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OFS Capital Corp
Form 10-Q
May 04, 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 March 31, 2018

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

COMMISSION FILE NUMBER: 814-00813

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer

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

Emerging growth company

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

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

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of May 1, 2018 was 13,348,774.

OFS CAPITAL CORPORATION

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Defined Terms

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

1940 Act	Investment Company Act of 1940, as amended
Administration Agreement	Administration agreement between the Company and OFS Services dated November 7, 2012
Annual Distribution Requirement	Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI
ASU	Accounting Standards Updates, as issued by the FASB
BDC	Business Development Company under the 1940 Act
BLA	Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility
Board	The Company's board of directors
Code	Internal Revenue Code of 1986, as amended
DRIP	Distribution reinvestment plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
HPCI	Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to the Company for whom OFS Advisor serves as investment adviser
ICTI	Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses
Investment Advisory Agreement	Investment advisory agreement between the Company and OFS Advisor dated November 7, 2012
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
OFS Advisor	OFS Capital Management, LLC, a wholly-owned subsidiary of OFSAM and registered investment advisor under the 1940 Act
OFS Capital WM	OFS Capital WM, LLC, a wholly-owned investment company subsidiary
OFS Services	OFS Capital Services, LLC, a wholly-owned subsidiary of OFSAM and affiliate of OFS Advisor
OFSAM	Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. corporations
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
SBIC	A fund licensed under the SBA small business investment company program
SBIC Acquisition	The Company's acquisition of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC on December 4, 2013
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

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.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OFS Capital Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Investments, at fair value:		
Non-control/non-affiliate investments (amortized cost of \$215,488 and \$209,360, respectively)	\$ 201,947	\$ 197,374
Affiliate investments (amortized cost of \$122,443 and \$70,402, respectively)	122,843	69,557
Control investments (amortized cost of \$10,244 and \$10,213, respectively)	10,674	10,568
Total investments at fair value (amortized cost of \$348,175 and \$289,975, respectively)	335,464	277,499
Cash and cash equivalents	31,926	72,952
Interest receivable	2,915	2,734
Prepaid expenses and other assets	4,396	4,593
Total assets	\$ 374,701	\$ 357,778
Liabilities		
Revolving line of credit	\$ 40,950	\$ 17,600
SBA debentures (net of deferred debt issuance costs of \$2,564 and \$2,657, respectively)	147,316	147,223
Interest payable	410	1,596
Management and incentive fees payable	2,075	1,987
Administration fee payable	749	476
Accrued professional fees	598	433
Other liabilities	150	127
Total liabilities	192,248	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 March 31, 2018, and December 31, 2017, respectively	\$ —	\$ —
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,348,774 and 13,340,217 shares issued and outstanding as of March 31, 2018, and December 31, 2017, respectively	133	133
Paid-in capital in excess of par	187,512	187,398
Accumulated undistributed net investment income	7,273	9,404
Accumulated undistributed net realized gain	258	3,881
Net unrealized depreciation on investments	(12,723)	(12,480)
Total net assets	182,453	188,336
Total liabilities and net assets	\$ 374,701	\$ 357,778
Number of shares outstanding	13,348,774	13,340,217
Net asset value per share	\$ 13.67	\$ 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 March 31,	
	2018	2017
Investment income		
Interest income:		
Non-control/non-affiliate investments	\$5,758	\$ 4,612
Affiliate investments	2,085	1,831
Control investment	239	524
Total interest income	8,082	6,967
Payment-in-kind interest and dividend income:		
Non-control/non-affiliate investments	224	307
Affiliate investments	461	352
Control investment	27	38
Total payment-in-kind interest and dividend income	712	697
Dividend income:		
Non-control/non-affiliate investments	—	5
Affiliate investments	130	85
Control investments	33	33
Total dividend income	163	123
Fee income:		
Non-control/non-affiliate investments	26	156
Affiliate investments	2	58
Control investments	18	33
Total fee income	46	247
Total investment income	9,003	8,034
Expenses		
Interest expense	1,634	1,387
Management fee	1,360	1,192
Incentive fee	736	1,181
Professional fee	201	263
Administration fee	583	401
Other expenses	695	270
Total expenses before incentive fee waiver	5,209	4,694
Incentive fee waiver (see Note 3)	(22)	—
Total expenses, net of incentive fee waiver	5,187	4,694
Net investment income	3,816	3,340
Net realized and unrealized gain (loss) on investments		
Net realized gain on non-control/non-affiliate investments	461	—
Net realized loss on affiliate investments	(541)	—
Net unrealized depreciation on non-control/non-affiliate investments	(1,563)	(3,041)
Net unrealized appreciation on affiliate investments	1,245	4,024
Net unrealized appreciation on control investment	75	543
Net gain (loss) on investments	(323)	1,526
Net increase in net assets resulting from operations	\$3,493	\$ 4,866

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Net investment income per common share – basic and diluted	\$0.29	\$ 0.34
Net increase in net assets resulting from operations per common share – basic and diluted	\$0.26	\$ 0.50
Distributions declared per common share	\$0.71	\$ 0.34
Basic and diluted weighted average shares outstanding	13,340,502	17,003,329

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)

	Three Months Ended March 31,	
	2018	2017
Increase in net assets resulting from operations:		
Net investment income	\$3,816	\$3,340
Net realized loss on investments	(80)) —
Net unrealized appreciation (depreciation) on investments	(243)) 1,526
Net increase in net assets resulting from operations	3,493	4,866
Distributions to stockholders from:		
Accumulated net investment income	(4,536)) (3,298)
Accumulated net realized gain	(4,936)) —
Total distributions to stockholders	(9,472)) (3,298)
Common stock transactions:		
Reinvestment of stockholder distributions	96	41
Net increase in net assets resulting from capital transactions	96	41
Net increase (decrease) in net assets	(5,883)) 1,609
Net assets:		
Beginning of period	188,336	143,778
End of period	\$182,453	\$145,387
Accumulated undistributed net investment income	\$7,273	\$6,786
Common stock activity:		
Common stock issued from reinvestment of stockholder distributions	8,557	2,919
Common stock issued and outstanding at beginning of period	13,340,217	9,700,297
Common stock issued and outstanding at end of period	13,348,774	9,703,216

See Notes to Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$3,493	\$4,866
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized loss on investments	80	—
Net unrealized (appreciation) depreciation on investments	243	(1,526)
Amortization of Net Loan Fees	(275)	(341)
Payment-in-kind interest and dividend income	(712)	(697)
Amortization of deferred debt issuance costs	144	130
Amortization of intangible asset	49	49
Purchase and origination of portfolio investments	(98,208)	(3,139)
Proceeds from principal payments on portfolio investments	13,025	31,972
Proceeds from sale or redemption of portfolio investments	28,203	—
Changes in operating assets and liabilities:		
Interest receivable	(181)	706
Interest payable	(1,186)	(1,189)
Management and incentive fees payable	88	255
Administration fee payable	273	152
Other assets and liabilities	137	(43)
Net cash provided by (used in) operating activities	(54,827)	31,195
Cash flows from financing activities		
Distributions paid to stockholders	(9,376)	(3,257)
Borrowings under revolving line of credit	46,250	5,000
Repayments under revolving line of credit	(22,900)	(6,500)
Payment of debt issuance costs	(173)	—
Payment of common stock offering costs	—	(10)
Net cash provided by (used in) financing activities	13,801	(4,767)
Net increase (decrease) in cash and cash equivalents	(41,026)	26,428
Cash and cash equivalents — beginning of period	72,952	17,659
Cash and cash equivalents — end of period	\$31,926	\$44,087
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$2,676	\$2,446
Distributions paid by issuance of common stock	96	41
Accrued common stock offering costs	—	165

See Notes to Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments

March 31, 2018

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Non-control/Non-affiliate Investments								
Aegis Acquisition, Inc.	Testing Laboratories	10.79%	(L +8.50%)	8/24/2021	\$ 3,520	\$ 3,473	\$3,364	1.9 %
Armor Holdings II LLC	Other Professional, Scientific, and Technical Services	11.31%	(L +9.00%)	12/26/2020	3,500	3,478	3,570	2.0
Baymark Health Services, Inc.	Outpatient Mental Health & Sub. Abuse Centers	10.27%	(L +8.25%)	3/1/2025	4,000	3,960	3,960	2.2
Carolina Lubes, Inc. (4) (8)	Automotive Oil Change and Lubrication Shops	9.62%	(L +7.93%)	8/23/2022	21,267	21,103	21,574	11.8
Senior Secured Loan (Revolver)		8.94%	(L +7.25%)	8/23/2022	1,849	1,836	1,849	1.0
Preferred Equity (811 units) 14% PIK						2,612	2,638	1.4
					23,116	25,551	26,061	14.2
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services	10.94%	(L +8.25%)	10/19/2022	7,782	7,706	7,706	4.2
Senior Secured Loan (Revolver)		10.94%	(L +8.25%)	10/19/2022	486	486	486	0.3
					8,268	8,192	8,192	4.5
Community Intervention Services, Inc. (4)	Outpatient Mental Health and Substance Abuse Centers		N/A	1/16/2021	8,658	7,639	—	—

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Subordinated Loan (6) (10)
(11)

7.0%
cash /
6.0% PIK

Confie Seguros Holdings II Insurance
Co. Agencies and
Brokerages

Senior Secured Loan 11.48% (L +9.50%) 5/8/2019 9,678 9,597 9,474 5.2

Constellis Holdings, LLC Other Justice,
Public Order, and
Safety Activities

Senior Secured Loan 11.30% (L +9.00%) 4/21/2025 9,950 9,818 10,059 5.5

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2018

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Eblens Holdings, Inc.	Shoe Store	12.0%						
Subordinated Loan (11)		cash / 1.0% PIK	N/A	1/13/2023	\$ 8,852	\$ 8,775	\$ 8,717	4.8 %
Common equity (71,250 Class A units) (10)						713	768	0.4
					8,852	9,488	9,485	5.2
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing							
Senior Secured Loan		9.05%	(L +6.75%)	8/27/2018	3,834	3,827	3,550	1.9
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing							
Senior Secured Loan		10.76%	(L +8.75%)	9/8/2024	5,000	4,880	4,966	2.7
Common Equity (368,852 Class A units) (10)						450	434	0.2
Common Equity (40,984 Class B units) (10)						50	66	—
					5,000	5,380	5,466	2.9
LRI Holding, LLC (4)	Electrical Contractors and Other Wiring Installation Contractors							
Senior Secured Loan		11.56%	(L +9.25%)	6/30/2022	18,038	17,903	17,828	9.8
Preferred Equity (238,095 Series B units) (10)						300	300	0.2
					18,038	18,203	18,128	10.0
Maverick Healthcare Equity, LLC (4)	Home Health Equipment Rental							
Preferred Equity (1,250,000 units) (10)						900	109	0.1
Common Equity (1,250,000 Class A						—	—	—

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units) (10)					900	109	0.1
My Alarm Center, LLC (4)	Security Systems Services (except Locksmiths)						
Preferred Equity (1,485 Class A units), 8% PIK (10) (13)					1,571	1,571	0.9
Preferred Equity (1,198 Class B units) (10) (13)					1,198	826	0.5
Common Equity (64,149 units) (10) (13)					—	—	—
					2,769	2,397	1.4
Online Tech Stores, LLC (4)	Stationary & Office Supply Merchant Wholesaler						
Subordinated Loan		10.50% cash / 1.0% PIK	N/A	8/1/2023	16,025	15,715	15,715 8.6
O2 Holdings, LLC (4)	Fitness and Recreational Sports Centers						
Senior Secured Loan		14.88%	(L +13.00%)	9/2/2021	13,850	13,493	14,027 7.7

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2018

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores	11.06%	(L +8.75%)	6/30/2025	\$ 3,520	\$ 3,493	\$3,516	1.9 %
Senior Secured Loan								
Planet Fitness Midwest LLC (4)	Fitness and Recreational Sports Centers	13.00%	N/A	12/16/2021	5,000	4,966	4,994	2.7
Subordinated Loan								
PM Acquisition LLC	All Other General Merchandise Stores	11.50%						
Senior Secured Loan		cash / 1.0% PIK	N/A	10/29/2021	5,556	5,489	5,383	3.0
Common equity (499 units) (10) (13)						499	393	0.2
					5,556	5,988	5,776	3.2
Resource Label Group, LLC	Commercial Printing (except Screen and Books)	10.80%	(L +8.50%)	11/26/2023	4,821	4,758	4,748	2.6
Senior Secured Loan								
RPLF Holdings, LLC Common Equity (254,110 Class A units) (10) (13)	Software Publishers					254	254	0.1
Security Alarm Financing Enterprises, L.P. (4)	Security Systems Services (except Locksmiths)	15.31%						
Subordinated Loan (14)		cash / 0.69% PIK	(L +13.00%)	6/19/2020	12,547	12,471	12,499	6.9
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services	13.38%	(L +11.50%)	7/24/2020	8,880	8,800	8,800	4.8
Senior Secured Loan (15)								

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Preferred Equity (5,000 Series C units), 8% PIK (10) (13)					537	574	0.3
					8,880	9,337	9,374 5.1
Southern Technical Institute, LLC (4)	Colleges, Universities, and Professional Schools						
Subordinated Loan (6)(10)		15.00% PIK	N/A	12/2/2020	3,790	3,451	— —
Preferred Equity (1,764,720 Class SP-1 units), 15.75% PIK (8) (10)						2,094	— —
Warrants (2,174,905 Class A units) (10)				3/30/2026 (12)		46	— —
					3,790	5,591	— —

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2018

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Stancor, L.P. (4)	Pump and Pumping Equipment Manufacturing	9.88%	(L +8.00%)	8/19/2019	\$ 11,652	\$ 11,633	\$ 11,640	6.4 %
Senior Secured Loan								
Preferred Equity (1,250,000 Class A units), 8% PIK (7) (10)						1,501	1,461	0.8
					11,652	13,134	13,101	7.2
The Escape Game, LLC (4)	Other amusement and recreation industries							
Senior Secured Loan		11.14%	(L +8.75%)	12/22/2022	7,000	6,950	6,918	3.8
Truck Hero, Inc.	Truck Trailer Manufacturing							
Senior Secured Loan		10.47%	(L +8.25%)	4/21/2025	7,014	6,972	7,083	3.9
United Biologics Holdings, LLC (4)	Medical Laboratories							
Preferred Equity (151,787 units) (10)						9	20	—
Warrants (29,374 units) (10)				03/05/2022 (12)		82	107	0.1
						91	127	0.1
Total Non-control/Non-affiliate Investments					206,069	215,488	201,947	110.8
Affiliate Investments								
3rd Rock Gaming Holdings, LLC	Software Publishers							
Senior Secured Loan		9.59%	(L +7.50%)	3/12/2023	22,000	21,673	21,673	11.9 %
Preferred Equity (2,547,250 units), 10% PIK						2,560	2,560	1.4 %
					22,000	24,233	24,233	13.3 %

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All Metals Holding, LLC (4)	Metal Service Centers and Other Metal Merchant Wholesalers	12.0% cash / 1.0% PIK	N/A	12/28/2021	19,352	18,807	19,059	10.4
Senior Secured Loan								
Common Equity (797,443 units) (10)						523	2,129	1.2
					19,352	19,330	21,188	11.6
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing							
Subordinated Loan		12.00%	N/A	2/5/2021	8,000	7,986	8,000	4.4
Preferred Equity (3,061 Series A shares), 10% PIK						4,490	6,107	3.3
Common Equity (11,273 shares) (10)						104	1,268	0.7
					8,000	12,580	15,375	8.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2018

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
DRS IMAGING SERVICES, LLC (4)	Data Processing, Hosting, and Related Services	12.55%	(L +10.50%)	3/8/2023	\$ 5,446	\$ 5,343	\$5,343	2.9 %
Senior Secured Loan (9)						454	454	0.2
Common Equity (453 units) (10)					5,446	5,797	5,797	3.1
Jobson Healthcare Information, LLC (4) (9)	Other Professional, Scientific, and Technical Services	10.13% cash / 5.55% PIK	(L +8.13%)	7/21/2019	15,660	15,452	13,403	7.3
Senior Secured Loan (11)						—	—	—
Common Equity (13 member units) (10)					15,660	15,452	13,403	7.3
Master Cutlery, LLC (4)	Sporting and Recreational Goods and Supplies Merchant Wholesalers	13.00%	N/A	4/17/2020	4,819	4,762	2,559	1.4
Subordinated Loan (11)						3,483	—	—
Preferred Equity (3,723 Series A units), 8% PIK (7) (10)						—	—	—
Common Equity (15,564 units) (10)					4,819	8,245	2,559	1.4
NeoSystems Corp. (4)	Other Accounting Services	10.50% cash / 1.25% PIK	N/A	8/13/2019	2,149	2,144	2,149	1.2
Subordinated Loan						1,426	2,250	1.2
Preferred Equity (521,962 convertible shares),								

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10% PIK

					2,149	3,570	4,399	2.4
Pfanstiehl Holdings, Inc. (4)	Pharmaceutical Preparation Manufacturing							
Subordinated Loan Common Equity (400 Class A shares)		10.50%	N/A	9/29/2022	3,788	3,820	3,820	2.1
						217	5,270	2.9
					3,788	4,037	9,090	5.0
Professional Pipe Holdings, LLC	Plumbing, Heating, and Air-Conditioning Contractors							
Senior Secured Loan Common Equity (1,414 Class A units) (10)		12.11%	(L +10.25%)	3/23/2023	8,486	8,317	8,317	4.6
						1,414	1,414	0.8
					8,486	9,731	9,731	5.4

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2018

(Dollar amounts in thousands)

Portfolio Company(1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
TRIS Services, LLC (4)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	10.63%	(L +8.75%)	12/10/2019	\$ 15,222	\$ 15,106	\$ 15,028	8.2 %
Senior Secured Loan		cash / 1.00% PIK						
Preferred Equity (329,266 Class AA units), 15% PIK (10)						416	425	0.2
Preferred Equity (3,000,000 Class A units), 11% PIK (7)						3,374	1,615	0.9
Common Equity (3,000,000 units) (10)						572	—	—
Total Affiliate Investments Control Investments					15,222	19,468	17,068	9.3
					104,922	122,443	122,843	67.2
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing							
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)		13.38%	(L +11.50%)	11/25/2020	7,213	7,175	7,218	4.0
Common Equity (554 shares)						3,069	3,456	1.9
					7,213	10,244	10,674	5.9
					7,213	10,244	10,674	5.9

Total Control
Investment

Total Investments \$318,204 \$348,175 \$335,464 183.9%

- (1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Approximately 6% of the Company's LIBOR referenced investments are subject to a reference rate floor at March 31, 2018, with 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 March 31, 2018.
- (2) Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.
- (3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.
- (4) Investments (or portion thereof) held by OFS SBIC I, LP. All other investments pledged as collateral under the PWB Credit Facility.
- (5) Reserved.
- (6) Investment was on non-accrual status as of March 31, 2018, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2, Non-accrual loans for further details.
- (7) The fair value of the accrued PIK dividend at March 31, 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 9.62% at March 31, 2018, includes additional interest of 0.68% per annum as specified under the contractual arrangement among the Company and the co lenders.
- (8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 12.55% at March 31, 2018, includes additional interest of 2.5% per annum as specified under the contractual arrangement among the Company and the co lenders.
- (9)
- (10) Non-income producing.

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued

March 31, 2018

(Dollar amounts in thousands)

(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of March 31, 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%	13.0% or 12.0%	1.00 %
Jobson Healthcare Information, LLC	Senior Secured Loan	1.5% or 5.55%	14.18% or 10.13%	5.55 %
Master Cultery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00 %

(12) Represents expiration date of the warrants.

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

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

(15) Maximum interest rate allowed 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)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Aegis Acquisition, Inc.	Testing Laboratories							
Senior Secured Loan		10.17%	(L +8.50%)	8/24/2021	\$ 3,520	\$ 3,470	\$3,439	1.8 %
Armor Holdings II LLC	Other Professional, Scientific, and Technical Services							
Senior Secured Loan		10.70%	(L +9.00%)	12/26/2020	3,500	3,476	3,570	1.9
Avison Young Canada, Inc.	Offices of Real Estate Agents and Brokers							
Senior Secured Loan (5) (6)		9.50%	N/A	12/15/2021	4,000	3,939	4,070	2.3
BJ's Wholesale Club, Inc.	Warehouse Clubs and Supercenters							
Senior Secured Loan		8.95%	(L +7.50%)	2/3/2025	9,268	9,158	9,063	4.8
Carolina Lubes, Inc. (5) (9)	Automotive Oil Change and Lubrication Shops							
Senior Secured Loan		9.28%	(L +7.25%)	8/23/2022	21,411	21,236	21,430	11.4
Senior Secured Loan (Revolver)		8.59%	(L +7.25%)	8/23/2022	487	473	489	0.3
Preferred Equity (973 units) 14% PIK						3,039	3,065	1.6
					21,898	24,748	24,984	13.3
Community Intervention Services, Inc. (5)	Outpatient Mental Health and Substance Abuse Centers							
Subordinated Loan (7) (11)		7.0% cash / 6.0% PIK	N/A	1/16/2021	8,530	7,639	—	—
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages							

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Senior Secured Loan	10.98%	(L +9.50%)	5/8/2019	9,678	9,579	9,417	5.0
Constellis Holdings, LLC							
Senior Secured Loan	10.69%	(L +9.00%)	4/21/2025	9,950	9,813	9,919	5.3
DuPage Medical Group							
Senior Secured Loan	8.42%	(L +7.00%)	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)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Eblens Holdings, Inc.	Shoe Store	12.0%						
Subordinated Loan		cash / 1.00%	N/A	1/13/2023	\$ 8,830	\$ 8,749	\$ 8,726	4.6 %
Common Equity (71,250 Class A units)		PIK				713	771	0.4
					8,830	9,462	9,497	5.0
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing							
Senior Secured Loan		8.44%	(L +6.75%)	8/27/2018	3,888	3,873	3,544	1.9
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing							
Senior Secured Loan		10.23%	(L +8.75%)	9/8/2024	5,000	4,875	4,875	2.6
Common Equity (368,852 Class A units)						450	450	0.2
Common Equity (40,984 Class B units)						50	50	—
					5,000	5,375	5,375	2.8
LRI Holding, LLC (5)	Electrical Contractors and Other Wiring Installation Contractors							
Senior Secured Loan		10.94%	(L +9.25%)	6/30/2022	18,269	18,125	18,205	9.7
Preferred Equity (238,095 Series B units)						300	300	0.2
					18,269	18,425	18,505	9.9
Maverick Healthcare Equity, LLC (5)	Home Health Equipment Rental							
Preferred Equity (1,250,000 units) (10)						900	141	0.1
Common Equity (1,250,000 Class A						—	—	—

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units) (10)						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)						1,540	1,540	0.8
Preferred Equity (1,198 Class B units)						1,198	1,198	0.6
Common Equity (64,149 units) (13)						—	43	—
						2,738	2,781	1.4
NVA Holdings, Inc.	Veterinary Services							
Senior Secured Loan		8.69%	(L +7.00%)	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%)	9/2/2021	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)	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%)	6/30/2025	\$ 3,520	\$ 3,492	\$3,472	1.8 %
Planet Fitness Midwest LLC (5)	Fitness and Recreational Sports Centers	13.00%	N/A	12/16/2021	5,000	4,964	5,011	2.7
PM Acquisition LLC	All Other General Merchandise Stores	11.50%	N/A	10/29/2021	6,187	6,108	6,059	3.2
Senior Secured Loan		cash / 1.00% PIK						
Common equity (499 units) (10)					6,187	499	278	0.1
Resource Label Group, LLC	Commercial Printing (except Screen and Books)					6,607	6,337	3.3
Senior Secured Loan		10.19%	(L +8.50%)	11/26/2023	4,821	4,755	4,767	2.5
Security Alarm Financing Enterprises, L.P. (5)	Security Systems Services (except Locksmiths)	14.00%	(L +13.00%)	6/19/2020	12,525	12,441	12,364	6.6
Subordinated Loan (14)		cash / 0.69% PIK						
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services	13.07%	(L +11.50%)	7/24/2019	4,195	4,156	4,259	2.3
Preferred Equity (5,000 Series C units), 8% PIK (10) (13)						527	527	0.3

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					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	12/2/2020	3,520	3,451	1,201	0.6
Preferred Equity (1,764,720 Class SP-1 units), 15.75% PIK (8) (10)						2,094	—	—
Warrants (2,174,905 Class A units) (10)				3/30/2026		46	—	—
					3,520	5,591	1,201	0.6

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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)	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%)	8/19/2019	\$ 7,919	\$ 7,896	\$ 7,919	4.2 %
Senior Secured Loan								
Preferred Equity (1,250,000 Class A units), 8% PIK (8) (10)						1,501	1,486	0.8
					7,919	9,397	9,405	5.0
The Escape Game, LLC (5)	Other amusement and recreation industries							
Senior Secured Loan		10.32%	(L +8.75%)	12/20/2022	7,000	6,948	6,948	3.7
TravelCLICK, Inc.	Computer Systems Design and Related Services							
Senior Secured Loan		9.32%	(L +7.75%)	11/6/2021	7,334	7,303	7,334	3.9
Truck Hero, Inc.	Truck Trailer Manufacturing							
Senior Secured Loan		9.89%	(L +8.25%)	4/21/2025	7,014	6,971	7,064	3.8
United Biologics Holdings, LLC (5)	Medical Laboratories							
Senior Secured Loan (11)		12.00% cash / 2.00% PIK	N/A	4/30/2018	4,266	4,248	4,266	2.3
Subordinated Loan (10)		8.00 % PIK	N/A	4/30/2019	7	7	7	—
Preferred Equity (151,787 units) (10)						9	92	—
Warrants (29,374 units) (10)				3/5/2022		82	147	0.1
					4,273	4,346	4,512	2.4

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Total									
Non-control/Non-affiliate					199,332	209,360	197,374	104.9	
Investments									
Affiliate Investments									
All Metals Holding, LLC	Metal Service								
(5)	Centers and Other								
	Metal Merchant								
	Wholesalers								
		12.00%							
Senior Secured Loan		cash /	N/A	12/28/2021	12,869	12,288	12,759	6.8	
		1.00%							
		PIK							
Common Equity (637,954						565	1,785	0.9	
units) (10)					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)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Contract DataScan Holdings, Inc. (5)	Office Machinery and Equipment Rental and Leasing	12.00%	N/A	2/5/2021	\$ 8,000	\$ 7,985	\$ 8,000	4.2 %
Subordinated Loan Preferred Equity (3,061 Series A shares), 10% PIK (10)						4,347	5,964	3.2
Common Equity (11,273 shares) (10)						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%	(L +13.43%)	7/21/2019	15,447	15,241	12,910	6.9
Senior Secured Loan (11)		cash / 5.30% PIK						
Common Equity (13 member units)						—	—	—
Warrants (1 member unit) (10)				7/21/2019		454	—	—
					15,447	15,695	12,910	6.9
Master Cutlery, LLC (5)	Sporting and Recreational Goods and Supplies Merchant Wholesalers	13.00%	N/A	4/17/2020	4,705	4,692	2,873	1.5
Subordinated Loan Preferred Equity (3,723 Series A units), 8% PIK (8) (10)						3,483	—	—
Common Equity (15,564 units) (10)						—	—	—
					4,705	8,175	2,873	1.5
NeoSystems Corp.(5)	Other Accounting Services	10.50%	N/A	8/13/2019	2,143	2,136	2,143	1.1
Subordinated Loan		cash / 1.25%						

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PIK

Preferred Equity (521,962 convertible shares), 10% PIK (10)						1,390	2,248	1.2
					2,143	3,526	4,391	2.3
Pfanstiehl Holdings, Inc. (5)	Pharmaceutical Preparation Manufacturing							
Subordinated Loan Common Equity (400 Class A shares)		10.50%	N/A	9/29/2021	3,788	3,823	3,755	2.0
						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)	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%)	12/10/2019	\$9,466	\$9,330	\$9,466	5.0 %
Senior Secured Loan								
Preferred Equity (329,266 Class AA units), 15% PIK (10)						401	409	0.2
Preferred Equity (3,000,000 Class A units), 11% PIK (8) (10)						3,374	2,230	1.2
Common Equity (3,000,000 units) (10)						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							
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)		13.07% cash / 1.50% PIK	(L +13.50%)	11/25/2020	7,186	7,144	7,118	3.8
Common Equity (554 shares)						3,069	3,450	1.8
					7,186	10,213	10,568	5.6
					7,186	10,213	10,568	5.6

Total Control
Investment

Total Investments \$262,936 \$289,975 \$277,499 147.3%

- (1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Approximately 7% of the Company's LIBOR referenced investments are subject to a reference rate floor at December 31, 2017, with a reference rate floor of 2.00%. For each investment,
- (2) 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.
- (3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 6 for further details.
- (4) The negative amount represents the excess of the par value of an unfunded commitment in excess of its fair value.
- (5) Investments (or portion thereof) held by OFS SBIC I, LP. All other investments pledged as collateral under the PWB Credit Facility.
- (6) 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.
- (7) 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 2, Non-accrual loans for further details.
- (8) The fair value of the most-recently recognized PIK dividend as of December 31, 2017, was \$0.
- (9) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The reported interest rate of 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.
- (10) 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 business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for income tax purposes, the Company has elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code").

The Company's 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 Capital Management, LLC ("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 Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to the Company ("HPCI"), a Maryland corporation and a BDC. HPCI's investment objective is similar to that of the Company.

The Company may make investments directly or through OFS SBIC I, LP ("SBIC I LP"), its investment company subsidiary licensed under the U.S. Small Business Administration's ("SBA") Small Business Investment Company ("SBIC") program. The SBIC Program is designed to stimulate the flow of capital into eligible businesses. SBIC I LP is subject to SBA regulatory requirements, including limitations on the businesses and industries in which it can invest, requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the Small Business Investment Act of 1958 ("SBIC Act"), limitations on the financing terms of investments, and capitalization thresholds that 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 Accounting Standards Codification ("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 generally accepted accounting principles in the United States of America ("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.

Principles of consolidation: The Company consolidates majority-owned, investment company subsidiaries and wholly-owned holding companies utilized to hold equity investments in portfolio companies taxed as pass-through entities to meet source-of-income requirements as a RIC. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation.

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.

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.

Revenue recognition:

Interest income: Interest income is recorded on an accrual basis and reported as interest receivable until collected.

Interest income is accrued daily based on the outstanding principal amount and the contractual terms of the debt investment. Certain of the Company's investments contain a payment-in-kind interest income provision ("PIK interest").

The PIK interest, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest income, as applicable, on the consolidated statements of operations. The

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(Dollar amounts in thousands, except per share data)

Company discontinues accrual of interest income, including PIK interest, when there is reasonable doubt that the interest income will be collected.

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

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

Dividend income: Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity investments is accrued daily based on the contractual terms of the preferred equity investment. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Non-cash dividends payable in additional preferred securities or contractually earned but not declared (“PIK dividends”) are recognized at fair value and recorded as an adjustment to the cost basis of the investment.

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

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

Non-accrual loans: When there is reasonable doubt that principal, cash interest, 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 amortization of Net Loan Fees, as applicable. When an investment is placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has been contractually added to the adjusted cost basis of the investment prior to the designation date, is reversed against current period interest income. Interest payments subsequently received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal and interest, and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal and interest. At March 31, 2018 and December 31, 2017, the Company had two loans (Community Intervention Services, Inc. and Southern Technical Institute, LLC) on non-accrual status with respect to all interest and Net Loan Fee amortization, with an aggregate

amortized cost and fair value of \$11,090 and \$0, and \$11,090 and \$1,201, respectively.

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 Financial Accounting Standards Board (the "FASB") issued Accounting Standards Updated ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity

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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 months ended March 31, 2018 that had or is expected to have a material impact to the Company's consolidated financial statements.

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

Standard	Description	Effect of Adoption on the financial statements
Standards that are not yet adopted		
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.	Annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's consolidated financial statements.
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 an investment advisory agreement between the Company and OFS Advisor ("Investment Advisory Agreement"). The Investment Advisory Agreement was most recently re-approved 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 is a subsidiary of Orchard First Source Asset Management, LLC ("OFSAM"), a full-service provider of capital and leveraged finance solutions to U.S. corporations, and is a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor's services under the Investment Advisory Agreement are not exclusive to 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 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

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(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 Company's acquisition of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC on December 4, 2013 ("SBIC Acquisition") from the base management fee calculation.

The base management fee is payable quarterly in arrears and was \$1,360 and \$1,192 for the three months ended March 31, 2018 and 2017.

The incentive fee has two parts. The first part ("Part One") is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (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 ("Part Two") of the incentive fee (the "Capital Gain Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), commencing on December 31, 2012, and equals 20.0% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the Capital Gain Fee; provided that the incentive fee determined as of December 31, 2012, was calculated

for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation for the period beginning on the date of the Company's election to be a BDC and ending December 31, 2012.

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

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On May 1, 2018, OFS Advisor agreed to irrevocably waive the receipt of \$22 in Part One 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 Part One incentive fee expense \$714 for the three months ended March 31, 2018, which is equal to the Part One incentive fee expense the Company incurred for the three months ended December 31, 2017. The voluntary fee waiver did not include Part Two incentive fees (based upon net realized and unrealized gains and losses, or capital gains), which was \$0 for the three months ended March 31, 2018. The Company incurred incentive fee expense of \$1,181 for the three months ended 2017, which included Part One incentive fees of \$898 and Part Two incentive fees \$283, respectively.

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 Capital Services, LLC ("OFS Services"), a wholly-owned subsidiary of OFSAM and affiliate of OFS Advisor, furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to an administration agreement ("Administration Agreement"). The Administration Agreement was most recently re-approved on April 5, 2018. 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 U.S. Securities and Exchange Commission ("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.

Administration fee expense was \$583 and \$401 for the three months ended March 31, 2018 and 2017, respectively.

Note 4. Investments

As of March 31, 2018, the Company had loans to 35 portfolio companies, of which 78% were senior secured loans and 22% were subordinated loans, at fair value, as well as equity investments in 19 of these portfolio companies. The Company also held an equity investment in four portfolio companies in which it did not hold a debt investment. At March 31, 2018, investments consisted of the following:

	Amortized Cost	Percentage of Net Assets	Fair Value	Percentage of Net Assets
Senior secured debt investments	\$ 234,353	128.5 %	\$ 233,324	127.9 %
Subordinated debt investments	78,904	43.2	65,671	36.0
Preferred equity	26,471	14.5	20,456	11.2
Common equity and warrants	8,447	4.6	16,013	8.8
Total	348,175	190.8 %	335,464	183.9 %

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. Immediately after the restructuring, and as of December 31, 2017, the Company owned approximately 12.6% of the common equity of Jobson. In February 2018, in connection with the restructuring, the Company sold its warrant investment ("Jobson Warrants"), on a pro-rata basis, to the other members of the lender group for a nominal amount. As of March 31, 2018, the Company realized \$454 of cumulative losses on the Jobson Warrants, which the Company recognized as unrealized losses as of December 31, 2017.

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At March 31, 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:

	Amortized Cost	Percentage of Total: Amortized Cost	Percentage of Total: Net Assets	Fair Value	Percentage of Total: Fair Value	Percentage of Total: Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	\$ 15,240	4.4%	8.4 %	\$ 14,896	4.4%	8.2 %
Temporary Help Services	8,192	2.4	4.5	8,192	2.4	4.5
Arts, Entertainment, and Recreation						
Fitness and Recreational Sports Centers	18,459	5.3	10.0	19,021	5.7	10.4
Other amusement and recreation industries	6,950	2.0	3.8	6,918	2.1	3.8
Construction						
Electrical Contractors and Other Wiring Installation Contractors	18,203	5.2	10.0	18,128	5.4	9.9
Plumbing, Heating, and Air-Conditioning Contractors	9,731	2.8	5.3	9,731	2.9	5.3
Education Services						
Colleges, Universities, and Professional Schools	5,591	1.6	3.1	—	—	—
Finance and Insurance						
Insurance Agencies and Brokerages	9,597	2.8	5.3	9,474	2.8	5.2
Health Care and Social Assistance						
Medical Laboratories	91	—	—	127	—	0.1
Outpatient Mental Health and Substance Abuse Centers	11,599	3.3	6.4	3,960	1.2	2.2
Information						
Data Processing, Hosting, and Related Services	5,797	1.7	3.2	5,797	1.7	3.2
Software Publishers	24,487	7.0	13.4	24,487	7.3	13.4
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,827	1.1	2.1	3,550	1.1	1.9
Commercial Printing (except Screen and Books)	4,758	1.4	2.6	4,748	1.4	2.6
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,380	1.5	2.9	5,466	1.6	3.0
Pharmaceutical Preparation Manufacturing	4,037	1.2	2.2	9,090	2.7	5.0
Pump and Pumping Equipment Manufacturing	13,134	3.8	7.2	13,101	3.9	7.2
Travel Trailer and Camper Manufacturing	10,244	2.9	5.6	10,674	3.3	5.9
Truck Trailer Manufacturing	6,972	2.0	3.8	7,083	2.1	3.9
Other Services (except Public Administration)						
Automotive Oil Change and Lubrication Shops	25,551	7.3	14.0	26,061	7.8	14.3
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,468	5.6	10.7	17,068	5.1	9.4
Professional, Scientific, and Technical Services						
Other Accounting Services	3,570	1.0	2.0	4,399	1.3	2.4
Other Professional, Scientific, and Technical Services	28,267	8.1	15.5	26,347	7.9	14.4
Testing Laboratories	3,473	1.0	1.9	3,364	1.0	1.8
Public Administration						

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Other Justice, Public Order, and Safety Activities	9,818	2.8	5.4	10,059	3.0	5.5
Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.3	0.5	109	—	0.1
Office Machinery and Equipment Rental and Leasing	12,580	3.6	6.9	15,375	4.6	8.4

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	Amortized Cost	Percentage of Total: Amortized Cost	Net Assets	Fair Value	Percentage of Total: Fair Value	Net Assets
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	3,493	1.0	1.9	3,516	1.0	1.9
Shoe store	9,488	2.7	5.2	9,485	2.8	5.2
All Other General Merchandise Stores	5,988	1.7	3.3	5,776	1.7	3.2
Wholesale Trade						
Metal Service Centers and Other Metal Merchant Wholesalers	19,330	5.6	10.6	21,188	6.3	11.6
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,245	2.4	4.5	2,559	0.8	1.4
Stationary & Office Supply Merchant Wholesaler	15,715	4.5	8.6	15,715	4.7	8.6
	\$348,175	100.0%	190.8%	\$335,464	100.0%	183.9%

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 interest.

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	\$ 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	\$ 289,975	154.0 %	\$ 277,499	147.3 %

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:

	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)	\$ 15,179	5.2%	8.1 %	\$ 15,145	5.5%	8.0 %
Arts, Entertainment, and Recreation						
Fitness and Recreational Sports Centers	17,941	6.2	9.5	18,628	6.7	9.9
Other Amusement and Recreation Industries	6,948	2.4	3.7	6,948	2.5	3.7
Construction						
Electrical Contractors and Other Wiring Installation Contractors	18,425	6.4	9.8	18,505	6.7	9.8
Education Services						

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Colleges, Universities, and Professional Schools	5,591	1.9	3.0	1,201	0.4	0.6
Finance and Insurance						
Insurance Agencies and Brokerages	9,579	3.3	5.1	9,417	3.4	5.0

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Offices of Real Estate Agents and Brokers	3,939	1.4	2.1	4,070	1.5	2.2
Health Care and Social Assistance						
Medical Laboratories	4,346	1.5	2.3	4,512	1.6	2.4
Offices of Physicians, Mental Health Specialists	5,547	1.9	2.9	5,503	2.0	2.9
Outpatient Mental Health and Substance Abuse Centers	7,639	2.6	4.1	—	—	—
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,873	1.3	2.1	3,544	1.3	1.9
Commercial Printing (except Screen and Books)	4,755	1.6	2.5	4,767	1.7	2.5
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,375	1.9	2.9	5,375	1.9	2.9
Pharmaceutical Preparation Manufacturing	4,040	1.4	2.1	8,510	3.1	4.5
Pump and Pumping Equipment Manufacturing	9,397	3.2	5.0	9,405	3.4	5.0
Travel Trailer and Camper Manufacturing	10,213	3.5	5.5	10,568	3.7	5.5
Truck Trailer Manufacturing	6,971	2.4	3.8	7,064	2.5	3.7
Other Services (except Public Administration)						
Automotive Oil Change and Lubrication Shops	24,748	8.5	13.1	24,984	9.0	13.3
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	13,677	4.8	7.3	12,105	4.4	6.4
Professional, Scientific, and Technical Services						
Computer Systems Design and Related Services	7,303	2.5	3.9	7,334	2.6	3.9
Other Accounting Services	3,526	1.2	1.9	4,391	1.6	2.3
Other Professional, Scientific, and Technical Services	23,854	8.2	12.7	21,266	7.7	11.3
Testing Laboratories	3,470	1.2	1.8	3,439	1.2	1.8
Veterinary Services	743	0.3	0.4	748	0.3	0.4
Public Administration						
Other Justice, Public Order, and Safety Activities	9,813	3.4	5.2	9,919	3.6	5.3
Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.3	0.5	141	0.1	0.1
Office Machinery and Equipment Rental and Leasing	12,436	4.3	6.6	14,224	5.1	7.6
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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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.

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.

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 months ended March 31, 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

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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.

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

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investment had previously been recorded. The Company's investments are subject to market risk. Market risk is the potential for changes in the value due to market changes. Market risk is directly impacted by the volatility and liquidity in the markets in which the investments are traded.

The following tables provide quantitative information about the Company's significant Level 3 fair value inputs to the Company's fair value measurements as of March 31, 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 March 31, 2018 (1)	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$ 163,635 13,403	Discounted cash flow Enterprise value	Discount rates EBITDA multiple	10.14% - 16.17% (13.09%) 7.50x - 7.50x (7.50x)
Subordinated	43,578 2,559	Discounted cash flow Enterprise value	Discount rates EBITDA multiple	12.08% - 17.02% (15.08%) 4.25x - 8.25x (6.75x)
Equity investments:				
Preferred equity	17,896	Enterprise value	EBITDA multiples	4.25x - 13.07x (7.79x)
Common equity and warrants	13,891	Enterprise value	EBITDA multiples	4.25x - 11.22x (6.48x)
(1) Excludes \$56,286, \$19,534, and \$4,682, of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at Transaction Prices.				
	Fair Value at December 31, 2017 (1)	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$ 152,231 12,910 9,063	Discounted cash flow Enterprise value Indicative Prices	Discount rates EBITDA multiples Broker-dealers' quotes	10.01% - 16.50% (12.24%) 7.50x - 7.50x (7.50x) N/A
Subordinated	47,117 4,074	Discounted cash flow Enterprise value	Discount rates EBITDA multiples	11.24% - 16.90% (14.69%) 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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The following tables present changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2018 and March 31, 2017.

	Three Months Ended March 31, 2018				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2018	\$ 195,112	\$ 51,198	\$ 19,200	\$ 11,989	\$ 277,499
Net realized gain (loss) on investments	401	—	60	(541)	(80)
Net unrealized appreciation (depreciation) on investments	(122)	(1,400)	(1,112)	2,398	(236)
Amortization of Net Loan Fees	245	30	—	—	275
Capitalized PIK interest and dividends	263	110	339	—	712
Purchase and origination of portfolio investments	72,350	20,930	2,547	2,381	98,208
Proceeds from principal payments on portfolio investments	(7,828)	(5,197)	—	—	(13,025)
Sale and redemption of portfolio investments	(27,097)	—	(578)	(214)	(27,889)
Level 3 assets, March 31, 2018	\$ 233,324	\$ 65,671	\$ 20,456	\$ 16,013	\$ 335,464
	Three Months Ended March 31, 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 unrealized appreciation (depreciation) on investments	(1,590)	(223)	2,989	350	1,526
Amortization of Net Loan Fees	348	(7)	—	—	341
Capitalized PIK interest, dividends, and fees	213	129	383	—	