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, 2015

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

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

(847) 734-2060
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (do not check if a smaller reporting company)	Smaller reporting company	☐

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

The number of shares of the issuer's Common Stock, $0.01 par value, outstanding as of May 4, 2015 was 9,662,940.

OFS CAPITAL CORPORATION

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Item 1. Unaudited Financial Statements

OFS Capital Corporation and Subsidiaries

Consolidated Balance Sheets (unaudited)
(Dollar amounts in thousands, except per share data)

	March 31, 2015	December 31, 2014
Assets		
Investments, at fair value		
Non-control/non-affiliate investments (cost of $258,984 and $258,004, respectively)	$ 255,295	$ 254,666
Affiliate investments (cost of $58,147 and $55,569, respectively)	60,889	57,568
Total investments at fair value	316,184	312,234
Cash and cash equivalents	21,297	12,447
Interest receivable	1,230	676
Receivable from investment sold	-	7,223
Prepaid expenses and other assets	525	556
Intangible asset, net of accumulated amortization of $258 and $209, respectively	2,242	2,291
Goodwill	1,077	1,077
Deferred financing closing costs, net of accumulated amortization of $2,658 and $2,540, respectively	4,754	4,972
Total assets	$ 347,309	$ 341,476
Liabilities		
Accrued professional fees	$ 434	$ 462
Interest payable	742	1,315
Management and incentive fees payable	2,049	1,229
Administration fee payable	541	273
Other payables	241	247
Deferred loan fee revenue	504	572
SBA debentures payable	140,880	127,295
Revolving line of credit	64,348	72,612
Total liabilities	209,739	204,005
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, 2015 and December 31, 2014	-	-
Common stock, par value of $0.01 per share, 100,000,000 shares authorized, 9,662,940 and 9,650,834 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	97	97
Paid-in capital in excess of par	143,529	143,381
Distributions in excess of net investment income	(8,286)	(7,844)
Accumulated net realized loss	(844)	(844)
Net unrealized appreciation on investments	3,074	2,681
Total net assets	137,570	137,471
Total liabilities and net assets	$ 347,309	$ 341,476
Number of shares outstanding	9,662,940	9,650,834
Net asset value per share	$ 14.24	$ 14.24

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Operations (unaudited)
(Dollar amounts in thousands, except per share data)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Investment income		
Interest income		
Non-control/non-affiliate investments	$ 5,815	$ 3,786
Affiliate investments	1,343	827
Control investment	-	302
Total interest income	7,158	4,915
Dividend and fee income		
Non-control/non-affiliate investments	185	8
Affiliate investments	278	64
Control investment	-	25
Total dividend and fee income	463	97
Total investment income	7,621	5,012
Expenses		
Interest expense	1,230	991
Amortization and write-off of deferred financing closing costs (see Note 7)	547	150
Amortization of intangible asset	49	63
Management fees	1,555	1,264
Incentive fee	375	-
Professional fees	315	454
Administration fee	541	475
General and administrative expenses	260	215
Total expenses	4,872	3,612
Net investment income	2,749	1,400
Net realized and unrealized gain (loss) on investments		
Net realized gain on non-control/non-affiliate investments	90	-
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(353)	926
Net change in unrealized appreciation/depreciation on affiliate investments	746	519
Net change in unrealized depreciation on control investment	-	(794)
Net realized and unrealized gain on investments	483	651
Net increase in net assets resulting from operations	$ 3,232	$ 2,051
Net investment income per common share - basic and diluted	$ 0.28	$ 0.15
Net increase in net assets resulting from operations per common share - basic and diluted	$ 0.33	$ 0.21
Dividends and distributions declared per common share	$ 0.34	$ 0.34
Basic and diluted weighted average shares outstanding	9,650,969	9,631,155

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets (unaudited)
(Dollar amounts in thousands, except per share data)

	Common Stock		Paid-in Capital in Excess of Par	Distributions in Excess of Net Investment Income	Accumulated Net Realized Gain (Loss)	Net Unrealized Appreciaton (Depreciation) on Investments	Total Net Assets
	Shares	Par					
Balance at January 1, 2014	9,629,797	$ 96	$ 143,126	$ (4,103)	$ 2,742	$ (1,483)	$ 140,378
Net increase in net assets resulting from operations	-	-	-	1,400	-	651	2,051
Stock issued in connection with dividend reinvestment plan	2,656	-	34	-	-	-	34
Dividends and distributions (1)	-	-	-	(3,274)	-	-	(3,274)
Balance at March 31, 2014	9,632,453	$ 96	143,160	(5,977)	2,742	(832)	139,189
Balance at January 1, 2015	9,650,834	$ 97	$ 143,381	$ (7,844)	$ (844)	$ 2,681	$ 137,471
Net increase in net assets resulting from operations	-	-	-	2,749	90	393	3,232
Stock issued in connection with dividend reinvestment plan	12,106	-	148	-	-	-	148
Dividends and distributions (1)	-	-	-	(3,191)	(90)	-	(3,281)
Balance at March 31, 2015	9,662,940	$ 97	$ 143,529	$ (8,286)	$ (844)	$ 3,074	$ 137,570

(1) If the tax characteristics of these distributions were determined as of March 31, 2015 and 2014, the Company estimated that approximately 81% and 19% of the distributions would have represented ordinary income and return of capital, respectively, as of March 31, 2015, and approximately 44% and 56% would have represented ordinary income and return of capital, respectively, as of March 31, 2014. See Note 9 - Financial Highlights for detailed disclosure of the tax characteristics of these distributions.

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)
(Dollar amounts in thousands)

	Three Months Ended March 31, 2015	2014
Cash Flows From Operating Activities		
Net increase in net assets resulting from operations	$ 3,232	$ 2,051
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Amortization and write-off of deferred financing closing costs	547	150
Amortization of discounts and premiums	(306)	(304)
Amortization of deferred loan fee revenue	(79)	(37)
Amortization of intangible assets	49	63
Cash collection of deferred loan fee revenue	12	151
Payment-in-kind interest and dividend income	(593)	(126)
Net realized gain on non-control/non-affiliate investments	(90)	-
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	353	(926)
Net change in unrealized appreciation/depreciation on affiliate investments	(746)	(519)
Net change in unrealized depreciation on control investment	-	794
Purchase of portfolio investments	(24,588)	(8,901)
Proceeds from principal payments on portfolio investments	10,986	19,899
Proceeds from sale of portfolio investments	18,257	4,493
Changes in operating assets and liabilities:		
Interest receivable	(554)	62
Prepaid expenses and other assets	35	8
Accrued professional fees	(28)	(37)
Due to/from affiliated entities, net	-	217
Interest payable	(573)	(189)
Management and incentive fees payable	820	179
Administration fee payable	268	195
Other payables	7	(43)
Net cash provided by operating activities	7,009	17,180
Cash Flows From Financing Activities		
Net repayment of advances from affiliated entities	-	(14)
Cash dividends and distributions paid	(3,133)	(3,240)
Borrowings under the revolving line of credit	1,200	6,900
Repayments under the revolving line of credit	(9,464)	(12,396)
Draw down on SBA debentures	13,585	-
Change in other liabilities	(14)	-
Deferred common stock offering costs paid	(4)	-
Deferred financing closing costs paid	(329)	-
Net cash provided by (used in) financing activities	1,841	(8,750)
Net increase in cash and cash equivalents	8,850	8,430
Cash and cash equivalents — beginning of period	12,447	28,569
Cash and cash equivalents — end of period	$ 21,297	$ 36,999
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	$ 1,803	$ 1,180
Supplemental Disclosure of Noncash Financing and Investing Activities:		
Dividends and distributions paid by issuance of common stock	148	34

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments (unaudited)
March 31, 2015
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Aerospace & Defense								
Aero-Metric, Inc. (4)	Senior Secured Term Loan	8.75%	(L +7.50%)	8/27/17	$ 2,628	$ 2,609	$ 2,579	1.9%
Whitcraft LLC (4)	Senior Secured Term Loan	6.50%	(L +5.00%)	12/16/15	3,700	3,690	3,638	2.6
					6,328	6,299	6,217	4.5
Banking, Finance, Insurance & Real Estate								
Accurate Group Holdings, Inc.	Subordinated Loan	12.50%	N/A	8/23/18	10,000	10,066	10,100	7.3
Captive Resources Midco LLC (4)	Senior Secured Term Loan	6.50%	(L +5.00%)	1/2/19	4,805	4,760	4,685	3.4
CSI Financial Services, LLC (4)(5)	Senior Secured Term Loan	7.00%	(L +5.75%)	12/12/18	3,166	3,135	3,132	2.3
H.D. Vest, Inc. (5)	Senior Secured Term Loan	9.25%	(L +8.25%)	3/17/21	6,000	5,940	5,940	4.3
MYI Acquiror Limited (4)(5)	Senior Secured Term Loan A	5.75%	(L +4.50%)	5/28/19	4,862	4,840	4,783	3.5
Townsend Acquisition LLC (4)	Senior Secured Term Loan	5.25%	(L +4.25%)	5/21/20	4,319	4,291	4,244	3.1
					33,152	33,032	32,884	23.9
Capital Equipment								
Dorner MFG, Corp. (4)	Senior Secured Term Loan	5.75%	(L +4.50%)	6/15/17	3,021	2,994	2,924	2.1
Elgin Fasteners Group (4)	Senior Secured Term Loan	6.00%	(L +4.75%)	8/26/16	4,647	4,608	4,573	3.3
Stancor, Inc.	Senior Secured Term Loan	8.75%	(L +8.00%)	8/19/19	13,500	13,396	13,290	9.7
	1,250,000 Class A Units in SCT Holdings, LLC					1,250	1,319	1.0
					13,500	14,646	14,609	10.7
					21,168	22,248	22,106	16.1
Chemicals, Plastics & Rubber								
Actagro, LLC (4)	Senior Secured Term Loan	5.50%	(L +4.25%)	12/30/16	3,201	3,184	3,134	2.3
Accella Holdings LLC (f/k/a Dash Materials LLC) (4)	Senior Secured Term Loan	5.25%	(L +4.25%)	4/30/19	3,387	3,377	3,353	2.4
ICM Products Inc (4)	Senior Secured Term Loan	5.50%	(L +4.50%)	3/31/19	2,041	2,020	1,920	1.4
Inhance Technologies Holdings LLC (4)	Senior Secured Term Loan A	5.50%	(L +4.50%)	2/7/18	2,340	2,328	2,236	1.6
KODA Distribution Group, Inc. (4)	Senior Secured Term Loan A	6.00%	(L +5.00%)	4/9/18	3,810	3,799	3,743	2.7
VanDeMark Chemical Inc. (4)	Senior Secured Term Loan	6.50%	(L +5.25%)	11/30/17	2,646	2,618	2,589	1.9
					17,425	17,326	16,975	12.3
Construction & Building								
Jameson LLC (4)	Senior Secured Term Loan	7.50%	(L +5.50%)	1/31/17	1,460	1,457	1,460	1.1
Nudo Products, Inc.	Subordinated Loan	12.00% cash / 2.5% PIK	N/A	1/29/20	11,111	11,024	11,111	8.1
					12,571	12,481	12,571	9.2
Consumer goods: Non-durable								
Phoenix Brands LLC (4)	Senior Secured Term Loan A	7.25%	(L +5.75%)	1/31/16	1,189	1,185	1,087	0.8
					1,189	1,185	1,087	0.8
Containers, Packaging & Glass								
Mold-Rite Plastics, LLC (4)	Senior Secured Term Loan	5.25%	(L +4.00%)	6/30/16	3,944	3,929	3,887	2.8
					3,944	3,929	3,887	2.8
Energy: Oil & Gas								
ANS Distributing, Inc. (4)	Senior Secured Term Loan	8.00%	(L +6.50%)	11/1/17	2,771	2,742	2,771	2.0
					2,771	2,742	2,771	2.0
Environmental Industries								
Apex Companies, LLC. (4)	Senior Secured Term Loan	5.50%	(L +4.50%)	3/28/19	3,666	3,650	3,448	2.5
JWC Environmental, LLC. (4)	Senior Secured Term Loan	6.00%	(L +4.50%)	8/3/16	3,851	3,841	3,789	2.9
					7,517	7,491	7,237	5.4

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments (unaudited) - Continued
March 31, 2015
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Healthcare & Pharmaceuticals								
Behavioral Health Group (4)	Senior Secured Term Loan A	5.75%	(L +4.50%)	8/18/16	4,541	4,528	4,454	3.2
Elements Behavioral Health, Inc. (4)	Senior Secured Term Loan A	5.75%	(L +4.75%)	2/11/19	4,665	4,640	4,665	3.4
HealthFusion, Inc.	Senior Secured Loan	13.00%	N/A	10/7/18	5,750	5,689	5,827	4.2
	Common Stock Warrants (1,646,666 shares)					-	522	0.4
					5,750	5,689	6,349	4.6
Intrafusion Holding Corp. (10)	Senior Secured Term Loan B	13.11%	(L +9.00%)	6/13/18	8,500	8,515	8,500	6.2
Maverick Healthcare Equity, LLC	Preferred Equity (1,250,000 units)					977	925	0.7
Maverick Healthcare Equity, LLC	Class A Common Equity (1,250,000 units)					-	-	-
Vention Medical, Inc. (f/k/a MedTech Group, Inc.) (4)	Senior Secured Term Loan	6.25%	(L +5.25%)	12/31/18	4,564	4,544	4,564	3.3
South Bay Mental Health Center, Inc.	Subordinated Loan	12.0% cash / 2.5% PIK	N/A	10/12/17	3,049	3,049	3,010	2.2
Strata Pathology Services, Inc. (4)(6)	Senior Secured Term Loan	11.75%	(P +8.50%)	6/30/16	4,037	3,988	713	0.5
United Biologics Holdings, LLC	Subordinated Loan	12.0% cash / 2.0% PIK	N/A	3/5/17	4,204	4,153	4,146	3.0
	Class A-1 Units (2,686 units) and Kicker Units (2,015 units)					9	17	-
	Class A-1 Warrants (2,272 units) and Kicker Warrants (1,704 units)					8	15	-
	Class A Warrants (10,160 units)					67	79	0.1
	Class B Warrants (15,238 units)					7	40	-
					4,204	4,244	4,297	3.1
					39,310	40,174	37,477	27.2
High Tech Industries								
B&B Electronics Manufacturing Company (4)	Senior Secured Term Loan A	6.50%	(L +5.00%)	4/4/15	2,394	2,394	2,331	1.7
OnePath Systems, LLC (4)	Senior Secured Term Loan	7.50%	(L +6.00%)	6/6/17	2,188	2,169	2,188	1.6
					4,582	4,563	4,519	3.3
Media: Advertising, Printing & Publishing								
Content Marketing, LLC (4)	Senior Secured Term Loan	7.50%	(L +6.25%)	12/21/17	2,937	2,913	2,916	2.1
Jobson Healthcare Information, LLC	Senior Secured Term Loan	10.13% cash / 2.795% PIK	(L +8.13%)	7/21/19	14,738	14,385	13,990	10.2
	Warrants (1,056,428 member units)					454	404	0.3
					14,738	14,839	14,394	10.5
Media Source (4)	Senior Secured Term Loan	5.25%	(L +4.25%)	7/16/19	2,380	2,359	2,329	1.7
					20,055	20,111	19,639	14.3
Media: Broadcasting & Subscription								
Campus Televideo, Inc. (4)	Senior Secured Term Loan	7.25%	(L +5.75%)	10/23/17	3,502	3,457	3,467	2.5
					3,502	3,457	3,467	2.5
Media: Diversified & Production								
A.C.T. Lighting, Inc.	Subordinated Loan	12.00% cash / 2.0% PIK	N/A	7/24/19	3,520	3,501	3,560	2.6
					3,520	3,501	3,560	2.6
Metals & Mining								
All Metals Holding, LLC	Senior Secured Term Loan	10.50%	N/A	12/31/19	14,000	13,775	13,957	10.1
	Common Equity (2.75% member interest)					97	209	0.2
					14,000	13,872	14,166	10.3

Consolidated Schedule of Investments (unaudited) - Continued
March 31, 2015
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Services: Business								
BCC Software, LLC	Senior Secured Revolver	N/A	(L +8.00%)	6/20/19	-	(14)	(33)(2)	-
BCC Software, LLC	Senior Secured Term Loan	9.00%	(L +8.00%)	6/20/19	6,869	6,782	6,663	4.8
Caddie Master Enterprises, Inc.	Senior Secured Term Loan	10.00%	(L +9.00%)	12/31/20	10,500	9,872	9,973	7.2
	Common Stock Warrants (78.97 shares)					550	537	0.4
					10,500	10,422	10,510	7.6
C7 Data Centers, Inc.	Senior Secured Term Loan	9.50%	(L +7.50%)	9/30/19	7,234	7,234	7,202	5.2
C7 Data Centers, Inc.	Senior Secured Line of Credit	9.50%	(L +7.50%)	9/30/19	500	500	497	0.4
Community Investors, Inc. (8)	Senior Secured Term Loan	11.82%	(L +7.25%)	9/30/19	8,500	8,424	8,467	6.2
	Subordinated Loan	10.00%	N/A	3/20/20	44	44	44	-
	Common Stock (560 shares)					1	1	-
	Preferred Stock A (59,258 shares)					61	170	0.1
	Preferred Stock A-1 (27,737 shares)					67	79	0.1
					8,544	8,597	8,761	6.4
Revspring Inc. (f/k/a Dantom Systems, Inc.) (4)	Senior Secured Term Loan	5.50%	(L +4.25%)	8/3/17	4,398	4,381	4,354	3.2
Riveron Consulting, LLC	Subordinated Loan	13.25%	N/A	3/25/20	10,000	9,900	9,900	7.2
Young Innovations, Inc. (4)	Senior Secured Term Loan A	5.25%	(L +4.25%)	1/30/19	2,574	2,550	2,530	1.8
					50,619	50,352	50,384	36.6
Services: Consumer								
smarTours, LLC	Senior Secured Loan	9.25%	N/A	10/11/18	3,905	3,846	3,861	2.8
	Preferred Equity A (500,000 units)					489	663	0.5
					3,905	4,335	4,524	3.3
Southern Technical Institute, LLC	Subordinated Loan	10.75%	(L +9.75%)	12/2/20	5,000	4,976	4,913	3.6
					8,905	9,311	9,437	6.9
Telecommunications								
Barcodes LLC (4)	Senior Secured Term Loan	6.00%	(L +5.00%)	12/9/19	2,798	2,776	2,767	2.0
NHR Holdings, LLC (4)	Senior Secured Term Loan A	5.50%	(L +4.25%)	11/30/18	2,072	2,053	2,058	1.5
NHR Holdings, LLC (4)	Senior Secured Term Loan B	5.50%	(L +4.25%)	11/30/18	2,100	2,081	2,086	1.5
					6,970	6,910	6,911	5.0
Total Non-control/Non-affiliate Investments					257,528	258,984	255,295	185.7

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments (unaudited) - Continued
March 31, 2015
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Affiliate Investments								
Aerospace & Defense								
Malabar International	Subordinated Loan	12.5% cash / 2.5% PIK	N/A	5/21/17	7,309	7,367	7,416	5.4
	Preferred Stock (1,644 shares)					4,283	4,262	3.1
					7,309	11,650	11,678	8.5
Beverage, Food, & Tobacco								
KBP Investments, LLC (11)	Preferred Equity B (2,000,000 units)					2,009	2,009	1.5
	Common Equity A (2,000,000 units)					-	-	-
					-	2,009	2,009	1.5
Capital Equipment								
TRS Services, LLC	Senior Secured Term Loan	9.50%	(L +8.50%)	12/10/19	10,474	10,388	10,367	7.5
TRS Services, LLC	Delayed Draw Senior Secured Term Loan	9.50%	(L +8.50%)	12/10/19	749	744	741	0.5
	3,000,000 Class A Units in IGT Holdings, LLC					2,531	2,442	1.8
	3,000,000 Common Units in IGT Holdings, LLC					572	572	0.4
					11,223	14,235	14,122	10.2
Healthcare & Pharmaceuticals								
Pfanstiehl Holdings, Inc.	Subordinated Loan	11.5% cash / 1.5% PIK	N/A	9/29/18	3,788	3,868	3,826	2.8
	Class A Common Equity (400 shares)					217	1,694	1.2
					3,788	4,085	5,520	4.0
Services: Business								
Contract Datascan Holdings, Inc. (9)	Senior Secured Term Loan B	10.50%	(L +9.50%)	12/17/18	9,265	9,197	9,156	6.7
	Preferred Equity A (2,463 shares)					2,438	2,681	1.9
	Preferred Equity B (382 shares)					494	459	0.3
	Common Equity (9,069 shares)					-	54	-
					9,265	12,129	12,350	8.9
NeoSystems Corp.	Subordinated Loan	10.5% cash / 2.25% PIK	N/A	8/13/19	4,565	4,526	4,552	3.3
	Convertible Preferred Stock (521,962 shares)					1,055	1,386	1.0
					4,565	5,581	5,938	4.3
Sentry Centers Holdings, LLC	Senior Secured Loan	14.00%	N/A	6/28/18	5,075	4,977	5,064	3.7
	Senior Secured Loan	14.00%	N/A	1/15/16	1,000	984	1,005	0.7
	Preferred Equity A (83 units)					-	721	0.5
					6,075	5,961	6,790	4.9
Tangible Software, Inc.	Senior Secured Loan	4%	N/A	6/17/16	2,639	2,497	2,482	1.8
	Common Equity (1,285,854 shares)					-	-	-
					2,639	2,497	2,482	1.8
					22,544	26,168	27,560	19.9
Total Affiliate Investments					44,864	58,147	60,889	44.1
Total Investments					302,392	317,131	316,184	229.8

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments (unaudited) - Continued
March 31, 2015
(Dollar amounts in thousands)

Name of Portfolio Company	Investment Type	Principal Amount	Cost	Fair Value	Percent of Net Assets
Money Market					
WF Prime INVT MM #1752 (7)	Money Market	N/A	4,507(3)	4,507(3)	3.3
US Bank Money Market Deposit Account	Money Market	N/A	13,182(3)	13,182(3)	9.6
Total Money Market			17,689	17,689	12.9
Total Investments and Money Market (United States)		$ 302,392	$ 334,820	$ 333,873	242.7%

(1) The majority of the investments bear interest at a rate that may be determined by reference to LIBOR (L) or Prime (P) and which is reset daily, quarterly or semi-annually. For each investment, the Company has provided the spread over LIBOR and current interest rate in effect at March 31, 2015. Certain investments are subject to a LIBOR or Prime interest rate floor.
(2) The negative fair value is the result of the unfunded commitment being valued below par.
(3) Included in cash and cash equivalents on the consolidated balance sheets.
(4) Investments held by OFS Capital WM, and are pledged as collateral under the OFS Capital WM credit facility.
(5) Indicates assets that the Company deems not "qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
(6) Non-accrual loan.
(7) Money market accounts held by OFS Capital WM, and pledged as collateral under the OFS Capital WM credit facility.
(8) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Term Loan, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Community Investors, Inc., the all-in interest rate of 11.82% at March 31, 2015 included an interest rate of 3.57% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
(9) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Term Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall.
(10) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Term Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the all-in interest rate of 13.11% at March 31, 2015 included an interest rate of 2.61% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
(11) Investment held by FQSR II, LLC.

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Aerospace & Defense								
Aero-Metric, Inc.	Senior Secured Term Loan	8.75%	(L +7.50%)	8/27/17	$ 2,644	$ 2,622	$ 2,619	1.9%
Whitcraft LLC	Senior Secured Term Loan	6.50%	(L +5.00%)	12/16/15	3,788	3,775	3,712	2.7
					6,432	6,397	6,331	4.6
Banking, Finance, Insurance & Real Estate								
Accurate Group Holdings, Inc. (4)	Subordinated Loan	12.50%	N/A	6/11/18	10,000	10,071	10,071	7.3
Captive Resources Midco LLC	Senior Secured Term Loan	6.50%	(L +5.00%)	1/2/19	4,804	4,757	4,646	3.4
CSI Financial Services, LLC (5)	Senior Secured Term Loan	7.00%	(L +5.75%)	12/12/18	3,207	3,174	3,173	2.3
MYI Acquiror Limited (5)	Senior Secured Term Loan A	5.75%	(L +4.50%)	5/28/19	4,875	4,848	4,826	3.5
Townsend Acquisition LLC	Senior Secured Term Loan	5.25%	(L +4.25%)	5/21/20	4,330	4,296	4,278	3.1
					27,216	27,146	26,994	19.6
Capital Equipment								
Dorner MFG, Corp.	Senior Secured Term Loan	5.75%	(L +4.50%)	6/15/17	3,062	3,032	2,974	2.2
Elgin Fasteners Group	Senior Secured Term Loan	6.00%	(L +4.75%)	8/26/16	4,679	4,632	4,616	3.4
Stancor, Inc. (4)	Senior Secured Term Loan	8.75%	(L +8.00%)	8/19/19	13,500	13,391	13,395	9.7
	1,250,000 Class A Units in SCT Holdings, LLC					1,250	1,287	0.9
					13,500	14,641	14,682	10.6
					21,241	22,305	22,272	16.2
Chemicals, Plastics & Rubber								
Actagro, LLC	Senior Secured Term Loan	5.50%	(L +4.25%)	12/30/16	3,201	3,182	3,117	2.3
Accella Holdings LLC (f/k/a Dash Materials LLC)	Senior Secured Term Loan	5.50%	(L +4.50%)	4/30/19	3,424	3,413	3,424	2.5
ICM Products Inc	Senior Secured Term Loan	5.50%	(L +4.50%)	3/31/19	2,068	2,045	1,952	1.4
Inhance Technologies Holdings LLC	Senior Secured Term Loan A	5.50%	(L +4.50%)	2/7/18	2,371	2,357	2,271	1.7
KODA Distribution Group, Inc.	Senior Secured Term Loan A	6.00%	(L +5.00%)	4/9/18	3,835	3,822	3,787	2.7
VanDeMark Chemical Inc.	Senior Secured Term Loan	6.50%	(L +5.25%)	11/30/17	2,681	2,650	2,636	1.9
					17,580	17,469	17,187	12.5
Construction & Building								
Jameson LLC	Senior Secured Term Loan	7.50%	(L +5.50%)	1/31/17	1,529	1,525	1,529	1.1
Nudo Products, Inc. (4)	Subordinated Loan	12.00% cash / 1.75% PIK	N/A	1/29/20	11,045	10,953	10,953	7.9
					12,574	12,478	12,482	9.0
Consumer goods: Non-durable								
Phoenix Brands LLC	Senior Secured Term Loan A	7.25%	(L +5.75%)	1/31/16	1,319	1,314	1,230	0.9
					1,319	1,314	1,230	0.9
Containers, Packaging & Glass								
Mold-Rite Plastics, LLC	Senior Secured Term Loan	5.50%	(L +4.25%)	6/30/16	4,009	3,990	3,962	2.9
					4,009	3,990	3,962	2.9
Energy: Oil & Gas								
ANS Distributing, INC.	Senior Secured Term Loan	8.00%	(L +6.50%)	11/1/17	2,810	2,778	2,810	2.0
					2,810	2,778	2,810	2.0
Environmental Industries								
Apex Companies, LLC.	Senior Secured Term Loan	5.50%	(L +4.50%)	3/28/19	3,714	3,695	3,506	2.6
JWC Environmental, LLC.	Senior Secured Term Loan	6.00%	(L +4.50%)	8/3/16	3,863	3,850	3,810	2.8
					7,577	7,545	7,316	5.4

Consolidated Schedule of Investments - Continued
December 31, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Healthcare & Pharmaceuticals								
Behavioral Health Group	Senior Secured Term Loan A	5.75%	(L +4.50%)	8/18/16	4,552	4,537	4,473	3.3
Elements Behavioral Health, Inc.	Senior Secured Term Loan A	5.75%	(L +4.75%)	2/12/19	4,694	4,665	4,665	3.4
HealthFusion, Inc. (4)	Senior Secured Loan	13.00%	N/A	10/7/18	5,750	5,685	5,882	4.3
	Common Stock Warrants (1,646,666 shares)					-	498	0.4
					5,750	5,685	6,380	4.7
Hygenic Corporation	Senior Secured Term Loan	6.00%	(L +4.75%)	10/11/18	4,684	4,640	4,671	3.4
Intrafusion Holding Corp. (4)(10)	Senior Secured Term Loan B	13.58%	(L +9.00%)	6/13/18	2,000	2,016	2,016	1.5
Maverick Healthcare Equity, LLC (4)	Preferred Equity (1,250,000 units)					900	900	0.7
Maverick Healthcare Equity, LLC (4)	Class A Common Equity (1,250,000 units)					-	-	-
Vention Medical, Inc. (f/k/a MedTech Group, Inc.)	Senior Secured Term Loan	6.25%	(L +5.25%)	12/31/18	4,575	4,552	4,552	3.3
South Bay Mental Health Center, Inc. (4)	Subordinated Loan	12.0% cash / 2.5% PIK	N/A	10/12/17	3,030	3,030	3,027	2.2
Strata Pathology Services, Inc. (6)	Senior Secured Term Loan	11.00%	(L +9.50%)	6/30/16	4,037	3,988	801	0.6
Studer Group LLC	Senior Secured Term Loan	6.00%	(L +4.75%)	7/31/18	3,448	3,430	3,322	2.4
United Biologics Holdings, LLC (4)	Subordinated Loan	12.0% cash / 2.0% PIK	N/A	3/5/17	4,183	4,126	4,181	3.0
	Class A-1 Units (2,686 units) and Kicker Units (2,015 units)					9	22	-
	Class A-1 Warrants (2,272 units) and Kicker Warrants (1,704 units)					8	19	-
	Class A Warrants (10,160 units)					67	74	0.1
	Class B Warrants (15,238 units)					7	38	-
					4,183	4,217	4,334	3.1
					40,953	41,660	39,141	28.6
High Tech Industries								
Anaren, Inc. (4)	Senior Secured Term Loan	5.50%	(L +4.50%)	2/18/21	2,970	2,944	2,923	2.1
B&B Electronics Manufacturing Company	Senior Secured Term Loan A	6.50%	(L +5.00%)	4/4/15	2,440	2,437	2,426	1.8
OnePath Systems, LLC	Senior Secured Term Loan	7.50%	(L +6.00%)	6/6/17	2,220	2,198	2,220	1.6
					7,630	7,579	7,569	5.5
Media: Advertising, Printing & Publishing								
Content Marketing, LLC	Senior Secured Term Loan	7.50%	(L +6.25%)	12/21/17	3,039	3,012	3,039	2.2
Jobson Healthcare Information, LLC (4)	Senior Secured Term Loan	10.13% cash / 2.795% PIK	(L +8.13%)	7/21/19	14,704	14,329	14,141	10.3
	Warrants (1,056,428 member units)					454	384	0.3
					14,704	14,783	14,525	10.6
Media Source	Senior Secured Term Loan	5.25%	(L +4.25%)	7/16/19	2,386	2,364	2,348	1.7
					20,129	20,159	19,912	14.5
Media: Broadcasting & Subscription								
Campus Televideo, Inc.	Senior Secured Term Loan	7.25%	(L +5.75%)	10/23/17	3,592	3,542	3,590	2.6
					3,592	3,542	3,590	2.6
Media: Diversified & Production								
A.C.T. Lighting, Inc. (4)	Subordinated Loan	12.00% cash / 2.0% PIK	N/A	7/24/19	3,502	3,482	3,482	2.5
					3,502	3,482	3,482	2.5
Metals & Mining								
All Metals Holding, LLC(4)	Senior Secured Term Loan	10.50%	N/A	12/31/19	14,000	13,763	13,763	10.0
	Common Equity (2.75% member interest)					97	97	0.1
					14,000	13,860	13,860	10.1
Retail								
Tharpe Company, Inc.	Senior Secured Term Loan	6.00%	(L +4.75%)	10/19/17	3,589	3,559	3,555	2.6
					3,589	3,559	3,555	2.6

Consolidated Schedule of Investments - Continued
December 31, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Services: Business								
Accuvant Finance, LLC (4)	Senior Secured Initial Loans	7.00%	(P +3.75%)	10/22/20	5,970	5,917	5,970	4.3
BCC Software, LLC (4)	Senior Secured Revolver	N/A	(L +8.00%)	6/19/19	-	(15)	(24) (2)	-
BCC Software, LLC (4)	Senior Secured Term Loan	9.00%	(L +8.00%)	6/19/19	6,913	6,820	6,758	4.9
Caddie Master Enterprises, Inc. (4)	Senior Secured Term Loan	10.00%	(L +9.00%)	12/31/20	10,500	9,845	9,845	7.2
	Common Stock Warrants (78.97 shares)					550	550	0.4
					10,500	10,395	10,395	7.6
C7 Data Centers, Inc. (4)	Senior Secured Term Loan	9.50%	(L +7.50%)	9/30/19	7,234	7,234	7,274	5.3
C7 Data Centers, Inc. (4)	Senior Secured Line of Credit	9.50%	(L +7.50%)	9/30/19	500	500	503	0.4
Community Investors, Inc. (4)(8)	Senior Secured Term Loan	11.86%	(L +7.25%)	9/30/19	8,500	8,420	8,420	6.1
	Common Stock (560 shares)					1	1	-
	Preferred Stock A (59,258 shares)					60	155	0.1
	Preferred Stock A-1 (27,737 shares)					66	72	0.1
	Preferred Stock A-2 (16,888 shares)					44	44	-
					8,500	8,591	8,692	6.3
Revspring Inc. (f/k/a Dantom Systems, Inc.)	Senior Secured Term Loan	5.50%	(L +4.25%)	8/3/17	4,454	4,434	4,454	3.2
Young Innovations, Inc.	Senior Secured Term Loan A	5.25%	(L +4.25%)	1/30/19	2,663	2,636	2,630	1.9
					46,734	46,512	46,652	33.9
Services: Consumer								
smarTours, LLC (4)	Senior Secured Loan	9.25%	N/A	10/11/18	3,905	3,842	3,901	2.8
	Preferred Equity A (500,000 units)					489	671	0.5
					3,905	4,331	4,572	3.3
Southern Technical Institute, LLC (4)	Subordinated Loan	10.75%	(L +9.75%)	12/2/20	5,000	4,975	4,975	3.6
					8,905	9,306	9,547	6.9
Telecommunications								
Barcodes LLC	Senior Secured Term Loan	7.25%	(P +4.00%)	12/9/19	2,815	2,791	2,791	2.0
NHR Holdings, LLC	Senior Secured Term Loan A	5.50%	(L +4.25%)	11/30/18	2,072	2,052	1,978	1.4
NHR Holdings, LLC	Senior Secured Term Loan B	5.50%	(L +4.25%)	11/30/18	2,100	2,080	2,005	1.5
					6,987	6,923	6,774	4.9
Total Non-control/Non-affiliate Investments					256,779	258,004	254,666	185.2

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
December 31, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Affiliate Investments								
Aerospace & Defense								
Malabar International (4)	Subordinated Loan	12.5% cash / 2.5% PIK	N/A	5/21/17	7,264	7,328	7,376	5.4
	Preferred Stock (1,644 shares)					4,283	4,404	3.2
					7,264	11,611	11,780	8.6
Capital Equipment								
TRS Services, LLC (4)	Initial Senior Term Loan	9.50%	(L +8.50%)	12/10/19	10,474	10,383	10,383	7.6
TRS Services, LLC (4)	Delayed Draw Senior Term Loan	9.50%	(L +8.50%)	12/10/19	499	495	495	0.4
	3,000,000 Class A Units in IGT Holdings, LLC					3,020	3,020	2.2
	3,000,000 Common Units in IGT Holdings, LLC					-	-	-
					10,973	13,898	13,898	10.2
Healthcare & Pharmaceuticals								
Pfanstiehl Holdings, Inc (4)	Subordinated Loan	12.0% cash / 1.5% PIK	N/A	9/29/18	3,788	3,874	3,864	2.8
	Class A Common Equity (400 shares)					217	1,070	0.8
					3,788	4,091	4,934	3.6
Services: Business								
Contract Datascan Holdings, Inc. (4)(9)	Senior Secured Term Loan B	10.75%	(L +9.75%)	12/17/18	9,265	9,192	9,129	6.6
	Preferred Equity A (2,463 shares)					2,351	2,468	1.8
	Preferred Equity B (382 shares)					483	446	0.3
	Common Equity (9,069 shares)					-	-	-
					9,265	12,026	12,043	8.7
NeoSystems Corp. (4)	Subordinated Loan	10.5% cash / 2.25% PIK	N/A	8/13/19	4,540	4,498	4,524	3.3
	Convertible Preferred Stock (521,962 shares)					1,029	1,292	0.9
					4,540	5,527	5,816	4.2
Sentry Centers Holdings, LLC (4)	Senior Secured Loan	14.00%	N/A	6/28/18	5,075	4,969	5,104	3.7
	Senior Secured Loan	14.00%	N/A	1/15/16	1,000	979	1,010	0.7
	Preferred Equity A (83 units)					-	520	0.4
					6,075	5,948	6,634	4.8
Tangible Software, Inc. (4)(11)	Senior Secured Loan	4%	N/A	6/17/16	2,639	2,468	2,463	1.8
	Common Equity (1,285,864 shares)					-	-	-
					2,639	2,468	2,463	1.8
					22,519	25,969	26,956	19.5
Total Affiliate Investments					44,544	55,569	57,568	41.9
Total Investments					301,323	313,573	312,234	227.1

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
December 31, 2014
(Dollar amounts in thousands)

Name of Portfolio Company	Investment Type	Principal Amount	Cost	Fair Value	Percent of Net Assets
Money Market					
WF Prime INVT MM #1752 (7)	Money Market	N/A	1,039 (3)	1,039 (3)	0.8
US Bank Money Market Deposit Account	Money Market	N/A	8,570 (3)	8,570 (3)	6.2
Total Money Market			9,609	9,609	7.0
Total Investments and Money Market (United States)		$ 301,323	$ 323,182	$ 321,843	234.1%

(1) The majority of the investments bear interest at a rate that may be determined by reference to LIBOR (L) or Prime (P) and which is reset daily, quarterly or semi-annually. For each investment, the Company has provided the spread over LIBOR and current interest rate in effect at December 31, 2014. Certain investments are subject to a LIBOR or Prime interest rate floor.
(2) The negative fair value is the result of the unfunded commitment being valued below par.
(3) Included in cash and cash equivalents on the consolidated balance sheets.
(4) Investments held by SBIC I LP. All other investments are held by OFS Capital WM, and are pledged as collateral under the OFS Capital WM credit facility.
(5) Indicates assets that the Company deems not "qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
(6) Non-accrual loan.
(7) Money market accounts held by OFS Capital WM, and pledged as collateral under the OFS Capital WM credit facility.
(8) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Term Loan, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Community Investors, Inc., the all-in interest rate of 11.86% at December 31, 2014 included an interest rate of 3.61% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
(9) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Term Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall.
(10) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the all-in interest rate of 13.58% at December 31, 2014 included an interest rate of 3.08% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
(11) The original debt and equity investments, with a total cost basis of $8,992, were restructured on December 17, 2014, as a result of which SBIC I LP received cash payment of $2,943, a new note with a fair value of $2,463 on the restructuring date and at December 31, 2014, and common stock in Tangible Software, Inc valued at zero at the restructuring date and at December 31, 2014. In connection with this restructuring, SBIC I LP recognized a loss of $3,586. The post-restructured investments were classified as affiliate investments and the new debt investment was deemed an accrual loan as of December 31, 2014.

See Notes to Unaudited Consolidated Financial Statements.

Note 1. Organization

OFS Capital Corporation ("OFS Capital", the "Company", or "we") is a Delaware corporation formed on November 7, 2012 and is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for income tax purposes, the Company, other than a tax blocker entity it has recently formed (see below), 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").

From time to time, the term OFS Capital, the Company, or we may be used herein to refer to OFS Capital Corporation, individually, or OFS Capital Corporation and/or its subsidiaries either collectively or individually, as well as, with respect to all periods prior to the initial public offering ("IPO") date, OFS Capital, LLC (for income tax purposes, these terms only refer to the RIC reporting group).

On November 7, 2012, the Company priced its IPO, selling 6,666,667 shares of its common stock at a public offering price of $15 per share and raising $100,000 in gross proceeds. Immediately prior to the IPO, on November 7, 2012, OFS Capital, LLC converted from a limited liability company to a corporation, as a result of which the sole membership interest held in OFS Capital, LLC by Orchard First Source Asset Management, LLC ("OFSAM") prior to the conversion was exchanged for 2,912,024 shares of common stock in the Company.

On September 28, 2010, OFS Capital, LLC became the 100% equity owner of OFS Capital WM, LLC ("OFS Capital WM"). On September 29, 2011, OFS Capital, LLC became the primary beneficiary in OFS SBIC I, LP ("SBIC I LP"), a variable interest entity ("VIE") under the applicable provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidation". On May 10, 2012, upon SBIC I LP's receipt of a Small Business Investment Company ("SBIC") license, OFS Capital, LLC became an approximately 68% limited partner in SBIC I LP. On December 4, 2013, the Company acquired the remaining limited partnership interests in SBIC I LP, as well as the remaining membership interests in OFS SBIC I GP, LLC ("SBIC I GP"), the general partner of SBIC I LP that holds 1% limited partnership interest in SBIC I LP (the "SBIC Acquisitions"). As a result of the acquisitions, SBIC I LP and SBIC I GP became wholly owned subsidiaries of the Company effective December 4, 2013.

On January 8, 2015, in order to comply with certain requirements necessary to maintain the Company's RIC status, it formed FQSR II, LLC ("FQSR"), a Delaware limited liability company and wholly owned subsidiary of the Company, to hold an equity investment in a portfolio company. For income tax purposes, FQSR has elected to be taxed as a C corporation and is excluded from the Company's RIC tax reporting group.

The Company's investment strategy is to focus primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies in the United States. The Company has entered into an investment advisory and management agreement with OFS Capital Management, LLC ("OFS Capital Management", or the "Investment Advisor"), under which the Investment Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company (see Note 3 for more details).

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The accompanying interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and pursuant to the requirements for reporting on Form 10-Q, ASC Topic 946, *Financial Services – Investment Companies* ("ASC Topic 946"), and Article 6 or 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, the consolidated financial statements reflect all adjustments consisting only of normal recurring accruals and adjustments. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. The December 31, 2014 consolidated balance sheet was derived from the audited balance sheet included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

Principles of consolidation: The Company's March 31, 2015 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries OFS Capital WM, OFS Funding, LLC, SBIC I LP, SBIC I GP and FQSR. The Company consolidates an affiliated subsidiary if it owns more than 50 percent of the subsidiary's equity and holds the controlling financial interest in such subsidiary. The Company also consolidates a VIE if it is the primary beneficiary in the VIE.

Fair value of financial instruments: The Company applies fair value to substantially all of its financial instruments in accordance with Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures" ("ASC Topic 820"). ASC Topic 820 defines fair value, establishes a framework used to measure fair value and requires disclosures for fair value measurements. In accordance with ASC Topic 820, the Company has categorized its financial instruments carried at fair value, based on the priority of the valuation technique, into a three level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant that holds the financial instrument rather than an entity specific measure.

Note 2. Summary of Significant Accounting Policies (Continued)

Therefore, when market assumptions are not readily available, the Company's own assumptions reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3 (i.e., those instruments valued using non-observable inputs).

Changes to the valuation policy are reviewed by management and the Company's board of directors (the "Board") to confirm that the changes are justified. As the Company's investments change, markets change, new products develop and the pricing for products becomes more or less transparent, the Company will continue to refine its valuation methodologies.

See Note 5 for more detailed disclosures of the Company's fair value measurements of its financial instruments.

Investment classification: The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in those companies where the Company owns more than 25% of the voting securities of such company or has rights to maintain greater than 50% of the board representation. Under the 1940 Act, "Affiliate Investments" are defined as investments in those companies where the Company owns between 5% and 25% of the voting securities of such company. "Non-Control/Non-Affiliate Investments" are those that neither qualify as Control Investments nor Affiliate Investments.

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

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

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

Liquidity risk - Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its positions in times of high volatility and financial stress at a reasonable price.

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

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

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

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

Reportable segments: In accordance with segment guidance set by Accounting Standards Codification 280, "Segment Reporting" ("ASC Topic 280"), the Company has determined that it has a single reportable segment and single operating segment structure.

Cash and cash equivalents: Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities at the time of acquisition of three months or less. The Company places its cash in financial institutions and at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits.

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition:

Interest Income: Interest income is accrued based upon the outstanding principal amount and contractual interest terms of the debt investments. Recognized interest income, if payable monthly or quarterly, is reflected as interest receivable until collected. Recognized interest income that is instead added to the principal balance and generally becomes due at maturity or at some other stipulated date (“PIK interest”) is reflected in the investment account. The Company accrues interest income until certain events take place, which may place a loan into a non-accrual status (see below). The Company will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Loan origination fees, original issue discount (“OID”), market discount or premium, and loan amendment fees (collectively, “net loan origination fees”) are capitalized, and the Company accretes or amortizes such amounts on a straight-line basis over the life of the loan as additional interest income. When the Company receives a loan principal payment, the OID related to the paid principal is accelerated and recognized in interest income. This method is not materially different than the effective interest rate method. Unamortized OID is reflected in the investment account and unamortized loan amendment fees are reflected as deferred loan fee revenue. All other interest income is recorded into income when earned. Further, in connection with the Company’s debt investments, the Company will sometimes receive warrants or similar no cost equity-related securities (“Warrants”). The Company determines the cost basis of Warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

As of March 31, 2015 and December 31, 2014, unamortized net loan origination fees on debt investments amounted to $3,401 and $3,706, respectively. For the three months ended March 31, 2015 and 2014, the Company recognized net loan origination fee income of $379 and $342, respectively. For the three months ended March 31, 2015 and 2014, the Company recognized PIK interest income in the amount of $297 and $126, respectively. To maintain its status as a RIC, the Company includes non-cash interest income (and non-cash dividend income described below) in the amounts that must be paid out to its shareholders in the form of distributions.

Dividend Income: Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared or at the point an obligation exists for the portfolio company to make a distribution supported by tax-basis earnings and profits. Dividend income on preferred equity is accrued as earned. Such dividends on preferred equity securities could 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 reflected as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared are reflected in the investment account. The Company stops accruing dividends on its preferred equity securities when it is determined that the dividend is not collectible. The Company assesses the collectability of the dividends based on factors including the fair value of the preferred equity security as well as the valuation of the portfolio company’s enterprise value. During the three months ended March 31, 2015 and 2014, the Company recognized preferred dividend income of $328 and $30, respectively, of which $296 and $0, respectively, was contractually earned but not declared. The Company did not recognize any common stock dividend income during the three months ended March 31, 2015 and 2014.

Fee Income: The Company may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services are rendered and amounted to $134 and $68, for the three months ended March 31, 2015 and 2014, respectively.

Other Income: Investment transactions are accounted for on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the cost basis of the investment, without regard to unrealized gains or losses previously recognized. Distribution of earnings from portfolio companies are evaluated to determine if the distribution is income or return of capital.

Investments are recorded at fair value. The Company’s Board determines the fair value of its portfolio investments. After recording all appropriate interest and dividend income, some of which is reflected in the investment account as described above, the Company reports changes in fair value of investments that are measured at fair value as a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

Non-accrual loans: Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans, and non-accrual loans are further designated to be accounted for under either a non-accrual cash method or a non-accrual cost recovery method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest based on contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of the Company’s management, there is reasonable doubt about the collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has already been contractually added to the principal balance, is reversed against current period interest income. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment.

Note 2. Summary of Significant Accounting Policies (Continued)

Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. The Company had one non-accrual loan at March 31, 2015 and December 31, 2014, which was accounted for as a non-accrual cash method loan. The loan had an aggregate fair value of $713 and $801 at March 31, 2015 and December 31, 2014, respectively.

Income taxes: The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements and timely distribute to its shareholders at least 90% of investment company taxable income, as defined by the Code, for each year. The Company has made, and intends to continue to make, the requisite distributions to its shareholders, which will generally relieve the Company from U.S. federal income taxes with respect to all income distributed to its shareholders.

Depending on the level of taxable income earned in a tax year, the Company may choose to retain taxable income in excess of current year dividend distributions into the next tax year in an amount less than what would trigger payments of federal income tax under Subchapter M of the Code. The Company would then pay a 4% excise tax on such income, as required. To the extent that the Company determines its estimated current year annual taxable income may exceed estimated current year dividend distributions, the Company accrues excise tax on estimated excess taxable income as taxable income is earned. At March 31, 2015 and December 31, 2014, no U.S. federal excise tax was accrued.

FQSR has elected to be taxed as a C corporation and will be subject to U.S. federal income taxes on its taxable income. FQSR accounts for income taxes under the asset and liabilities method, however, due to the size and nature of the equity investment FQSR holds, all related accounting is immaterial for the three months ended March 31, 2015.

The Company accounts for income taxes in conformity with Accounting Standards Codification 740, “Income Taxes” (“ASC Topic 740”). ASC Topic 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company’s policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain income tax positions at March 31, 2015 and December 31, 2014. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

Dividends and distributions: Dividends and distributions to common shareholders are recorded on the declaration date. The timing of dividends and distributions as well as the amount to be paid out as a dividend or distribution is determined by the Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. Dividends paid in excess of net investment income and realized gains are considered returns of capital to shareholders.

The Company has adopted a dividend reinvestment plan (“DRIP”) that provides for reinvestment of any distributions the Company declares in cash on behalf of its shareholders, unless a shareholder elects to receive cash. As a result, if the Board authorizes and the Company declares a cash distribution, then shareholders who have not “opted out” of the DRIP will have their cash distribution automatically reinvested in additional shares of the Company’s common stock, rather than receiving the cash dividend or distribution.

The Company may use newly issued shares under the guidelines of the DRIP, or the Company may purchase shares in the open market in connection with its obligations under the plan.

Deferred common stock offering costs: The Company defers costs related to its public offerings, including costs incurred in connection with the filing of shelf registration statements which allow for a delayed public offering. These costs include professional fees, registration costs, printing, and other miscellaneous offering costs. Deferred common stock offering costs related to a specific equity raise are charged against the proceeds from that equity raise when received. Deferred offering costs related to a continuous offering are ratably charged to paid-in capital as securities are sold under the shelf registration statement. As of March 31, 2015 and December 31, 2014, the Company had incurred $301 and $297 of deferred common stock offering costs related to a universal shelf registration statement filed on November 19, 2014, which was declared effective on December 30, 2014 and replaced a previously filed shelf registration statement (filed on June 12, 2014 and declared effective on August 7, 2014). All of these deferred costs are included in prepaid expenses and other assets on the consolidated balance sheets as no equity was raised under the registration statement as of March 31, 2015.

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred financing closing costs: Deferred financing closing costs represent fees and other direct incremental costs incurred in connection with the Company’s borrowings. These amounts are amortized over the estimated average life of the borrowings. As of March 31, 2015 and December 31, 2014, unamortized deferred financing closing costs recorded by the Company amounted to $4,754 and $4,972, respectively. For the three months ended March 31, 2015 and 2014, the Company recorded amortization and write-off of deferred financing closing costs in the amount of $547 and $150, respectively.

Goodwill: Goodwill represents the excess of the purchase price of an acquired business over the fair value amounts assigned to assets and liabilities assumed in the business combination. On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded goodwill in the amount of $1,077.

Goodwill is evaluated for impairment at least annually and can be tested more frequently if an event occurs or circumstances change that may reduce the fair value of a reporting unit below its carrying value.

ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment*, which amends ASC Topic 350, “Intangibles – Goodwill and Other”, states that an entity may first elect to assess qualitative factors to determine if it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill (“Step -0-”; or “qualitative assessment”). If based on the results of Step -0-, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity must proceed to the quantitative two-step analysis. An entity may also elect to bypass Step -0- and proceed directly to the quantitative two-step analysis.

The quantitative goodwill impairment test is a two-step analysis. First, the fair value of the reporting unit is compared to its book value (“Step-one”). If the fair value of the reporting unit is less than its book value, the entity then performs a hypothetical purchase price allocation based on the reporting unit’s fair value to determine the reporting unit’s implied goodwill (“Step-two”). Goodwill impairment exists in Step-two when the implied fair value of goodwill is less than the carrying value of goodwill. The implied fair value of goodwill is determined based on the difference between the fair value of the reporting unit determined in Step-one and the fair value allocated to the identifiable assets, including unrecognized intangible assets, and liabilities of the reporting unit.

A significant amount of judgment is required in performing goodwill impairment analysis. When using the qualitative approach, the Company considered macroeconomic factors such as industry and market conditions, reporting unit-specific events, actual financial performance, and management's future business expectations. In addition, the Company analyzes the difference between the carrying value of its single reporting unit, which includes most of its assets carried at fair value, and the Company’s total market capitalization taking into account certain factors including control premium.

For the three months ended March 31, 2015, the Company did not record any impairment of goodwill.

Intangible asset: In connection with the SBIC Acquisitions, the Company recorded an intangible asset attributable to the SBIC license that SBIC I LP holds in the amount of $2,500. The Company is amortizing this intangible asset over its estimated useful life, which was determined to be approximately 13 years. The estimated amortization expense for the remaining nine months of 2015 is $146. The Company expects annual amortization expense of its intangible asset to be $195 for each of the four years ended December 31, 2019 and $1,316 thereafter.

The Company tests its intangible asset for impairment if events or circumstances suggest that the asset carrying value may not be fully recoverable. For the three months ended March 31, 2015, the Company did not recognize any impairment charge for its intangible asset.

Interest expense: Interest expense is recognized on the accrual basis.

Concentration of credit risk: Aside from its debt instruments, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. To mitigate this risk, the Company places cash deposits only with high credit quality institutions. Management believes the risk of loss is minimal.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods:

Note 2. Summary of Significant Accounting Policies (Continued)

(i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the Company’s consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2017. In April 2015, the FASB issued a proposed ASU for a one-year deferral of the effective date of the new revenue recognition standard. If approved, the new standard will become effective for the annual reporting period (including interim periods within those periods) beginning after December 15, 2017 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption.

In August 2014, the FASB issued ASU 2014-15, *Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (“ASU 2014-15”). ASU 2014-15 provides guidance regarding management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and if such doubt exists, requires specific disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and is not expected to have a significant impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis* (“ASU 2015-02”). ASU 2015-02 modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements, as well as the available transition methods.

In March 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest:* S*implifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). ASU 2015-03 changes the presentation of debt issuance costs in the financial statements where an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and requires a retrospective approach to adoption and applicable disclosures for a change in an accounting principle. Early adoption is permitted. This standard will have a balance sheet reclassification impact and disclosure impact on the Company’s consolidated financial statements.

Note 3. Related Party Transactions

Investment Advisory and Management Agreement: On November 7, 2012, OFS Capital entered into an Investment Advisory and Management Agreement (“Advisory Agreement”) with OFS Capital Management, the Company’s Investment Advisor, under which the Investment Advisor manages the day-to-day operations of, and provides investment advisory services to, OFS Capital. Under the terms of the Advisory Agreement and subject to the overall supervision of our Board, the Investment 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. The Investment Advisor is a subsidiary of OFSAM and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

The Investment Advisor’s services under the Advisory Agreement are not exclusive to the Company and the Investment Advisor is free to furnish similar services to other entities so long as its services to the Company are not impaired. The Investment Advisor receives fees for providing services, consisting of two components—a base management fee and an incentive fee. From the completion of the Company’s IPO through October 31, 2013, the base management fee was calculated at an annual rate of 0.875% based on the average value of the Company’s total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters. Beginning on November 1, 2013 and through March 31, 2014, pursuant to the Advisory Agreement, the base management fee was calculated at an annual rate of 1.75% based on the average value of the Company’s total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. The Investment Advisor has elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from the SBIC Acquisitions.

On May 5, 2014, the Investment Advisor agreed to reduce its base management fee by two-thirds for the nine months commencing April 1, 2014 and ending December 31, 2014. Specifically, for the second, third, and fourth quarters of fiscal 2014, the Investment Advisor reduced its base management fee from 0.4375% per quarter to 0.145833% per quarter of the average value of the Company’s total assets (other than cash, cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisitions, 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. The purpose of this was to reduce the effective annual base management fee payable to the Investment Advisor pursuant to the terms of the Advisory Agreement by 50% for the 2014 fiscal year. Accordingly, the effective annual base management fee for the 2014 fiscal year was equal to 50% of the 1.75% required by the Advisory Agreement with the Investment Advisor, or not greater than 0.875%.

Note 3. Related Party Transactions (Continued)

The Investment Advisor informed the Company that this reduction was made for the benefit of the Company's shareholders to take into account unforeseen delays in completing the SBIC Acquisitions. The base management fee resumed to its 1.75% annual rate on January 1, 2015.

The base management fee is payable quarterly in arrears. For the three months ended March 31, 2015 and 2014, the base management fee expense was $1,417 and $1,039, respectively.

The incentive fee has two parts. The first part 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 (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest or dividend feature (such as OID, debt instruments with PIK interest, equity investments with accruing or PIK dividend and zero coupon securities), accrued income that the Company has not yet received in cash.

Pre-incentive fee net investment income is expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter. The incentive fee with respect to the 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, the Investment 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, the Investment Advisor will receive 20.0% of the pre-incentive fee net investment income.

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

The second part of the incentive fee (the "Capital Gain Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the Advisory Agreement, as of the termination date), commencing on December 31, 2012, and equals 20.0% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the capital gain incentive 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. The Investment Advisor has elected to exclude from the Capital Gain Fee calculation any incentive fee that would be owed in respect of the realized gain on step acquisitions resulting from the SBIC Acquisitions.

The Company incurred incentive fee expense of $375 for the three months ended March 31, 2015. The Company did not incur any incentive fee expense during the three months ended March 31, 2014.

Administration Agreement: On November 7, 2012, OFS Capital entered into an administration agreement ("Administration Agreement") with OFS Capital Services, LLC ("OFS Capital Services" or the "Administrator"), a wholly-owned subsidiary of OFSAM. Pursuant to the Administration Agreement, the Administrator furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, the Administrator performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records that the Company is required to maintain and preparing reports to its shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority.

(Dollar amounts in thousands, except per share data)

Note 3. Related Party Transactions (Continued)

In addition, the Administrator assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its shareholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, the Administrator 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 the Administrator's overhead in performing its obligations under the Administration Agreement, including rent 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. For the three months ended March 31, 2015 and 2014, the Company incurred an administration fee expense of $541 and $475, respectively.

Note 4. Investments

At March 31, 2015, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	$ 239,802	$ 237,021	$ 232,346
Subordinated debt investments	62,590	62,474	62,578
Equity investments	N/A	17,636	21,260
Total	$ 302,392	$ 317,131	$ 316,184

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

	Cost		Fair Value	
Services: Business	$ 76,520	24.1%	$ 77,944	24.7%
Healthcare & Pharmaceuticals	44,259	14.0	42,997	13.6
Capital Equipment	36,483	11.5	36,228	11.4
Banking, Finance, Insurance & Real Estate	33,032	10.4	32,884	10.4
Media: Advertising, Printing & Publishing	20,111	6.3	19,639	6.2
Aerospace & Defense	17,949	5.7	17,895	5.7
Chemicals, Plastics & Rubber	17,326	5.5	16,975	5.4
Metals & Mining	13,872	4.4	14,166	4.5
Construction & Building	12,481	3.9	12,571	4.0
Services: Consumer	9,311	2.9	9,437	3.0
Environmental Industries	7,491	2.4	7,237	2.3
Telecommunications	6,910	2.2	6,911	2.2
High Tech Industries	4,563	1.4	4,519	1.4
Containers, Packaging & Glass	3,929	1.2	3,887	1.2
Media: Diversified & Production	3,501	1.1	3,560	1.1
Media: Broadcasting & Subscription	3,457	1.1	3,467	1.1
Energy: Oil & Gas	2,742	0.9	2,771	0.9
Beverage, Food & Tobacco Total	2,009	0.6	2,009	0.6
Consumer goods: Non-durable	1,185	0.4	1,087	0.3
	$ 317,131	100.0%	$ 316,184	100.0%

(Dollar amounts in thousands, except per share data)

Note 4. Investments (Continued)

At December 31, 2014, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	$ 248,971	$ 245,851	$ 241,749
Subordinated debt investments	52,352	52,337	52,453
Equity investments	N/A	15,385	18,032
Total	$ 301,323	$ 313,573	$ 312,234

At December 31, 2014, the Company's investments were all domiciled in the United States and the industry compositions of the Company's portfolio were as follows:

	Cost		Fair Value	
Services: Business	$ 72,481	23.1%	$ 73,608	23.6%
Healthcare & Pharmaceuticals	45,751	14.6	44,075	14.1
Capital Equipment	36,203	11.6	36,170	11.6
Banking, Finance, Insurance & Real Estate	27,146	8.7	26,994	8.7
Media: Advertising, Printing & Publishing	20,159	6.4	19,912	6.4
Aerospace & Defense	18,008	5.7	18,111	5.8
Chemicals, Plastics & Rubber	17,469	5.6	17,187	5.5
Metals & Mining	13,860	4.4	13,860	4.4
Construction & Building	12,478	4.0	12,482	4.0
Services: Consumer	9,306	3.0	9,547	3.1
High Tech Industries	7,579	2.4	7,569	2.4
Environmental Industries	7,545	2.4	7,316	2.3
Telecommunications	6,923	2.2	6,774	2.2
Containers, Packaging & Glass	3,990	1.3	3,962	1.3
Retail	3,559	1.1	3,555	1.1
Media: Broadcasting & Subscription	3,542	1.1	3,590	1.1
Media: Diversified & Production	3,482	1.1	3,482	1.1
Energy: Oil & Gas	2,778	0.9	2,810	0.9
Consumer goods: Non-durable	1,314	0.4	1,230	0.4
	$ 313,573	100.0%	$ 312,234	100.0%

Note 5. Fair Value of Financial Instruments

The Company follows ASC Topic 820 for measuring fair value. Fair value is 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under ASC Topic 820 as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to 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; and fair value is determined through the use of models or other valuation methodologies.

Note 5. Fair Value of Financial Instruments (Continued)

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. 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 subsequent measurement date closest in time to the actual date of the event or change in circumstances that caused the transfer. There were no transfers among Level 1, 2 and 3 for the three months ended March 31, 2015 and 2014. The following sections describe the valuation techniques used by the Company to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.

Investments for which prices are not observable by the Company are generally private investments in the debt and equity securities of operating companies. The primary analytical method used to estimate the fair value of these Level 3 investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more appropriate). The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including the latest arm's length or market transactions involving the subject security, a benchmark credit spread or other indication of market yields, assumed growth rate (in cash flows), and capitalization rates/multiples (for determining terminal values of underlying portfolio companies). The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date. Application of these valuation methodologies involves a significant degree of judgment by management. Fair values of new investments, or investments where an arm's length transaction occurred in the same security, are generally assumed to be equal to their cost for up to three months after their initial purchase.

To assess the reasonableness of the discounted cash flow approach, the fair value of equity securities, including warrants, in portfolio companies may also consider the market approach—that is, through analyzing and applying to the underlying portfolio companies, market valuation multiples of publicly-traded firms engaged in businesses similar to those of the portfolio companies. The market approach to determining the fair value of a portfolio company's equity security (or securities) will typically involve: (1) applying to the portfolio company's trailing twelve months (or current year projected) EBITDA a low to high range of enterprise value to EBITDA multiples that are derived from an analysis of publicly-traded comparable companies or the portfolio company's entry multiple, in order to arrive at a range of enterprise values for the portfolio company; (2) subtracting from the range of calculated enterprise values the outstanding balances of any debt or equity securities that would be senior in right of payment to the equity securities held by the Company; and (3) multiplying the range of equity values derived therefrom by the Company's ownership share of such equity tranche in order to arrive at a range of fair values for the Company's equity security (or securities). Application of these valuation methodologies involves a significant degree of judgment by management.

Equity in a portfolio company that invests in loans will typically be valued by arriving at a fair value of such vehicle's loan assets (plus, when appropriate, the carrying value of certain other assets), and deducting the book value or fair value (as appropriate) of such vehicle's liabilities to arrive at a fair value for the equity. When appropriate, in order to recognize value that would be created by growth opportunities of such portfolio company, equity in a portfolio company may also be valued by taking into consideration the magnitude, timing, and effective life of its expected future investments in loans.

Due to the inherent uncertainty of determining the fair value of Level 3 investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If the Company were required to liquidate a portfolio investment in a forced or liquidation sale, the Company might realize significantly less than the value at which such investment had previously been recorded. With respect to Level 3 investments, where sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, the Company undertakes, on a quarterly basis, a valuation process as described below:

(Dollar amounts in thousands, except per share data)

Note 5. Fair Value of Financial Instruments (Continued)

- For each debt investment, a basic credit rating review process is completed. The risk rating on every credit facility is reviewed and either reaffirmed or revised by the Investment Advisor's investment committee.
- Each portfolio company or investment is valued by an investment professional.
- The preliminary valuations are documented and are then submitted to the Investment Advisor's investment committee for ratification**.**
- Third party valuation firm(s) are engaged to provide valuation services as requested, by reviewing the investment committee's preliminary valuations. The Investment 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 Company's Board reviews the preliminary valuations of the Investment 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 the Investment Advisor, the audit committee and, where appropriate, the respective independent valuation firms.

The Company's investments are subject to a variety of risks (see Investment Risks in Note 2 for details).

The following tables present fair value measurements of the Company's investments and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	March 31, 2015			
	Fair Value Measurements Using			
Description	(Level I)	(Level II)	(Level III)	Total
Assets:				
Senior secured debt investments	$ -	$ -	$ 232,346	$ 232,346
Subordinated debt investments	-	-	62,578	62,578
Equity investments	-	-	21,260	21,260
Money market funds *	17,689	-	-	17,689
Total	$ 17,689	$ -	$ 316,184	$ 333,873

* included in cash and cash equivalents on the consolidated balance sheet.

	March 31, 2015			
	Fair Value Measurements Using			
Description	(Level I)	(Level II)	(Level III)	Total
Assets:				
Non-control/non-affiliate investments	$ -	$ -	$ 255,295	$ 255,295
Affiliate investments	-	-	60,889	60,889
Money market funds *	17,689	-	-	17,689
Total	$ 17,689	$ -	$ 316,184	$ 333,873

* included in cash and cash equivalents on the consolidated balance sheet.

As of March 31, 2015, the Company had loans to 58 portfolio companies, of which 79% were senior secured loans and 21% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held equity investments in two additional portfolio companies in which it solely held equity interests at March 31, 2015. The following table presents quantitative information about the significant unobservable inputs of the Company's Level 3 debt and equity investments as of March 31, 2015:

(Dollar amounts in thousands, except per share data)

Note 5. Fair Value of Financial Instruments (Continued)

	Fair Value at March 31, 2015	Valuation techniques	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$ 232,346	Discounted cash flow	Discount rates	6.36% - 25.00% (10.65%)
			EBITDA multiples	4.21x - 11.72x (7.07x)
Subordinated	62,578	Discounted cash flow	Discount rates	10.60% - 16.22% (14.16%)
			EBITDA multiples	3.98x - 10.61x (6.04x)
Equity investments	21,260	Discounted cash flow	Discount rates	12.25% - 35.00%
			EBITDA multiples	3.98x - 10.61x
		Market approach	EBITDA multiples	3.56x - 17.17x

Description	December 31, 2014 Fair Value Measurements Using (Level I)	(Level II)	(Level III)	Total
Assets:				
Senior secured debt investments	$ -	$ -	$ 241,749	$ 241,749
Subordinated debt investments	-	-	52,453	52,453
Equity investments	-	-	18,032	18,032
Money market funds *	9,609	-	-	9,609
Total	$ 9,609	$ -	$ 312,234	$ 321,843

* included in cash and cash equivalents on the consolidated balance sheet.

Description	December 31, 2014 Fair Value Measurements Using (Level I)	(Level II)	(Level III)	Total
Assets:				
Non-control/non-affiliate investments	$ -	$ -	$ 254,666	$ 254,666
Affiliate investments	-	-	57,568	57,568
Money market funds *	9,609	-	-	9,609
Total	$ 9,609	$ -	$ 312,234	$ 321,843

* included in cash and cash equivalents on the consolidated balance sheet.

As of December 31, 2014, the Company had loans to 61 portfolio companies, of which 82% were senior secured loans and 18% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held equity investments in one additional portfolio company in which it solely held equity interests at December 31, 2014. The following table presents quantitative information about the significant unobservable inputs of the Company's Level 3 debt and equity investments as of December 31, 2014:

(Dollar amounts in thousands, except per share data)

Note 5. Fair Value of Financial Instruments (Continued)

	Fair Value at December 31, 2014	Valuation techniques	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$ 241,749	Discounted cash flow	Discount rates	5.75% - 25.00% (9.46%)
			EBITDA multiples	4.30x - 10.87x (7.24x)
Subordinated	52,453	Discounted cash flow	Discount rates	12.78% - 15.00% (14.21%)
			EBITDA multiples	3.98x - 5.55x (5.43x)
Equity investments	18,032	Discounted cash flow	Discount rates	12.25% - 35.00%
			EBITDA multiples	3.98x - 9.48x
		Market approach	EBITDA multiples	3.56x - 14.74x

Changes in credit quality (which would impact the discount rate), as well as changes in EBITDA multiples, could have a significant impact on fair values, with the fair value of a particular debt investment susceptible to change in inverse relation to the changes in the discount rate. Changes in EBITDA multiples, as well as changes in the discount rate, could have a significant impact on fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA multiples, and in inverse relation to changes in the discount rate.

The following tables present changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31, 2015			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	$ 241,749	$ 52,453	$ 18,032	$ 312,234
Net realized gain on non-control/non-affiliate investments	90	-	-	90
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(504)	19	132	(353)
Net change in unrealized appreciation/depreciation on affiliate investments	(67)	(31)	844	746
Purchase of portfolio investments	12,688	9,900	2,000	24,588
Capitalized PIK interest, dividends and fees	102	195	296	593
Proceeds from principal payments on portfolio investments	(10,986)	-	-	(10,986)
Sale of portfolio investments	(11,034)	-	-	(11,034)
Amortization of discounts and premium	308	(2)	-	306
Conversion from equity to debt	-	44	(44)	-
Level 3 assets, end of period	$ 232,346	$ 62,578	$ 21,260	$ 316,184

(Dollar amounts in thousands, except per share data)

Note 5. Fair Value of Financial Instruments (Continued)

	For the Three Months Ended March 31, 2014			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	$ 221,546	$ 9,008	$ 7,365	$ 237,919
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	529	-	397	926
Net change in unrealized appreciation/depreciation on affiliate investments	199	(26)	346	519
Net change in unrealized depreciation on control investment	(794)	-	-	(794)
Purchase of portfolio investments	8,901	-	-	8,901
Capitalized PIK interest	57	69	-	126
Proceeds from principal payments on portfolio investments	(19,899)	-	-	(19,899)
Amortization of discounts and premium	323	(19)	-	304
Level 3 assets, end of period	$ 210,862	$ 9,032	$ 8,108	$ 228,002

The net change in unrealized depreciation for the three months ended March 31, 2015 and 2014, reported within the net change in unrealized appreciation/depreciation on investments in the Company's consolidated statements of operations attributable to the Company's Level 3 assets held at the end of the year was $344 and $702, respectively.

The Company discloses fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Certain financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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

As of March 31, 2015 and December 31, 2014, the carrying value of the Company's financial instruments, including its debt obligations under the revolving line of credit, as well as its SBA debentures payable, approximated their estimated fair value.

Note 6. Commitments and Contingencies

At March 31, 2015, the Company had $7,586 of total unfunded commitments for six portfolio companies, consisting of $7,222 of unfunded debt commitments and $364 of unfunded equity commitments. At December 31, 2014, the Company had $7,836 of total unfunded commitments for six portfolio companies, consisting of $7,472 of unfunded debt commitments and $364 of unfunded equity commitments. The Company maintains sufficient cash on hand and availability in borrowings to fund such unfunded commitments.

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

Additionally, the Company is subject to periodic inspection by regulators to assess compliance with applicable regulations related to being a BDC and SBIC I LP is subject to periodic inspections by the SBA. Management believes that the Company is in material compliance with such regulations and inspection results do not indicate otherwise.

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

Note 7. Revolving Line of Credit

OFS Capital WM has a $75,000 secured revolving credit facility (as amended from time to time, the “OFS Capital WM Credit Facility”) with Wells Fargo Bank, N.A. (“Wells Fargo”). The OFS Capital WM Credit Facility is secured by all current and future eligible loans acquired by OFS Capital WM. The OFS Capital WM Credit Facility has a maturity date of December 31, 2018 and a reinvestment period through December 31, 2015. The interest rate on outstanding borrowings is the London Interbank Offered Rate (“LIBOR”) plus 2.50% per annum at March 31, 2015. The minimum equity requirement currently is set at $35,000. As of March 31, 2015, the Company was in compliance with the applicable covenants.

The investments held by OFS Capital WM are serviced by MCF Capital Management, LLC, as Loan Manager, pursuant to the OFS Capital WM Credit Facility documentation. Under the OFS Capital WM Credit Facility, the Loan Manager charges both a senior and subordinated management fee to OFS Capital WM for its services, each at 0.25% per annum of the assigned value of the underlying portfolio investments, which value is determined by the Controlling Lender (as defined in the OFS Capital WM loan documents), plus an accrued fee that is deferred until after the end of the investment period of the portfolio investments. For the three months ended March 31, 2015 and 2014, the Company incurred management fee expense of $138 and $225, respectively, to the Loan Manager.

The interest rates on the revolving line of credit borrowings at March 31, 2015 and December 31, 2014 were 2.78% and 2.76%, respectively. The unused commitment fee on the OFS Capital WM Credit Facility is (1) 0.5% per annum of the first $25,000 of the unused facility and (2) 2% per annum of the balance in excess of $25,000 and is included in interest expense on the consolidated statement of operations. For the three months ended March 31, 2015 and 2014, interest expense on the revolving line of credit totaled $522 and $789, respectively.

Deferred financing closing costs, net of accumulated amortization, on the OFS Capital WM Credit Facility as of March 31, 2015 and December 31, 2014 were $1,269 and $1,803, respectively. For the three months ended March 31, 2015 and 2014, amortization and write-off of deferred financing closing costs on the revolving line of credit totaled $534 and $150, respectively. Write-offs of deferred financing closing costs occur when the credit facility’s commitment is permanently reduced. On March 12, 2015, OFS Capital WM elected to permanently reduce the maximum facility on the OFS Capital WM Credit Facility from $100,000 to $75,000, resulting in a write-off of deferred financing closing costs of $430 (no financing costs were incurred in connection with this facility reduction).

Availability under the OFS Capital WM Credit Facility as March 31, 2015 was $8,206 based on the stated advance rate of 70% under the borrowing base.

Note 8. SBA Debentures Payable

Upon the completion of the SBIC Acquisitions, effective December 4, 2013, the Company consolidated the financial statements of SBIC I LP into its own and SBIC I LP’s SBA debentures payable are reflected on the Company’s consolidated balance sheets.

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

Under present SBIC regulations, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is $150,000. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. As of March 31, 2015, SBIC I LP had had leverage commitments of $149,880 from the SBA, and $140,880 of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $9,000, under present SBIC regulations. As of December 31, 2014 SBIC I LP had leverage commitments of $149,880 from the SBA, and $127,295 of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $22,585.

In January 2015, the Company filed an application with the SBA for a second SBIC license, which, if approved, would provide up to $75,000 in additional SBA debentures for the funding of the Company’s future investments, upon its contribution of at least $37,500 in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA.

On a stand-alone basis, SBIC I LP held $229,122 and $215,728 in assets at March 31, 2015 and December 31, 2014, respectively, which accounted for approximately 66% and 63% of the Company’s total consolidated assets at March 31, 2015 and December 31, 2014, respectively.

(Dollar amounts in thousands, except per share data)

Note 8. SBA Debentures Payable (Continued)

The following table shows the Company's outstanding SBA debentures payable as of March 31, 2015 and December 31, 2014:

Pooling Date (1)	Maturity Date	Fixed Interest Rate	March 31, 2015	December 31, 2014
September 19, 2012	September 1, 2022	3.049%	$ 14,000	$ 14,000
September 25, 2013	September 1, 2023	4.448	7,000	7,000
March 26, 2014	March 1, 2024	3.995	5,000	5,000
September 24, 2014	September 1, 2024	3.819	4,110	4,110
September 24, 2014	September 1, 2024	3.370	31,265	31,265
March 25, 2015	March 1, 2025	2.872	65,920	65,920
September 23, 2015	September 1, 2025	(2)	13,585	-
Total SBA debentures outstanding			$ 140,880	$ 127,295

(1) The SBA has scheduled pooling dates in March and September of each year. SBA debentures issued between pooling dates use an interim rate and will be fixed at the next pooling date.
(2) During the first quarter of 2015, the Company issued a total of $13,585 in SBA debentures which pool in September 2015, at which time the Company expects the current short-term interest rate weighted average of 1.05% will reset to a higher long-term fixed rate.

The Company received exemptive relief from the Securities and Exchange Commission ("SEC") effective November 26, 2013. The exemptive relief allows OFS Capital to exclude SBA guaranteed debentures from the definition of senior securities in the statutory 200% asset coverage ratio under the 1940 Act, allowing for greater capital deployment.

The weighted average fixed interest rate on the SBA debentures as of March 31, 2015 and December 31, 2014 was 3.18% and 3.50%, respectively. For the three months ended March 31, 2015 and 2014, interest expense on the SBA debentures was $708 and $202, respectively.

Deferred financing closing costs, net of accumulated amortization, on SBA-guaranteed debentures as of March 31, 2015 and December 31, 2014 were $3,485 and $3,169, respectively. For the three months ended March 31, 2015 and 2014, amortization of deferred financing closing costs on SBA-guaranteed debentures totaled $13 and $0, respectively.

(Dollar amounts in thousands, except per share data)

Note 9. Financial Highlights

The financial highlights for the Company are as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Per share data:		
Net asset value at beginning of period	$ 14.24	$ 14.58
Distributions (5)		
Dividends from ordinary income	(0.27)(5)	(0.15)(5)
Dividends from capital gains	-	-
Return of capital	(0.07)	(0.19)
Net investment income	0.28	0.15
Net realized gain on non-control/non-affiliate investments	0.01	-
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(0.03)	0.09
Net change in unrealized appreciation/depreciation on affiliate investments	0.08	0.05
Net change in unrealized depreciation on control investment	-	(0.08)
Net asset value at end of period	$ 14.24	$ 14.45
Per share market value, end of period	$ 12.25	$ 12.51
Total return based on market value	6.9%(1)	0.2%(1)
Shares outstanding at end of period	9,662,940	9,632,453
Ratios to average net assets:		
Expense without incentive fees	13.3%(2)	10.5%(2)
Incentive fees	1.1%(2)	-(2)
Total expenses	14.4%(2)	10.5%(2)
Net investment income without incentive fees	9.2%(2)	4.1%(2)
Average net asset value	$ 137,521(3)	$ 139,784(4)

(1) Calculation is ending market value less beginning market value, adjusting for dividends and distributions.
(2) Annualized.
(3) Based on average net asset values at December 31, 2014 and March 31, 2015.
(4) Based on average net asset values at December 31, 2013 and March 31, 2014.
(5) The components of the distributions are estimated and presented on an income tax basis.

Note 10. Dividends and Distributions

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

In addition, the Company may be limited in its ability to make distributions due to the BDC asset coverage test for borrowings applicable to the Company as a BDC under the 1940 Act.

(Dollar amounts in thousands, except per share data)

Note 10. Dividends and Distributions (Continued)

The following table summarizes distributions declared and paid for the three months ended March 31, 2015 and 2014:

Date Declared	Record Date	Payment Date	Amount Per Share (1)	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Three Months Ended March 31, 2014						
January 21, 2014	January 31, 2014	February 14, 2014	$ 0.34	$ 3,240	2,656	$ 34
Three Months Ended March 31, 2015						
March 4, 2015	March 17, 2015	March 31, 2015	$ 0.34	$ 3,133	12,106	$ 148

(1) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. If the tax characteristics of these distributions were determined as of March 31, 2015 and 2014, the Company estimated that approximately $0.07 and $0.19, respectively, would have represented a return of capital.

For the three months ended March 31, 2015, $148 of the total $3,281 paid to shareholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 12,106 shares at a value of $12.25 per share at the date of issuance. For the three months ended March 31, 2014, $34 of the total $3,274 paid to shareholders represented DRIP participation. During this period, the Company satisfied the DRIP participation requirements with the issuance of 2,656 shares at a value of $12.85 per share at the date of issuance.

Since the Company’s IPO, dividends and distributions to shareholders total $27,826, or $2.89 per share on a cumulative basis.

Distributions in excess of the Company’s current and accumulated profits and earnings would be treated first as a return of capital to the extent of the shareholder’s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company’s distributions will be made annually as of the end of its fiscal year based upon its taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company’s distributions for a full year. Each year, a statement on Form 1099-DIV identifying the source of the distribution will be mailed to the Company’s shareholders. For the three months ended March 31, 2015, approximately $0.27 per share and $0.07 per share of the Company’s distributions represented ordinary income and a return of capital to its shareholders, respectively.

Note 11. Earnings per Share

The following table summarizes the calculations for basic and diluted net increase in net assets resulting from operations per common share for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net increase in net assets resulting from operations	$ 3,232	$ 2,051
Basic and diluted weighted average shares outstanding	9,650,969	9,631,155
Net increase in net assets resulting from operations per common share - basic and diluted	$ 0.33	$ 0.21

Note 12. Subsequent Events

On May 4, 2015, the Company’s Board declared a distribution of $0.34 per share for the second quarter of 2015, payable on June 30, 2015 to shareholders of record as of June 16, 2015.

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

Forward-Looking Statements

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

- our limited experience operating a business development company, or BDC or a small business investment company, or SBIC, or maintaining our status as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”);
- our dependence on key personnel;
- our ability to maintain or develop referral relationships;
- the administration of OFS Capital WM, LLC’s, or OFS Capital WM, portfolio by an unaffiliated loan manager;
- our ability to replicate historical results;
- the ability of OFS Capital Management, LLC, or OFS Advisor, to identify, invest in and monitor companies that meet our investment criteria;
- actual and potential conflicts of interest with OFS Advisor and other affiliates of Orchard First Source Asset Management, LLC, or OFSAM, which is the holding company of OFS Advisor and OFS Services and owns approximately 30% of our outstanding shares of common stock;
- constraint on investment due to access to material nonpublic information;
- restrictions on our ability to enter into transactions with our affiliates;
- limitations on the amount of debentures guaranteed by the Small Business Administration, or SBA, that may be issued by an SBIC;
- our ability to comply with SBA and BDC regulations and requirements;
- the use of borrowed money to finance a portion of our investments;
- competition for investment opportunities;
- our ability to qualify and maintain our qualification as a RIC and as a BDC;
- the ability of OFS SBIC I LP, or SBIC I LP, OFS Capital WM and any other portfolio companies to make distributions enabling us to meet RIC requirements;
- our ability to raise capital as a BDC;
- the timing, form and amount of any distributions from our portfolio companies;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the general economy and its impact on the industries in which we invest;
- uncertain valuations of our portfolio investments; and
- the effect of new or modified laws or regulations governing our operations.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this quarterly report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include, among others, those described or identified in “Item 1A. Risk Factors” in our annual report on Form 10-K for our year ended December 31, 2014. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this quarterly report on Form 10-Q.

We have based the forward-looking statements on information available to us on the date of this quarterly report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we may file with the SEC in the future, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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

Overview

We are an externally managed, closed-end, non-diversified management investment company. Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. Our investment strategy focuses primarily on investments in middle-market companies in the United States. We use the term “middle-market” to refer to companies that may exhibit one or more of the following characteristics: number of employees between 150 and 2,000; revenues between $15 million and $300 million; annual earnings before interest, taxes, depreciation and amortization, or EBITDA, between $3 million and $50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between $10 million and $500 million.

As of March 31, 2015, our investment portfolio consisted of outstanding loans of approximately $302.4 million in aggregate principal amount in 58 portfolio companies, of which $191.8 million in aggregate principal amount was held by SBIC I LP, our wholly-owned SBIC subsidiary, in 25 portfolio companies. In addition, as of March 31, 2015, SBIC I LP held equity investments of approximately $19.3 million, at fair value, and our newly formed tax blocker entity, FQSR II, LLC, or FQSR, held an equity investment of approximately $2.0 million. As of March 31, 2015, 73% of our investment portfolio was comprised of senior secured loans, 20% of subordinated loans and 7% of equity investments, at fair value.

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

Our investment strategy includes SBIC I LP, which received an SBIC license from the SBA in May 2012. On December 4, 2013, we received approval from the SBA to acquire all of the limited partnership interests in SBIC I LP and all of the ownership interests of its general partner, OFS SBIC I GP, LLC, or SBIC I GP, that were owned or subscribed for by other persons (the “SBIC Acquisitions”). We acquired the interests on December 4, 2013, which resulted in SBIC I LP becoming a wholly-owned subsidiary. The transaction was finalized in January 2014. The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA leverage funding is subject to SBIC I LP’s payment of certain fees to the SBA, and the ability of SBIC I LP to draw on the commitment is subject to its compliance with SBA regulations and policies, including an audit by the SBA.

On November 26, 2013, we received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of senior securities in the statutory 200% asset coverage ratio under the 1940 Act, allowing for greater capital deployment.

Our investment activities are managed by OFS Advisor, and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the Investment Advisory Agreement between us and OFS Advisor, we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), adjusted for any share issuances or repurchases during the quarter, as well as an incentive fee based on our investment performance. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from the SBIC Acquisitions. We have also entered into an Administration Agreement with OFS Services, our Administrator. Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to policies reviewed and approved by our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.

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

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

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

On January 8, 2015, in order to comply with certain requirements necessary to maintain the RIC status, we formed FQSR, a Delaware limited liability company and wholly owned subsidiary of OFS Capital, to hold an equity investment in a portfolio company. FQSR has elected to be taxed as a C corporation and is excluded from our RIC tax reporting group. For income tax purposes, “we”, “OFS Capital”, or the “Company” only refers to the RIC tax reporting group throughout this document.

Critical Accounting Policies

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

Valuation of Portfolio Investments.

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

Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 820. At March 31, 2015, approximately 91% of our total assets represented investments in portfolio companies that are valued at fair value by our board of directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value as determined in good faith by the board of directors. Our debt and equity securities are primarily comprised of investments in middle market companies whose securities are not publicly traded. Our investments in these portfolio companies are generally considered Level 3 assets under ASC Topic 820 because the inputs used to value the investments are generally unobservable. As such, we value substantially all of our investments at fair value as determined in good faith by our board of directors pursuant to a consistent valuation policy in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our board of directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

Our policies relating to the valuation of our portfolio investments are as follows:

Investments for which sufficient market quotations are readily available are valued at such market quotations. We may also obtain indicative prices with respect to certain of our investments from pricing services or brokers or dealers in order to value such investments. There is not a readily available market value for many of our investments; those debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by the board of directors. We value such investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. Our valuation of each of our assets for which sufficient market quotations are not readily available is reviewed by one or more independent third-party valuation firms at least once every 12 months.

Our board of directors is ultimately and solely responsible for determining the fair value of the portfolio investments that are not publicly traded, whose market prices are not readily available on a quarterly basis or any other situation where portfolio investments require a fair value determination.

With respect to investments for which sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, our board of directors undertakes, on a quarterly basis, unless otherwise noted, a multi-step valuation process, as described below:

- For each debt investment, a basic credit rating review process is completed. The risk rating on every credit facility is reviewed and either reaffirmed or revised by OFS Advisor's investment committee, or the Advisor Investment Committee. This process establishes base information for the quarterly valuation process.

- Each portfolio company or investment is valued by an investment professional.

- The preliminary valuations are documented and are then submitted to the Advisor Investment Committee for ratification.

- Third-party valuation firm(s) are engaged to provide valuation services as requested, by reviewing the preliminary valuations of the Advisor Investment Committee. The Advisor Investment Committee's preliminary fair value conclusions on each of our assets, for which sufficient market quotations are not readily available are 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 our board of directors or required by our 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 our board of directors.

- The audit committee of our board of directors reviews the preliminary valuations of the Advisor Investment Committee and independent valuation firms and, if appropriate, recommends the approval of the valuations by the board of directors.

- Our board of directors 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 firms.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our financial statements will express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

Revenue Recognition. Our revenue recognition policies are as follows:

Interest Income: Interest income is accrued based upon the outstanding principal amount and contractual interest terms of the debt investments. Recognized interest income, if payable monthly or quarterly, is reflected as interest receivable until collected. Recognized interest income that is instead added to the principal balance and generally becomes due at maturity or at some other stipulated date ("PIK interest") is reflected in the investment account. We accrue interest income until certain events take place, which may place a loan into a non-accrual status (see below). We will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Loan origination fees, OID, market discount or premium, and loan amendment fees (collectively, "net loan origination fees") are capitalized, and we accrete or amortize such amounts on a straight-line basis over the life of the loan as additional interest income. When we receive a loan principal payment, the OID related to the paid principal is accelerated and recognized in interest income. This method is not materially different than the effective interest rate method. Unamortized OID is reflected in the investment account and unamortized loan amendment fees are reflected as deferred loan fee revenue. All other interest income is recorded into income when earned. Further, in connection with our debt investments, we will sometimes receive warrants or similar no cost equity-related securities ("Warrants"). We determine the cost basis of Warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

As of March 31, 2015 and December 31, 2014, unamortized discounts and origination fees on debt investments amounted to $3.4 million and $3.7 million, respectively. For the three months ended March 31, 2015 and 2014, we recognized net loan origination fee income of $379 thousand and $342 thousand, respectively. For the three months ended March 31, 2015 and 2014, we recognized PIK interest income in the amount of $297 thousand and $126 thousand, respectively. To maintain its status as a RIC, we include non-cash interest income (and non-cash dividend income described below) in the amounts that must be paid out to our shareholders in the form of distributions.

Dividend Income: Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared or at the point an obligation exists for the portfolio company to make a distribution supported by tax-basis earnings and profits. Dividend income on preferred equity is accrued as earned. Such dividends on preferred equity securities could 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 reflected as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared are reflected in the investment account. We stop accruing dividends on our preferred equity securities when it is determined that the dividend is not collectible. We assess the collectability of the dividends based on factors including the fair value of the preferred equity security as well as the valuation of the portfolio company's enterprise value. During the three months ended March 31, 2015 and 2014, we recognized preferred dividend income of $328 thousand and $30 thousand, respectively, of which $296 thousand and $0, respectively, was contractually earned but not declared. We did not recognize any common stock dividend income for the three months ended March 31, 2015 and 2014.

Fee Income: We may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services are rendered and amounted to $134 thousand and $68 thousand, for the three months ended March 31, 2015 and 2014, respectively.

Other Income: Investment transactions are accounted for on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the cost basis of investment, without regard to unrealized gains or losses previously recognized. Distribution of earnings from portfolio companies are evaluated to determine if the distribution is income or return of capital.

Investments are recorded at fair value. Our board of directors determines the fair value of our portfolio investments. After recording all appropriate interest and dividend income, some of which is reflected in the investment account as described above, we report changes in fair value of investments that are measured at fair value as a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

Non-accrual loans: Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans, and non-accrual loans are further designated to be accounted for under either a non-accrual cash method or a non-accrual cost recovery method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest based on contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of management, there is reasonable doubt about the collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has already been contractually added to the principal balance, is reversed against current period interest income. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. We had one non-accrual loan at March 31, 2015 and December 31, 2014, which was accounted for as a non-accrual cash method loan. The loan had an aggregate fair value of $713 thousand and $801 thousand at March 31, 2015 and December 31, 2014, respectively.

***Principles of consolidation*.**

Our March 31, 2015 consolidated unaudited financial statements include the accounts of the OFS Capital and its wholly owned subsidiaries, OFS Capital WM, OFS Funding, LLC, SBIC I LP, SBIC I GP, and FQSR. We consolidate an affiliated subsidiary if we own more than 50 percent of the subsidiary's equity and hold the controlling financial interest in such subsidiary. We also consolidate a variable interest entity ("VIE") if we are the primary beneficiary in the VIE.

Portfolio Composition and Investment Activity

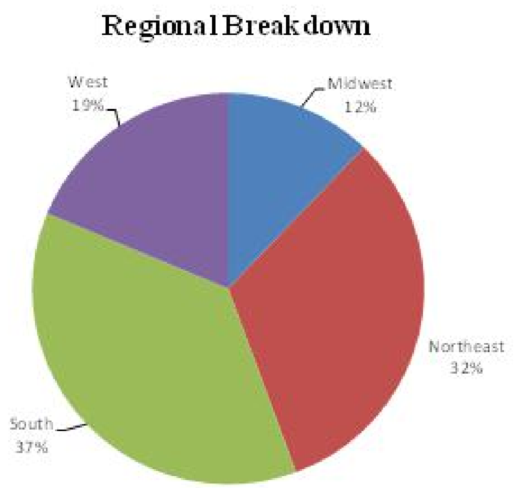
Portfolio Composition

The total fair value of our investments was approximately $316.2 million at March 31, 2015 and approximately $312.2 million at December 31, 2014. Our investment portfolio as of March 31, 2015 consisted of outstanding loans to 58 portfolio companies, totaling approximately $302.4 million in aggregate principal amount (including SBIC I LP's $191.8 million in loans to 25 portfolio companies), of which 79% were senior secured loans and 21% were subordinated loans, as well as $21.3 million in equity investments, at fair value. At March 31, 2015, our equity investments consisted of $2.0 million held by FQSR in one portfolio company, and $19.3 million held by SBIC I LP in 15 portfolio companies in which it also held a debt investment and one portfolio company in which it solely held an equity investment. Our investment portfolio encompassed a broad range of geographical regions within the United States and industries. As of March 31, 2015, we had $7.6 million of unfunded commitments to six portfolio companies, consisting of $7.2 million of unfunded debt commitments and $0.4 million of unfunded equity commitments, all of which were commitments of SBIC I LP.

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

	Commitment	Outstanding Principal	Fair Value
	(Dollar amounts in thousands)		
Senior secured term loan	$ 243,302	$ 239,802	$ 232,379
Subordinated term loan	65,218	62,590	62,578
Senior secured revolver	1,094	-	(33)
Equity investments	21,624	N/A	21,260
	$ 331,238	$ 302,392	$ 316,184
Total # of Obligors	58	58	58

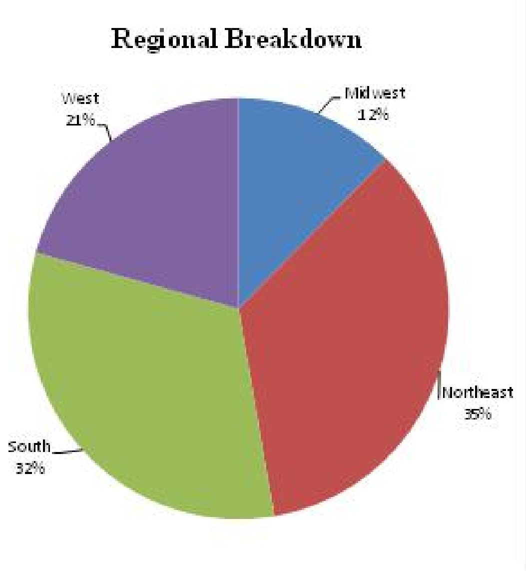
The following chart provides a regional breakdown of our debt investment portfolio commitments as of March 31, 2015.



The following table summarizes the composition of our investment portfolio as of December 31, 2014.

	Commitment	Outstanding Principal	Fair Value
	(Dollar amounts in thousands)		
Senior secured term loan	$ 252,471	$ 248,971	$ 241,773
Subordinated term loan	55,230	52,352	52,453
Senior secured revolver	1,094	-	(24)
Equity investments	18,396	N/A	18,032
	$ 327,191	$ 301,323	$ 312,234
Total # of Obligors	61	61	61

The following chart provides a regional breakdown of our debt investment portfolio commitments as of December 31, 2014.



As of March 31, 2015, our debt and equity investment portfolio's three largest industries were: Services: Business, Healthcare & Pharmaceuticals, and Capital Equipment, totaling approximately 51.1% of the investment portfolio. The following table summarizes our investment portfolio commitments by industry as of March 31, 2015.

	As of March 31, 2015	
Industry	Commitment	Percent
	(Dollar amounts in thousands)	
Services: Business	$ 82,345	24.9%
Healthcare & Pharmaceuticals	48,890	14.8
Capital Equipment	37,974	11.4
Banking, Finance, Insurance & Real Estate	33,152	10.0
Media: Advertising, Printing & Publishing	20,459	6.2
Aerospace & Defense	17,899	5.4
Chemicals, Plastics & Rubber	17,425	5.2
Metals & Mining	14,209	4.3
Construction & Building	12,571	3.8
Services: Consumer	9,568	2.9
Environmental Industries	7,517	2.2
Telecommunications	6,970	2.1
High Tech Industries	4,582	1.4
Media: Diversified & Production	4,262	1.3
Containers, Packaging & Glass	3,944	1.2
Media: Broadcasting & Subscription	3,502	1.1
Energy: Oil & Gas	2,771	0.8
Beverage, Food, & Tobacco	2,009	0.6
Consumer goods: Non-durable	1,189	0.4
	$ 331,238	100.0%

The following table summarizes our debt investment portfolio by size of exposure.

	As of March 31, 2015		
Debt Investment Size (in millions)	Commitment	Percent	Number
	(Dollar amounts in thousands)		
$0 - $3	$ 32,985	11%	14

$3 - $4	45,989	15	13
$4 - $5	58,476	19	13
$5 - $10	95,842	31	12
> $10	76,322	24	6
	$ 309,614	100%	58

As of December 31, 2014, our debt and equity investment portfolio's three largest industries were: Services: Business, Healthcare & Pharmaceuticals, and Capital Equipment, totaling approximately 50.7% of the investment portfolio. The following table summarizes our investment portfolio commitments by industry as of December 31, 2014.

Industry	As of December 31, 2014	
	Commitment	Percent
	(Dollar amounts in thousands)	
Services: Business	$ 77,895	23.9%
Healthcare & Pharmaceuticals	49,862	15.2
Capital Equipment	38,021	11.6
Banking, Finance, Insurance & Real Estate	27,216	8.3
Media: Advertising, Printing & Publishing	20,513	6.3
Aerospace & Defense	18,100	5.5
Chemicals, Plastics & Rubber	17,580	5.4
Metals & Mining	14,097	4.3
Construction & Building	12,574	3.9
Services: Consumer	9,576	2.9
High Tech Industries	7,630	2.3
Environmental Industries	7,577	2.3
Telecommunications	6,987	2.1
Media: Diversified & Production	4,244	1.3
Containers, Packaging & Glass	4,009	1.2
Media: Broadcasting & Subscription	3,592	1.1
Retail	3,589	1.1
Energy: Oil & Gas	2,810	0.9
Consumer goods: Non-durable	1,319	0.4
	$ 327,191	100.0%

The following table summarizes our debt investment portfolio by size of exposure.

Debt Investment Size (in millions)	As of December 31, 2014		
	Commitment	Percent	Number
	(Dollar amounts in thousands)		
$0 - $3	$ 35,555	11%	15
$3 - $4	52,486	17	15
$4 - $5	67,292	22	15
$5 - $10	77,240	25	10
> $10	76,222	25	6
	$ 308,795	100%	61

The following table provides a breakdown of our debt investment portfolio by yield and investment category as of March 31, 2015 and December 31, 2014.

	As of March 31, 2015		As of December 31, 2014	
Yield to Fair Value	**Senior Secured Debt**	**Subordinated Debt**	**Senior Secured Debt**	**Subordinated Debt**
Less than 6%	8.9%	-%	11.3%	-%
6% - 7%	29.2	-	37.8	-
8% - 10%	33.1	0.1	26.3	-
Greater than 10%	28.8	99.9	24.6	100.0
Total	100.0%	100.0%	100.0%	100.0%

Investment Activity

For the three months ended March 31, 2015, we closed new debt investments with two portfolio companies with an aggregate principal balance of $16.0 million and made follow-on debt investments of approximately $6.8 million in two existing portfolio companies, including an additional funding of $0.3 million under a delayed draw senior term loan facility. In addition, for the three months ended March 31, 2015, we purchased equity interests of $2.0 million in a new portfolio company. For the three months ended March 31, 2015, we received approximately $11.0 million in proceeds from principal payments on debt investments, and approximately $18.3 million in proceeds from debt investments we sold, of which approximately $7.2 million pertained to a debt investment we sold in December 2014.

For the three months ended March 31, 2014, we closed one new debt investment with a face value of $3.0 million and made an add-on investment of approximately $0.8 million in an existing portfolio company. In addition, for the three months ended March 31, 2014, we participated in refinancing transactions with two existing portfolio companies totaling approximately $5.1 million. For the three months ended March 31, 2014, we received approximately $19.9 million in proceeds from principal payments on debt investments, and approximately $4.5 million in proceeds from a debt investment we sold in December 2013.

Portfolio Credit Ratings

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

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

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

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

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

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

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

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

The following table shows the classification of our debt investments portfolio by credit rating as of March 31, 2015 and December 31, 2014:

	March 31, 2015		**December 31, 2014**	
	Debt Investments, at Fair Value	**% of Debt Investments**	**Debt Investments, at Fair Value**	**% of Debt Investments**
Credit Rating	**(Dollar amounts in thousands)**			
1	$ -	0.0%	$ -	0.0%
2	13,514	4.6%	13,646	4.6%
3	273,641	92.8%	272,387	92.6%
4	7,056	2.4%	7,368	2.5%
5	-	0.0%	-	0.0%
6	713	0.2%	801	0.3%
7	-	0.0%	-	0.0%
	$ 294,924	100.0%	$ 294,202	100.0%

The following table shows the cost and fair value of our portfolio of investments by asset class as of March 31, 2015 and December 31, 2014.

	March 31, 2015		**December 31, 2014**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
	(Dollar amounts in thousands)			
Senior Secured				
Performing	$ 233,033	$ 231,633	$ 241,863	$ 240,948
Non-Accrual	3,988	713	3,988	801
Subordinated				
Performing	62,474	62,578	52,337	52,453
Non-Accrual	-	-	-	-
Equity Investments	17,636	21,260	15,385	18,032
Total	$ 317,131	$ 316,184	$ 313,573	$ 312,234

At March 31, 2015 and December 31, 2014, we had one non-accrual loan with a fair value of approximately $0.7 million and $0.8 million, respectively.

As of March 31, 2015, the weighted average yield to fair value of our debt investment portfolio was approximately 10.24% comprised of a weighted average yield to fair value of 9.33% and 13.6% from our senior secured debt investments and subordinated debt investments, respectively. Throughout this document, the weighted average yield on debt investments at fair value is computed as (a) total annual stated interest on accruing loans plus the annualized accretion of OID and amortization of deferred loan fees divided by (b) total debt investments at fair value excluding assets on non-accrual basis. The weighted average yield on debt investments at fair value is computed as of the balance sheet date.

As of March 31, 2015, floating rate loans comprised 70% of our debt investment portfolio and fixed rate loans comprised 30% of our debt investment portfolio, respectively, as a percent of fair value.

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

Results of Operations

Key Financial Measures

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

Revenues. We generate revenue in the form of interest income on debt investments, capital gains, and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of March 31, 2015, floating rate and fixed rate loans comprised 70% and 30% respectively, as a percent of fair value, of our current debt investment portfolio; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will increase. In some cases, our investments will provide for deferred interest or dividend payment, PIK interest, or PIK dividend, respectively, (meaning interest or dividend paid in the form of additional principal amount of the loan or equity security instead of in cash). In addition, we may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Loan origination fees, OID, market discount or premium, and loan amendment fees are capitalized, and we accrete or amortize such amounts over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its carrying value, we will also record the excess principal payment as income.

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;
- out-of-pocket fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- U.S. federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors' and officers' liability insurance and other insurance premiums;
- direct costs, such as printing, mailing and long-distance telephone;
- fees and expenses associated with independent audits and outside legal costs;

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

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

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

Comparison of the three month periods ended March 31, 2015 and March 31, 2014

Consolidated operating results for the three month periods ended March 31, 2015 and 2014, are as follows:

	Three Months Ended March 31,	
	2015	**2014**
	(Amounts in thousands)	
Total investment income	$ 7,621	$ 5,012
Total expenses	4,872	3,612
Net investment income	2,749	1,400
Net realized and unrealized gain on investments	483	651
Net increase in net assets resulting from operations	$ 3,232	$ 2,051

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

Investment Income

	Three Months Ended March 31,	
	2015	**2014**
	(Amounts in thousands)	
Interest income		
Non-control/non-affiliate investments	$ 5,815	$ 3,786
Affiliate investments	1,343	827
Control investment	-	302
Total interest income	7,158	4,915
Dividend and fee income		
Non-control/non-affiliate investments	185	8
Affiliate investments	278	64
Control investment	-	25
Total dividend and fee income	463	97
Total investment income	$ 7,621	$ 5,012

Total investment income increased by approximately $2.6 million, or 52%, for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The $2.6 million increase in total investment income was due to an increase in interest income, and dividend and fee income. The increase in interest income was primarily attributable to an increase in debt investments originated by SBIC I LP ("SBIC I LP Investments") during the three months ended March 31, 2015, which typically have a higher yield than the debt investments held by OFS Capital WM ("OFS Capital WM Investments"). The increase in dividend and fee income was primarily attributable to our recognition of dividend income contractually earned but not declared on certain of our preferred equity investments primarily held by SBIC I LP during the three months ended March 31, 2015, as well as fee income recognized by SBIC I LP in connection with certain of its debt investments. The increase in total investment income from SBIC I LP Investments was offset by a decrease in interest income from OFS Capital WM Investments, due to a decrease in OFS Capital WM Investments since the quarter ended March 31, 2014.

Interest Income:

For the three months ended March 31, 2015, we generated total interest income from non-control/non-affiliate investments in the amount of approximately $5.8 million, of which approximately $3.9 million was generated by SBIC I LP Investments and $1.9 million by OFS Capital WM Investments. For the three months ended March 31, 2014, interest income from non-control/non-affiliate investments was approximately $3.8 million, of which approximately $0.5 million was generated by SBIC I LP Investments and $3.3 million by OFS Capital WM Investments. The increase in interest income from non-control/non-affiliate investments generated by SBIC I LP Investments of approximately $3.4 million was attributable to an increase in debt investments originated by SBIC I LP since the quarter ended March 31, 2014. The decrease in interest income from non-control/non-affiliate investments generated by OFS Capital WM Investments of approximately $1.4 million was primarily due to the decrease in OFS Capital WM Investments since the quarter ended March 31, 2014.

SBIC I LP holds all of our affiliate investments. For the three months ended March 31, 2015 and 2014, SBIC I LP generated total interest income from affiliate investments in the amount of approximately $1.3 million and $0.8 million, respectively. The increase in total interest income from affiliate investments of approximately $0.5 million was primarily due to an increase in debt investments originated by SBIC I LP since the quarter ended March 31, 2014.

SBIC I LP held our only control investment in Tangible Software, Inc. ("Tangible") until December 17, 2014, when the Tangible investment was restructured. The post-restructured debt investment was categorized as an affiliate investment. For the three months ended March 31, 2014, SBIC I LP generated total interest income from control investment in the amount of approximately $0.3 million.

Dividend and Fee Income:

During the three months ended March 31, 2015 and 2014, SBIC I LP generated dividend and fee income of approximately $0.5 million and $0.1 million, respectively. The increase of approximately $0.4 million was primarily due to our recognition of approximately $0.3 million of dividend income contractually earned but not declared on certain of our preferred equity investments primarily held by SBIC I LP during the three months ended March 31, 2015, as well as fee income of approximately $0.1 million recognized by SBIC I LP in connection with certain of its debt investments.

Expenses

	Three Months Ended March 31,	
	2015	**2014**
	(Amounts in thousands)	
Interest expense	$ 1,230	$ 991
Amortization and write-off of deferred financing closing costs	547	150
Amortization of intangible asset	49	63
Management fees	1,555	1,264
Incentive fee	375	-
Professional fees	315	454
Administrative fee	541	475
General and administrative expenses	260	215
Total expenses	$ 4,872	$ 3,612

Total expenses increased by approximately $1.3 million, or 35%, for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014.

Interest expense increased by approximately $0.2 million for the three months ended March 31, 2015, compared to the three months ended March 31, 2014, due to an increase of approximately $0.5 million in interest expense incurred on our SBA debentures, which increased substantially at March 31, 2015 compared with the debenture balance at March 31, 2014, offset by a 2015 decrease of approximately $0.3 million in interest expense on the OFS Capital WM's credit facility ("OFS Capital WM Credit Facility"), primarily due to lower borrowings on the facility in 2015.

Amortization and write-off of deferred financing closing costs increased by approximately $0.4 million for the three months ended March 31, 2015, compared to the three months ended March 31, 2014, primarily due to a write-off of deferred financing closing costs in the amount of approximately $0.4 million in connection with our March 2015 permanent reduction of the OFS Capital WM Credit Facility from $100.0 million to $75.0 million.

Management fee expense totaled approximately $1.6 million for the three months ended March 31, 2015, consisting of approximately $1.5 million of base management fee expense we incurred to OFS Advisor and approximately $0.1 million of loan management fee charged by MCF Capital Management, LLC, the loan manager for OFS Capital WM (see OFS Capital WM Credit Facility section below for more details). Management fee expense totaled approximately $1.3 million for the three months ended March 31, 2014, consisting of approximately $1.1 million of base management fee expense we incurred to OFS Advisor and approximately $0.2 million of loan management fee charged by the loan manager for OFS Capital WM. The base management fee to OFS Advisor increased by approximately $0.4 million primarily due to an increase in our average total assets at March 31, 2015 and December 31, 2014 ("2015 Management Fee Base"), as compared to our average total assets at March 31, 2014 and December 31, 2013 ("2014 Management Fee Base"). The increase in the 2015 Management Fee Base as compared to the 2014 Management Fee Base was largely attributable to the higher SBIC I LP Investments balance at March 31, 2015 as compared to March 31, 2014. The loan management fee charged by MCF Capital Management, LLC decreased by $0.1 million due to a decrease in OFS Capital WM Investments in 2015 as compared with 2014.

For the three months ended March 31, 2015 we incurred an incentive fee expense to OFS Advisor in the amount of approximately $0.4 million. We did not incur an incentive fee expense for the three months ended March 31, 2014.

Net Realized and Unrealized Gain on Investments

	Three Months Ended March 31,	
	2015	2014
	(Amounts in thousands)	
Net realized gain on non-control/non-affiliate investments	$ 90	$ -
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(353)	926
Net change in unrealized appreciation/depreciation on affiliate investments	746	519
Net change in unrealized depreciation on control investment	-	(794)
Net realized and unrealized gain on investments	$ 483	$ 651

For the three months ended March 31, 2015, we recorded total net realized and unrealized gain on investments in the amount of approximately $0.5 million, consisting of approximately $0.1 million of net realized gain on sale of three of our debt investments, $0.4 million of net unrealized depreciation on non-control/non-affiliate investments, and $0.8 million of net unrealized appreciation on affiliate investments.

For the three months ended March 31, 2014, we recorded total net realized and unrealized gain on investments in the amount of approximately $0.7 million, consisting of approximately $0.9 million of net unrealized appreciation on non-control/non-affiliate investments, $0.5 million of net unrealized appreciation on affiliate investments, and $0.8 million of unrealized depreciation on control investment (Tangible).

Financial Condition, Liquidity and Capital Resources

Cash and Cash Equivalents

At March 31, 2015 and December 31, 2014, we had cash and cash equivalents of $21.3 million and $12.4 million, respectively. During the three months ended March 31, 2015, we had net cash provided by operating activities of $7.0 million, primarily due to $11.0 million of cash we received from principal payments on our portfolio investments, cash collections of $18.3 million from sale of our portfolio investments, including $7.2 million of cash collection from an investment we sold in December 2014, as well as our $3.2 million net increase in net assets resulting from operations. These cash receipts were offset by $24.6 million of cash we used to purchase portfolio investments.

Net cash provided by financing activities was $1.8 million for the three months ended March 31, 2015, primarily attributable to $13.3 million of draws from our SBA debentures (net of the fees), offset by the $8.3 million of net repayments on the OFS Capital WM Credit Facility, and $3.1 million of cash we paid in dividends and distributions.

We intend to generate additional cash flows from our operations, future offerings of securities, and future borrowings. Our primary uses of funds are investments in debt and equity investments, interest payments on indebtedness, payment of other expenses, and cash distributions to our shareholders.

The OFS Capital WM Credit Facility

OFS Capital WM has a $75.0 million secured revolving credit facility, as amended from time to time, with Wells Fargo Bank, N.A. The OFS Capital WM Credit Facility is secured by all current and future eligible loans acquired by OFS Capital WM. The OFS Capital WM Credit Facility has a maturity date of December 31, 2018 and a reinvestment period through December 31, 2015. The interest rate on outstanding borrowings is the London Interbank Offered Rate ("LIBOR") plus 2.50% per annum at March 31, 2015. The minimum equity requirement currently is set at $35.0 million. As of March 31, 2015, we were in compliance with the relevant covenants.

As of March 31, 2015 and December 31, 2014, we had $64.3 million and $72.6 million, respectively, in indebtedness outstanding under the OFS Capital WM Credit Facility. The interest rates on the revolving line of credit borrowings at March 31, 2015 and December 31, 2014 were 2.78% and 2.76%, respectively. For the three months ended March 31, 2015 and 2014, interest expense on the OFS Capital WM Credit Facility was approximately $0.5 million and $0.8 million, respectively.

If at any time the amount of loans outstanding under the OFS Capital WM Credit Facility exceeds the borrowing base, a borrowing base deficiency will exist. In that event, OFS Capital WM will have three business days to eliminate the deficiency by, among other things, (a) depositing additional cash into the relevant collection account, (b) repaying the loans, or (c) pledging additional eligible loan assets. In the case of such a deficiency, we may determine it is in our best interests to make additional capital contributions to OFS Capital WM in the form of cash or additional eligible loan assets to protect the value of our equity investment in OFS Capital WM, and our additional contributions could be material.

Under the OFS Capital WM Credit Facility, the loan manager charges both a senior and subordinated management fee to OFS Capital WM for its services, each at 0.25% per annum of the assigned value of the underlying portfolio investments, which value is determined by the Controlling Lender (as defined in the OFS Capital WM loan documents), plus an accrued fee that is deferred until after the end of the investment period of the portfolio investments. For the three months ended March 31, 2015 and 2014, we incurred management fee expense of approximately $0.1 million and $0.2 million, respectively, to the loan manager.

Availability under the OFS Capital WM Credit Facility as of March 31, 2015 was approximately $8.2 million based on the stated advance rate of 70% under the borrowing base.

SBA Debentures

As a result of the SBIC Acquisitions, SBIC I LP became our wholly-owned subsidiary effective December 4, 2013. SBIC I LP has an SBIC license that allows it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to OFS Capital, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities.

Under present SBIC regulations, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is $150.0 million. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. As of March 31, 2015, SBIC I LP had leverage commitments of $149.9 million from the SBA, and $140.9 million of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $9.0 million. As of December 31, 2014, SBIC I LP had leverage commitments of $149.9 million from the SBA, and $127.3 million of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $22.6 million.

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

On a stand-alone basis, SBIC I LP held approximately $229.1 million and $215.7 million in assets at March 31, 2015 and December 31, 2014, respectively, which accounted for approximately 66% and 63% of our total consolidated assets at March 31, 2015 and December 31, 2014, respectively.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $19.5 million and have average annual fully taxed net income not exceeding $6.5 million for the two most recent fiscal years. In addition, an SBIC must devote 25.0% of its investment activity to “smaller” enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative criteria to determine eligibility, which may include, among other things, the industry in which the business is engaged, the number of employees of the business, its gross sales, and the extent to which the SBIC is proposing to participate in a change of ownership of the business. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

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

Other Liquidity Matters

We expect to fund the growth of our investment portfolio through future securities offerings, and future borrowings or issuances of senior securities to the extent permitted by the 1940 Act. In addition, we may determine to sell lower-yielding investments in the portfolio to generate liquidity for the acquisition of higher-yielding investments. We cannot assure shareholders that our plans to raise capital will be successful. In addition, we intend to distribute to our shareholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments or make additional investments in our portfolio companies, including the funding of our unfunded commitments to portfolio companies. The illiquidity of certain of our portfolio investments could make it difficult for us to sell these investments when desired or to realize their recorded value.

In addition, as a BDC, we generally will be required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities (including SBIC I LP’s SBA-guaranteed debt), to total senior securities, which include all of our borrowings (excluding SBA-guaranteed debt) and any outstanding preferred stock (of which we had none at March 31, 2015), of at least 200%. We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the statutory 200% asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including debt and equity offerings, the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. As of March 31, 2015, we had $7.6 million of total unfunded commitments to six portfolio companies. Unfunded commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on our balance sheet.

Contractual Obligations

The following table shows our contractual obligations as of March 31, 2015:

	Payments due by period				
Contractual Obligations (1)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years (2)**	**After 5 years (2)**
	(Amounts in thousands)				
SBA Debentures	$ 140,880	$ -	$ -	$ -	$ 140,880
OFS Capital WM Credit Facility	64,348	-	-	64,348	-
Total	$ 205,228	$ -	$ -	$ 64,348	$ 140,880

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

(2) The OFS Capital WM Credit Facility is scheduled to mature on December 31, 2018. The SBA debentures are scheduled to mature between September 2022 and 2025.

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

Commitments and Contingencies

At March 31, 2015, we had $7.6 million of total unfunded commitments for six portfolio companies, consisting of $7.2 million of unfunded debt commitments and $0.4 million of unfunded equity commitments. At December 31, 2014, we had $7.8 million of total unfunded commitments for six portfolio companies, consisting of $7.4 million of unfunded debt commitments and $0.4 million of unfunded equity commitments. We maintain sufficient cash on hand and availability in borrowings to fund such unfunded commitments.

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

Additionally, we are subject to periodic inspection by regulators to assess compliance with applicable regulations related to being a BDC and SBIC I LP is subject to periodic inspections by the SBA. Management believes that the Company is in material compliance with such regulations and inspection results do not indicate otherwise.

In the normal course of business, we enter into contracts and agreements that contain a variety of representations and warranties that provide general indemnifications. Our maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against us that have not occurred. We believe the risk of any material obligation under these indemnifications to be low.

Distributions

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

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

The following table summarizes our distributions declared and paid to date on all shares subsequent to our initial public offering ("IPO") (dollar amounts in thousands except per share data):

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

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

(2) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. If the tax characteristics of these distributions were determined as of March 31, 2015, December 31, 2014, September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, and December 31, 2012 (for the period November 8, 2012 through December 31, 2012), the Company estimated that approximately $0.07, $0.11, $0.04, $0.12, $0.19, zero, $0.18, $0.19, $0.18 and zero, respectively, would have represented a return of capital.

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

Distributions in excess of our current and accumulated earnings and profits generally are treated first as a return of capital to the extent of the shareholder's tax basis, and any remaining distributions are treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year; therefore, a determination made on a quarterly basis may not be representative of the tax attributes of our annual distributions to shareholders. For the distribution paid during the three months ended March 31, 2015, out of the approximately $3.3 million distribution, approximately 21% represented a return of capital and 79% represented ordinary income.

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

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

Related Party Transactions

Investment Advisory Agreement

We have entered into an Investment Advisory Agreement with OFS Advisor and will pay OFS Advisor a management fee and incentive fee. Pursuant to the Investment Advisory Agreement with OFS Advisor and subject to the overall supervision of our board of directors and in accordance with the 1940 Act, OFS Advisor provides investment advisory services to us. For providing these services, OFS Advisor receives a fee from us consisting of two components—a base management fee and an incentive fee. From the completion of our IPO through October 31, 2013, the base management fee was calculated at an annual rate of 0.875% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. Beginning on November 1, 2013 and through March 31, 2014, pursuant to the Investment Advisory Agreement, the base management fee was calculated at an annual rate of 1.75% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters. OFS Advisor has elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from the SBIC Acquisitions.

On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. Specifically, OFS Advisor agreed to reduce its base management fee from 0.4375% per quarter to 0.145833% per quarter for the second, third, and fourth quarters of 2014. Accordingly, the effective annual base management fee for the 2014 fiscal year was equal to 50% of the 1.75% required by our Advisory Agreement with OFS Advisor, or not greater than 0.875%. OFS Advisor informed us that this reduction was made for the benefit of our shareholders to take into account unforeseen delays in completing the SBIC Acquisitions. The base management fee resumed to its 1.75% annual rate on January 1, 2015.

The base management fee is payable quarterly in arrears. The base management fee expense was approximately $1.4 million and $1.0 million for the three months ended March 31, 2015 and 2014, respectively.

The incentive fee has two parts. One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. "Pre-incentive fee net investment income" means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest or dividend feature (such as OID, debt instruments with PIK interest, equity investments with accruing or PIK dividend and zero coupon securities), accrued income that we have not yet received in cash.

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

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.0% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for OFS Advisor to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. There is no accumulation of amounts on the hurdle rate from quarter to quarter and accordingly there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle rate, and there is no delay of payment if prior quarters are below the quarterly hurdle rate.

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

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

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

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

The second part of the incentive fee (the "Capital Gains Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and our aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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

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

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

We accrue the Capital Gains Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. OFS Advisor has elected to exclude from the Capital Gains Fee calculation any incentive fee that would be owed in respect of the realized gain on step acquisition resulting from the SBIC Acquisitions.

We incurred incentive fee expense of $0.4 million for the three months ended March 31, 2015. We did not incur any incentive fee expense during the three months ended March 31, 2014.

License Agreement

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

Administration Agreement

Pursuant to an Administration Agreement, OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our shareholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, OFS Services would provide managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary, and their respective staffs. The administrative fee is payable quarterly in arrears. For the three months ended March 31, 2015 and 2014, we incurred $0.5 million of administrative fees for each period.

Staffing Agreement

OFS Advisor is an affiliate of Orchard First Source Capital, Inc. ("OFSC"), with which it has entered into a Staffing Agreement. Under this agreement OFSC will make available to OFS Advisor experienced investment professionals and access to the senior investment personnel and other resources of OFSC and its affiliates. The Staffing Agreement should provide OFS Advisor with access to deal flow generated by the professionals of OFSC and its affiliates and commits the members of the Advisor Investment Committee to serve in that capacity. OFS Advisor intends to capitalize on the significant deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFSC's investment professionals.

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

Recent Developments

On April 24, 2015, we received notice that Bilal Rashid had been approved by the SBA to serve as a manager of SBIC I LP, and Mr. Rashid has now been named as a member of our SBIC investment committee. Glenn Pittson has resigned from those positions.

On May 4, 2015, our Board of Directors declared a distribution of $0.34 per share for the second quarter of 2015, payable on June 30, 2015 to shareholders of record as of June 16, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. At March 31, 2015, 70% of our debt investments bore interest at floating interest rates and 30% of our debt investments bore fixed interest rates. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current rates on a periodic basis. All of the debt investments bearing floating interest rates in our portfolio as of March 31, 2015 had interest rate floors, which have effectively converted those debt investments to fixed rate debt investments in the current interest rate environment.

In addition, the OFS Capital WM Facility has a floating interest rate provision, and we expect that other credit facilities into which we may enter in the future may have floating interest rate provisions.

Assuming that our consolidated balance sheet as of March 31, 2015 was to remain constant, and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

Basis point increase(1)	Interest income	Interest expense	Net increase (decrease)
	(Amounts in thousands)		
100	$ 323	$ (652)	$ (329)
200	2,216	(1,305)	911
300	4,369	(1,957)	2,412
400	6,522	(2,610)	3,912
500	8,676	(3,262)	5,414

(1) A decline in interest rates would not have a material impact on our consolidated financial statements.

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As of the end of the period covered by this quarterly report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We, OFS Advisor and OFS Services, are not currently subject to any material pending or threatened legal proceedings against us as of March 31, 2015. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations.

Item 1A. Risk Factors

Investing in our common stock may be speculative and involves a high degree of risk. In addition to the other information contained in this Quarterly Report on Form 10-Q, including our financial statements, and the related notes, schedules and exhibits, you should carefully consider the risk factors described in *Part I, “Item 1A. Risk Factors”* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

There have been no material changes from the risk factors previously disclosed in *Part I, “Item 1A. Risk Factors”* in our Annual Report on Form 10-K for the year ended December 31, 2014, which should be read together with the other risk factors and information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

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

During the three month period ended March 31, 2015, we issued 12,106 shares of common stock to shareholders in connection with our dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan was approximately $148 thousand.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

SIGNATURES

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

Dated: May 8, 2015

OFS CAPITAL CORPORATION

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

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

EXHIBIT INDEX

Exhibit Number	Description
31.1	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

Exhibit 31.1

Certification of Chief Executive Officer

I, Bilal Rashid, Chief Executive Officer of OFS Capital Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of OFS Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 8th day of May 2015.

By: /s/ Bilal Rashid

Bilal Rashid
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

I, Jeffrey A. Cerny, Chief Financial Officer of OFS Capital Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of OFS Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 8th day of May 2015.

By: /s/ Jeffrey A. Cerny

Jeffrey A. Cerny
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2015 (the “Report”) of OFS Capital Corporation (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Bilal Rashid, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

	/s/ Bilal Rashid
Name:	**Bilal Rashid**
Date:	**May 8, 2015**

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2015 (the “Report”) of OFS Capital Corporation (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey A. Cerny, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

	/s/ Jeffrey A. Cerny
Name:	**Jeffrey A. Cerny**
Date:	**May 8, 2015**