rate of 50% of the borrowing base.

**Unsecured Notes:** In April 2018, the Company publicly offered Unsecured Notes with aggregate principal of \$50,000. The total net proceeds to the Company from the Unsecured Notes, after deducting underwriting discounts and offering costs of \$1,753 were \$48,247.

The Unsecured Notes mature on April 30, 2025, and bear an effective interest rate, including amortization of deferred debt issuance costs, of 6.975%. 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. The

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## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

Unsecured Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after April 30, 2020.

The indenture governing the Unsecured Notes contains certain covenants (i) prohibiting additional borrowings, including through the issuance of additional debt securities, unless the Company's asset coverage, as defined in the 1940 Act, after giving effect to any exemptive relief granted to the Company by the SEC, equals at least 200% (or 150% if certain requirements are met) after such borrowings; and (ii) prohibiting (a) the declaration of any cash dividend or distribution upon any class of the Company's capital stock (except to the extent necessary for the Company to maintain its treatment as a RIC under Subchapter M of the Code), or (b) the purchase any capital stock if the Company's asset coverage, as defined in the 1940 Act, were below 200% (or 150% if certain requirements are met) at the time of such capital transaction and after deducting the amount of such transaction.

Interest expense for the three and six months ended June 30, 2018 and 2017 on the Company's outstanding borrowings is presented below:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
SBA Debentures	\$1,280	\$1,282	\$2,548	\$2,572
PWC Credit Facility	177	57	543	174
Unsecured Notes	712	—	712	—
Total interest expense	\$2,169	\$1,339	\$3,803	\$2,726

## 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. Reclassifications for the three and six months ended June 30, 2018 and 2017, were as follows:

	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Paid-in capital in excess of par	\$18	\$46	\$36	\$64
Accumulated undistributed net investment income	(1,629)	18	(1,615)	32
Accumulated undistributed net realized gain (loss)	1,611	(364)	1,579	(396)

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of June 30, 2018, and December 31, 2017, were as follows:

	June 30,	December
	2018	31, 2017
Tax-basis amortized cost of investments	\$367,201	\$282,401
Tax-basis gross unrealized appreciation on investments	17,462	16,207
Tax-basis gross unrealized depreciation on investments	(21,831 )	(21,109 )
Tax-basis net unrealized depreciation on investments	(4,369 )	(4,902 )
Fair value of investments	\$362,832	\$277,499

For further information, see the Company's Annual Report on Form 10-K for the year ended December 31, 2017.



OFS Capital Corporation and Subsidiaries

Notes to 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 and six months ended June 30, 2018 and 2017:

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Per share data:				
Net asset value per share at beginning of period	\$ 13.67	\$ 14.98	\$ 14.12	\$ 14.82
Distributions <sup>(4)</sup>	(0.34 )	(0.34 )	(1.05 )	(0.68 )
Net investment income	0.34	0.33	0.63	0.67
Net realized gain (loss) on non-control/non-affiliate investments	(0.41 )	0.01	(0.37 )	0.01
Net realized gain (loss) on affiliate investments	(0.26 )	0.07	(0.30 )	0.08
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments	0.41	(0.42 )	0.29	(0.75 )
Net unrealized appreciation (depreciation) on affiliate investments	0.29	(0.26 )	0.38	0.06
Net unrealized appreciation on control investment	—	0.09	—	0.16
Issuance of common stock	—	(0.06 )		(0.03 )
Other		—		0.06
Net asset value per share at end of period	\$ 13.70	\$ 14.40	\$ 13.70	\$ 14.40
Per share market value, end of period				
Per share market value, end of period	\$ 11.46	\$ 14.31	\$ 11.46	\$ 14.31
Total return based on market value <sup>(1)</sup>	5.2 %	3.3 %	5.3 %	9.0 %
Total return based on net asset value <sup>(2)</sup>	2.7 %	(1.6 )%	4.4 %	1.6 %
Shares outstanding at end of period	13,350,458	13,331,655	13,350,458	13,331,655
Weighted average shares outstanding	13,348,793	13,197,759	13,344,670	11,458,706
Ratio/Supplemental Data (in thousands except ratios)				
Average net asset value <sup>(3)</sup>	\$ 182,691	\$ 168,692	\$ 184,573	\$ 160,387
Net asset value at end of period	\$ 182,929	\$ 191,996	\$ 182,929	\$ 191,996
Net investment income	\$ 4,558	\$ 4,316	\$ 8,374	\$ 7,656
Ratio of total expenses to average net assets <sup>(5) (7)</sup>	12.5 %	8.7 %	11.8 %	10.6 %
Ratio of net investment income to average net assets <sup>(5) (8)</sup>	10.0 %	9.0 %	9.2 %	8.0 %
Portfolio turnover <sup>(6)</sup>	5.9 %	19.5 %	19.0 %	19.4 %

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

(2) Calculation is ending net asset value less beginning net asset value, adjusting for distributions reinvested at the Company's quarter-end net asset value 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) The components of the distributions are presented on an income tax basis. 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.

(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 11.8% for the six months ended June 30, 2018.

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## OFS Capital Corporation and Subsidiaries

## Notes to Financial Statements

(Dollar amounts in thousands, except per share data)

(8) Ratio of net investment income before incentive fee waiver to average net assets was 9.2% for the six months ended June 30, 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 net realized capital gains, net of taxes if any, at least annually, out of assets legally available for such distributions, the Company may also retain such capital gains for investment, through a deemed distribution.

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. Consolidated cash and cash equivalents at June 30, 2018, includes \$20,564 held by SBIC I LP, which was not available for distribution to the Company.

The following table summarizes distributions declared and paid for the three and six months ended June 30, 2018 and 2017:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Six Months Ended June 30, 2017						
March 9, 2017	March 17, 2017	March 31, 2017	\$ 0.34	\$ 3,257	2,919	\$ 41
May 2, 2017	June 16, 2017	June 30, 2017	0.34	4,483	3,439	49
			\$ 0.68	\$ 7,740	\$6,358	\$ 90
Six Months Ended June 30, 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
May 1, 2018	June 22, 2018	June 29, 2018	0.34	4,518	1,684	20
			\$ 1.05	\$ 13,894	\$10,241	