# 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 September 30, 2019

or

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

For the transition period from _______ to _______

Commission file number 814-00813

## OFS CAPITAL CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| Delaware | 46-1339639 |
| State or Other Jurisdiction of Incorporation or Organization | I.R.S. Employer Identification No. |
| 10 S. Wacker Drive, Suite 2500, Chicago, Illinois | 60606 |
| Address of Principal Executive Offices | Zip Code |

(847) 734-2000

Registrant's Telephone Number, Including Area Code

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.01 par value per share | OFS | The Nasdaq Global Select Market |
| 6.375% Notes due 2025 | OFSSL | The Nasdaq Global Select Market |
| 6.50% Notes due 2025 | OFSSZ | The Nasdaq Global Select Market |
| 5.95% Notes due 2026 | OFSSI | The Nasdaq Global Select Market |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

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

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

The number of shares of the issuer’s Common Stock, $0.01 par value, outstanding as of November 7, 2019 was 13,371,451.

**OFS CAPITAL CORPORATION**

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**Defined Terms**

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

| **Term** | **Explanation or Definition** |
|---|---|
| 1940 Act | Investment Company Act of 1940, as amended |
| Administration Agreement | Administration Agreement between the Company and OFS Services dated November 7, 2012 |
| Annual Distribution Requirement | Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI |
| April 2017 Offering | The April 2017 follow-on public offering of 3,625,000 shares of our common stock at an offering price of $14.57 per share |
| ASC | Accounting Standards Codification, as issued by the FASB |
| ASU | Accounting Standards Updates, as issued by the FASB |
| BDC | Business Development Company under the 1940 Act |
| BLA | Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility |
| BNP Facility | Revolving credit and security agreement by and among OFSCC-FS, the lenders from time to time parties thereto, BNP Paribas, as administrative agent, OFSCC-FS Holdings, LLC, a wholly owned subsidiary of the Company, as equityholder, the Company, as servicer, Citibank, N.A., as collateral agent and Virtus Group, LP, as collateral administrator, which provides for borrowings in an aggregate principal amount up to $150,000,000 |
| Board | The Company's board of directors |
| CLO | Collateralized loan obligation |
| Code | Internal Revenue Code of 1986, as amended |
| Company | OFS Capital Corporation and its consolidated subsidiaries |
| Direct Investment | A debt or equity investment in a portfolio company, excluding Structured Finance Notes |
| DRIP | Distribution reinvestment plan |
| EBITDA | Earnings before interest, taxes, depreciation, and amortization |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| GAAP | Accounting principles generally accepted in the United States |
| HPCI | Hancock Park Corporate Income, Inc., a Maryland corporation and non-traded BDC for whom OFS Advisor serves as investment adviser |
| ICTI | Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses |
| Indicative Prices | Market quotations, prices from pricing services or bids from brokers or dealers |
| Investment Advisory Agreement | Investment Advisory and Management Agreement between the Company and OFS Advisor dated November 7, 2012 |
| IPO | Initial Public Offering |
| LIBOR | London Interbank Offered Rate |
| NBIB | Non-binding indicative bid |
| Net Loan Fees | The cumulative amount of fees, such as discounts, premiums and amendment fees that are deferred and recognized as income over the life of the loan. |
| OCCI | OFS Credit Company, Inc., a Delaware corporation and a non-diversified, closed-end management investment company for whom OFS Advisor serves as investment adviser |
| OFS Advisor | OFS Capital Management, LLC, a wholly owned subsidiary of OFSAM and registered investment advisor under the Investment Advisers Act of 1940, as amended |
| OFS Capital WM | OFS Capital WM, LLC, a wholly owned investment company subsidiary of the Company |
| OFS Services | OFS Capital Services, LLC, a wholly owned subsidiary of OFSAM and affiliate of OFS Advisor |
| OFSAM | Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. corporations |

| Term | Explanation or Definition |
|---|---|
| OFSCC-FS | OFSCC-FS, LLC, an indirect wholly owned subsidiary of the Company |
| Parent | OFS Capital Corporation |
| PIK | Payment-in-kind, non-cash interest or dividends payable as an addition to the loan or equity security producing the income. |
| Prime Rate | United States Prime interest rate |
| PWB Credit Facility | Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender |
| RIC | Regulated investment company under the Code |
| SBA | U.S. Small Business Administration |
| SBCAA | Small Business Credit Availability Act |
| SBIC | A fund licensed under the SBA small business investment company program |
| SBIC Acquisition | The Company's acquisition of the remaining ownership interests in SBIC I LP and OFS SBIC I GP, LLC on December 4, 2013 |
| SBIC Act | Small Business Investment Act of 1958, as amended |
| SBIC I LP | OFS SBIC I, LP, a wholly owned SBIC subsidiary of the Company |
| SEC | U.S. Securities and Exchange Commission |
| Securities Act | Securities Act of 1933, as amended |
| Secured Revolver Amendment | The amended Business Loan Agreement with Pacific Western Bank, as lender, dated April 10, 2019 |
| Stock Repurchase Program | The open market stock repurchase program for shares of the Company’s common stock under Rule 10b-18 of the Exchange Act |
| Structured Finance Notes | CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses |
| The Order | An exemptive relief order from the SEC to permit us to co-invest in portfolio companies with certain funds managed by OFS Advisor in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions |
| Transaction Price | The cost of an arm's length transaction occurring in the same security |
| Unsecured Notes | The combination of the Unsecured Notes Due April 2025 and the Unsecured Notes Due October 2025 |
| Unsecured Notes Due April 2025 | The Company’s $50.0 million aggregate principal amount of 6.375% notes due April 30, 2025 |
| Unsecured Notes Due October 2025 | The Company’s $46.0 million aggregate principal amount of 6.5% notes due October 30, 2025 |

**Forward-Looking Statements**

This quarterly report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “should,” “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 ability and experience operating a BDC or an SBIC, or maintaining our tax treatment as a RIC under Subchapter M of the Code;
- our dependence on key personnel;
- our ability to maintain or develop referral relationships;
- our ability to replicate historical results;
- the ability of OFS Advisor to identify, invest in and monitor companies that meet our investment criteria;
- actual and potential conflicts of interest with OFS Advisor and other affiliates of OFSAM;
- constraint on investment due to access to material nonpublic information;
- restrictions on our ability to enter into transactions with our affiliates;
- limitations on the amount of SBA-guaranteed debentures that may be issued by an SBIC;
- our ability to comply with SBA regulations and requirements;
- the use of borrowed money to finance a portion of our investments;
- our ability to incur additional leverage pursuant to the SBCAA and the impact of such leverage on our net investment income and results of operations;
- competition for investment opportunities;
- the percentage of investments that will bear interest on a floating rate or fixed rate basis;
- the ability of SBIC I LP to make distributions enabling us to meet RIC requirements;
- our ability to raise debt or equity capital as a BDC;
- the timing, form and amount of any distributions from our portfolio companies;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the general economy and its impact on the industries in which we invest;
- uncertain valuations of our portfolio investments; and
- the effect of new or modified laws or regulations governing our operations.

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

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

**PART I. FINANCIAL INFORMATION**
**Item 1. Consolidated Financial Statements**

**OFS Capital Corporation and Subsidiaries**
**Consolidated Statements of Assets and Liabilities**
**(Dollar amounts in thousands, except per share data)**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| | (unaudited) | |
| **Assets** | | |
| Investments, at fair value: | | |
| Non-control/non-affiliate investments (amortized cost of $392,289 and $312,223, respectively) | $ 368,634 | $ 297,749 |
| Affiliate investments (amortized cost of $120,570 and $90,751, respectively) | 124,227 | 89,103 |
| Control investment (amortized cost of $10,342 and $10,337, respectively) | 9,300 | 9,945 |
| Total investments at fair value (amortized cost of $523,201 and $413,311, respectively) | 502,161 | 396,797 |
| Cash | 7,974 | 38,172 |
| Interest receivable | 3,298 | 2,787 |
| Prepaid expenses and other assets | 4,854 | 3,665 |
| **Total assets** | $ 518,287 | $ 441,421 |
| | | |
| **Liabilities** | | |
| Revolving lines of credit | $ 92,475 | $ 12,000 |
| SBA debentures (net of deferred debt issuance costs of $1,999 and $2,280, respectively) | 147,881 | 147,600 |
| Unsecured notes (net of deferred debt issuance costs of $2,925 and $3,299 respectively) | 95,600 | 95,226 |
| Interest payable | 2,045 | 2,791 |
| Payable to adviser and affiliates (Note 3) | 4,049 | 3,700 |
| Payable for investments purchased | 5,075 | 4,151 |
| Accrued professional fees | 339 | 637 |
| Other liabilities | 417 | 293 |
| **Total liabilities** | 347,881 | 266,398 |
| | | |
| Commitments and contingencies (Note 6) | | |
| | | |
| **Net assets** | | |
| Preferred stock, par value of $0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of September 30, 2019, and December 31, 2018, respectively | $ — | $ — |
| Common stock, par value of $0.01 per share, 100,000,000 shares authorized, 13,371,451 and 13,357,337 shares issued and outstanding as of September 30, 2019, and December 31, 2018, respectively | 134 | 134 |
| Paid-in capital in excess of par | 187,890 | 187,540 |
| Total distributable earnings (losses) | (17,618) | (12,651) |
| **Total net assets** | 170,406 | 175,023 |
| | | |
| **Total liabilities and net assets** | $ 518,287 | $ 441,421 |
| | | |
| Number of shares outstanding | 13,371,451 | 13,357,337 |
| Net asset value per share | $ 12.74 | $ 13.10 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Investment income** | | | | |
| Interest income: | | | | |
| Non-control/non-affiliate investments | $ 10,181 | $ 7,424 | $ 28,110 | $ 19,508 |
| Affiliate investments | 2,647 | 2,455 | 7,640 | 7,308 |
| Control investment | 262 | 255 | 784 | 744 |
| Total interest income | 13,090 | 10,134 | 36,534 | 27,560 |
| Payment-in-kind interest and dividend income: | | | | |
| Non-control/non-affiliate investments | 96 | 178 | 289 | 524 |
| Affiliate investments | 347 | 308 | 899 | 1,054 |
| Control investment | 28 | 28 | 83 | 82 |
| Total payment-in-kind interest and dividend income | 471 | 514 | 1,271 | 1,660 |
| Dividend income: | | | | |
| Affiliate investments | — | — | 173 | 130 |
| Control investment | — | 58 | 89 | 185 |
| Total dividend income | — | 58 | 262 | 315 |
| Fee income: | | | | |
| Non-control/non-affiliate investments | 285 | 251 | 781 | 664 |
| Affiliate investments | 6 | 7 | 216 | 12 |
| Control investment | 6 | 18 | 39 | 52 |
| Total fee income | 297 | 276 | 1,036 | 728 |
| **Total investment income** | 13,858 | 10,982 | 39,103 | 30,263 |
| **Expenses** | | | | |
| Interest expense | 4,464 | 2,393 | 11,564 | 6,196 |
| Management fee | 2,164 | 1,678 | 6,062 | 4,586 |
| Incentive fee | 1,214 | 1,170 | 3,622 | 3,041 |
| Professional fees | 510 | 458 | 1,413 | 859 |
| Administration fee | 396 | 311 | 1,250 | 1,252 |
| Other expenses | 257 | 282 | 651 | 1,287 |
| Total expenses before incentive fee waiver | 9,005 | 6,292 | 24,562 | 17,221 |
| Incentive fee waiver (see Note 3) | — | — | — | (22) |
| **Total expenses, net of incentive fee waiver** | 9,005 | 6,292 | 24,562 | 17,199 |
| **Net investment income** | 4,853 | 4,690 | 14,541 | 13,064 |
| | | | | |
| **Net realized and unrealized gain (loss) on investments** | | | | |
| Net realized gain (loss) on non-control/non-affiliate investments | 51 | — | (843) | (5,003) |
| Net realized loss on affiliate investments | — | — | — | (4,018) |
| Net unrealized appreciation (depreciation) on non-control/non-affiliate investments, net of taxes | (6,534) | (923) | (9,506) | 2,925 |
| Net unrealized appreciation on affiliate investments | 4,765 | 1,223 | 5,305 | 6,396 |
| Net unrealized appreciation (depreciation) on control investment | (1,373) | 189 | (650) | 303 |
| **Net gain (loss) on investments** | (3,091) | 489 | (5,694) | 603 |
| **Net increase in net assets resulting from operations** | $ 1,762 | $ 5,179 | $ 8,847 | $ 13,667 |
| Net investment income per common share – basic and diluted | $ 0.36 | $ 0.35 | $ 1.09 | $ 0.98 |
| Net increase in net assets resulting from operations per common share – basic and diluted | $ 0.13 | $ 0.39 | $ 0.66 | $ 1.02 |
| Distributions declared per common share | $ 0.34 | $ 0.34 | $ 1.02 | $ 1.39 |
| Basic and diluted weighted average shares outstanding | 13,366,515 | 13,350,484 | 13,361,757 | 13,346,630 |

See Notes to Consolidated Financial Statements.

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

| | Preferred Stock | | Common Stock | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Par value | Number of shares | Par value | Paid-in capital in excess of par | Total distributable earnings (losses) | Total net assets |
| **Balances at January 1, 2018** | — | $ — | 13,340,217 | $ 133 | $ 187,398 | $ 805 | $ 188,336 |
| Net increase in net assets resulting from operations: | | | | | | | |
| Net investment income | — | — | — | — | — | 13,064 | 13,064 |
| Net realized loss on investments | — | — | — | — | — | (9,021) | (9,021) |
| Net unrealized appreciation on investments, net of taxes | — | — | — | — | — | 9,624 | 9,624 |
| Tax reclassifications of permanent differences | — | — | — | — | 305 | (305) | — |
| Distributions to stockholders: | | | | | | | |
| Common stock issued from reinvestment of stockholder distributions | — | — | 12,607 | 1 | 143 | — | 144 |
| Dividends declared | — | — | — | — | — | (18,549) | (18,549) |
| Net increase (decrease) for the period ended September 30, 2018 | — | — | 12,607 | 1 | 448 | (5,187) | (4,738) |
| **Balances at September 30, 2018** | — | $ — | 13,352,824 | $ 134 | $ 187,846 | $ (4,382) | $ 183,598 |
| | | | | | | | |
| **Balances at June 30, 2018** | — | $ — | 13,350,458 | $ 134 | $ 187,549 | $ (4,753) | $ 182,930 |
| Net increase in net assets resulting from operations: | | | | | | | |
| Net investment income | — | — | — | — | — | 4,690 | 4,690 |
| Net unrealized appreciation on investments, net of taxes | — | — | — | — | — | 489 | 489 |
| Tax reclassifications of permanent differences | — | — | — | — | 270 | (270) | — |
| Distributions to stockholders: | | | | | | | |
| Common stock issued from reinvestment of stockholder distributions | — | — | 2,366 | — | 27 | — | 27 |
| Dividends declared | — | — | — | — | — | (4,538) | (4,538) |
| Net increase for the period ended September 30, 2018 | — | — | 2,366 | — | 297 | 371 | 668 |
| **Balances at September 30, 2018** | — | $ — | 13,352,824 | $ 134 | $ 187,846 | $ (4,382) | $ 183,598 |

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

| | Preferred Stock | | Common Stock | | | | |
|---|---|---|---|---|---|---|---|
| | **Number of shares** | **Par value** | **Number of shares** | **Par value** | **Paid-in capital in excess of par** | **Total distributable earnings (losses)** | **Total net assets** |
| **Balances at January 1, 2019** | — | $ — | 13,357,337 | $ 134 | $ 187,540 | $ (12,651) | $ 175,023 |
| Net increase in net assets resulting from operations: | | | | | | | |
| Net investment income | — | — | — | — | — | 14,541 | 14,541 |
| Net realized loss on investments | — | — | — | — | — | (843) | (843) |
| Net unrealized depreciation on investments, net of taxes | — | — | — | — | — | (4,851) | (4,851) |
| Tax reclassifications of permanent differences | — | — | — | — | 183 | (183) | — |
| Distributions to stockholders: | | | | | | | |
| Common stock issued from reinvestment of stockholder distributions | — | — | 14,114 | — | 167 | — | 167 |
| Dividends declared | — | — | — | — | — | (13,631) | (13,631) |
| Net increase (decrease) for the period ended September 30, 2019 | — | — | 14,114 | — | 350 | (4,967) | (4,617) |
| **Balances at September 30, 2019** | — | $ — | 13,371,451 | $ 134 | $ 187,890 | $ (17,618) | $ 170,406 |
| | | | | | | | |
| **Balances at June 30, 2019** | — | $ — | 13,366,461 | $ 134 | $ 187,814 | $ (14,816) | $ 173,132 |
| Net increase in net assets resulting from operations: | | | | | | | |
| Net investment income | — | — | — | — | — | 4,853 | 4,853 |
| Net realized gain on investments | — | — | — | — | — | 51 | 51 |
| Net unrealized depreciation on investments, net of taxes | — | — | — | — | — | (3,142) | (3,142) |
| Tax reclassifications of permanent differences | — | — | — | — | 18 | (18) | — |
| Distributions to stockholders: | | | | | | | |
| Common stock issued from reinvestment of stockholder distributions | — | — | 4,990 | — | 58 | — | 58 |
| Dividends declared | — | — | — | — | — | (4,546) | (4,546) |
| Net increase (decrease) for the period ended September 30, 2019 | — | — | 4,990 | — | 76 | (2,802) | (2,726) |
| **Balances at September 30, 2019** | — | $ — | 13,371,451 | $ 134 | $ 187,890 | $ (17,618) | $ 170,406 |

See Notes to Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Cash flows from operating activities** | | |
| Net increase in net assets resulting from operations | $ 8,847 | $ 13,667 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: | | |
| Net realized loss on investments | 843 | 9,021 |
| Net unrealized depreciation (appreciation) on investments | 4,851 | (9,624) |
| Amortization of Net Loan Fees | (788) | (992) |
| Amendment fees collected | 103 | 79 |
| Payment-in-kind interest and dividend income | (1,271) | (1,659) |
| Accretion of interest income on structured finance notes | (2,001) | — |
| Amortization of debt issuance costs | 942 | 532 |
| Amortization of intangible asset | 146 | 146 |
| Purchase and origination of portfolio investments | (169,638) | (185,806) |
| Proceeds from principal payments on portfolio investments | 30,750 | 34,891 |
| Proceeds from sale or redemption of portfolio investments | 30,368 | 42,659 |
| Proceeds from distributions received from portfolio investments | 1,976 | — |
| Changes in operating assets and liabilities: | | |
| Interest receivable | (511) | 97 |
| Interest payable | (746) | (620) |
| Payable to adviser and affiliates | 349 | 885 |
| Payable for investments purchased | 924 | — |
| Other assets and liabilities | (493) | 797 |
| **Net cash used in operating activities** | (95,349) | (95,927) |
| | | |
| **Cash flows from financing activities** | | |
| Distributions paid to stockholders | (13,464) | (18,405) |
| Borrowings under revolving lines of credit | 128,675 | 70,500 |
| Repayments under revolving lines of credit | (48,200) | (71,100) |
| Proceeds from unsecured notes offering, net of discounts | — | 48,023 |
| Payment of deferred financing costs | (1,857) | — |
| Repurchases of common stock under Stock Repurchase Program | (3) | — |
| **Net cash provided by financing activities** | 65,151 | 29,018 |
| Net decrease in cash | (30,198) | (66,909) |
| Cash at beginning of period | 38,172 | 72,952 |
| Cash at end of period | $ 7,974 | $ 6,043 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | $ 11,368 | $ 6,284 |
| Reinvestment of distributions to stockholders | 167 | 144 |

See Notes to Consolidated Financial Statements.

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| **Non-control/Non-affiliate Investments** | | | | | | | | | |
| ***Debt and Equity Investments*** | | | | | | | | | |
| *AHP Health Partners (14) (15) (19)* | General Medical and Surgical Hospitals | | | | | | | | |
| Senior Secured Loan | | 6.54% | (L +4.50%) | 6/27/2019 | 6/30/2025 | $ 2,614 | $ 2,619 | $ 2,624 | 1.5% |
| *Albertson's Holdings LLC (14) (15) (19)* | Supermarkets and Other Grocery (except Convenience) Stores | | | | | | | | |
| Senior Secured Loan | | 4.79% | (L +2.75%) | 6/24/2019 | 11/17/2025 | 2,154 | 2,150 | 2,169 | 1.3 |
| *American Bath Group, LLC (14) (15) (19)* | Plastics Plumbing Fixture Manufacturing | | | | | | | | |
| Senior Secured Loan | | 6.29% | (L +4.25%) | 6/24/2019 | 9/30/2023 | 1,492 | 1,487 | 1,483 | 0.9 |
| *AppLovin Corporation (14) (15) (19)* | Advertising Agencies | | | | | | | | |
| Senior Secured Loan | | 5.79% | (L +3.75%) | 6/24/2019 | 8/15/2025 | 1,990 | 1,992 | 1,992 | 1.2 |
| *Asurion, LLC (14) (15) (19)* | Communication Equipment Repair and Maintenance | | | | | | | | |
| Senior Secured Loan | | 5.04% | (L +3.00%) | 6/24/2019 | 11/3/2024 | 1,990 | 1,990 | 1,999 | 1.2 |
| Senior Secured Loan | | 5.04% | (L +3.00%) | 7/24/2019 | 11/3/2023 | 997 | 1,000 | 1,002 | 0.6 |
| | | | | | | 2,987 | 2,989 | 3,001 | 1.8 |
| *Athenahealth, Inc. (14) (15) (19)* | Software Publishers | | | | | | | | |
| Senior Secured Loan | | 6.68% | (L +4.50%) | 6/24/2019 | 2/11/2026 | 1,990 | 1,995 | 1,988 | 1.2 |
| *Bass Pro Group, LLC (14) (15) (19)* | Sporting Goods Stores | | | | | | | | |
| Senior Secured Loan | | 7.04% | (L +5.00%) | 6/24/2019 | 9/25/2024 | 1,990 | 1,923 | 1,920 | 1.1 |
| *Baymark Health Services, Inc.* | Outpatient Mental Health & Sub. Abuse Centers | | | | | | | | |
| Senior Secured Loan | | 10.21% | (L +8.25%) | 3/22/2018 | 3/1/2025 | 4,000 | 3,969 | 4,026 | 2.4 |
| *BrightSpring Health Services (14) (15) (19)* | Residential Intellectual and Developmental Disability Facilities | | | | | | | | |
| Senior Secured Loan | | 6.57% | (L +4.50%) | 6/24/2019 | 3/5/2026 | 2,993 | 2,999 | 3,002 | 1.8 |

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Brookfield WEC Holdings Inc. (14) (15) (19)* | Business to Business Electronic Markets | | | | | | | | |
| Senior Secured Loan | | 5.54% | (L +3.50%) | 7/25/2019 | 8/1/2025 | $ 1,995 | $ 2,005 | $ 2,005 | 1.2% |
| *Carolina Lubes, Inc.* | Automotive Oil Change and Lubrication Shops | | | | | | | | |
| Senior Secured Loan (4) (8) | | 10.08% | (L +7.76%) | 8/23/2017 | 8/23/2022 | 20,410 | 20,305 | 20,532 | 12.0 |
| Senior Secured Loan (Revolver) | | 0.25% (18) | (L +7.25%) | 8/23/2017 | 8/23/2022 | — | (8) | — | — |
| | | | | | | 20,410 | 20,297 | 20,532 | 12.0 |
| *Cenexel Clinical Research, Inc. (f/k/a JBR Clinical Research, Inc.) (4) (8)* | Research and Development in the Social Sciences and Humanities | | | | | | | | |
| Senior Secured Loan | | 9.45% | (L +7.95%) | 8/2/2018 | 8/2/2023 | 24,290 | 24,154 | 24,046 | 14.0 |
| *CHG Healthcare Services, Inc. (15) (19)* | All Other Outpatient Care Centers | | | | | | | | |
| Senior Secured Loan | | 5.04% | (L +3.00%) | 7/24/2019 | 6/7/2023 | 2,000 | 2,002 | 2,002 | 1.2 |
| *Cirrus Medical Staffing, Inc. (4)* | Temporary Help Services | | | | | | | | |
| Senior Secured Loan | | 10.35% | (L +8.25%) | 3/5/2018 | 10/19/2022 | 12,655 | 12,539 | 12,190 | 7.2 |
| Senior Secured Loan (Revolver) | | 10.35% | (L +8.25%) | 3/5/2018 | 10/19/2022 | 410 | 410 | 395 | 0.2 |
| | | | | | | 13,065 | 12,949 | 12,585 | 7.4 |
| *Community Intervention Services, Inc. (4) (6) (10) (11)* | Outpatient Mental Health and Substance Abuse Centers | | | | | | | | |
| Subordinated Loan | | 7.0% cash / 6.0% PIK | N/A | 7/16/2015 | 1/16/2021 | 9,479 | 7,639 | — | — |
| *Confie Seguros Holdings II Co. (14)* | Insurance Agencies and Brokerages | | | | | | | | |
| Senior Secured Loan | | 10.63% | (L +8.50%) | 7/7/2015 | 11/1/2025 | 9,678 | 9,509 | 9,115 | 5.3 |
| *Constellis Holdings, LLC* | Other Justice, Public Order, and Safety Activities | | | | | | | | |
| Senior Secured Loan | | 11.26% | (L +9.00%) | 4/28/2017 | 4/21/2025 | 9,950 | 9,846 | 2,856 | 1.7 |
| *Convergint Technologies Holdings, LLC* | Security Systems Services (except Locksmiths) | | | | | | | | |
| Senior Secured Loan | | 8.79% | (L +6.75%) | 9/28/2018 | 2/2/2026 | 3,481 | 3,428 | 3,412 | 2.0 |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *DuPage Medical Group (15) (19)* | Offices of Physicians, Mental Health Specialists | | | | | | | | |
| Senior Secured Loan | | 9.04% | (L +7.00%) | 8/22/2017 | 8/15/2025 | $ 10,099 | $ 10,177 | $ 10,068 | 5.9% |
| *Eblens Holdings, Inc.* | Shoe Store | | | | | | | | |
| Subordinated Loan (11) | | 12.0% cash / 1.0% PIK | N/A | 7/13/2017 | 1/13/2023 | 8,987 | 8,935 | 9,023 | 5.3 |
| Common Equity (71,250 Class A units) (10) | | | | 7/13/2017 | | | 713 | 839 | 0.5 |
| | | | | | | 8,987 | 9,648 | 9,862 | 5.8 |
| *Elgin Fasteners Group* | Bolt, Nut, Screw, Rivet, and Washer Manufacturing | | | | | | | | |
| Senior Secured Loan | | 10.75% | (P +5.75%) | 10/31/2011 | 8/27/2018 (5) | 3,483 | 3,483 | 3,361 | 2.0 |
| *Endo International PLC (14) (15) (19)* | Pharmaceutical Preparation Manufacturing | | | | | | | | |
| Senior Secured Loan | | 6.31% | (L +4.25%) | 6/24/2019 | 4/29/2024 | 1,990 | 1,897 | 1,817 | 1.1 |
| *Envocore Holding, LLC (FKA LRI Holding, LLC) (4)* | Electrical Contractors and Other Wiring Installation Contractors | | | | | | | | |
| Senior Secured Loan | | 12.35% | (L +10.25%) | 6/30/2017 | 6/30/2022 | 16,367 | 16,192 | 15,384 | 9.0 |
| Preferred Equity (238,095 Series B units) (10) | | | | 6/30/2017 | | | 300 | 132 | 0.1 |
| Preferred Equity (13,315 Series C units) (10) | | | | 8/13/2018 | | | 13 | 16 | — |
| | | | | | | 16,367 | 16,505 | 15,532 | 9.1 |
| *Excelin Home Health, LLC* | Home Health Care Services | | | | | | | | |
| Senior Secured Loan | | 11.60% | (L +9.50%) | 10/25/2018 | 4/25/2024 | 4,250 | 4,179 | 4,165 | 2.4 |
| *Explorer Holdings, Inc. (14) (15) (19)* | Testing Laboratories | | | | | | | | |
| Senior Secured Loan | | 5.85% | (L +3.75%) | 6/25/2019 | 5/2/2023 | 1,990 | 1,992 | 1,989 | 1.2 |
| *GGC Aerospace Topco L.P.* | Other Aircraft Parts and Auxiliary Equipment Manufacturing | | | | | | | | |
| Senior Secured Loan | | 10.89% | (L +8.75%) | 12/29/2017 | 9/8/2024 | 5,000 | 4,908 | 3,930 | 2.3 |
| Common Equity (368,852 Class A units) (10) | | | | 12/29/2017 | | | 450 | 110 | 0.1 |
| Common Equity (40,984 Class B units) (10) | | | | 12/29/2017 | | | 50 | 4 | — |
| | | | | | | 5,000 | 5,408 | 4,044 | 2.4 |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Hyland Software, Inc.* | Software Publishers | | | | | | | | |
| Senior Secured Loan (14) (15) (19) | | 5.29% | (L +3.25%) | 10/24/2018 | 7/7/2025 | $ 1,664 | $ 1,659 | $ 1,666 | 1.0% |
| Senior Secured Loan | | 9.04% | (L +7.00%) | 10/24/2018 | 7/7/2025 | 2,601 | 2,614 | 2,595 | 1.5 |
| | | | | | | 4,265 | 4,273 | 4,261 | 2.5 |
| *Inergex Holdings, LLC* | Other Computer Related Services | | | | | | | | |
| Senior Secured Loan | | 9.10% | (L +7.00%) | 10/1/2018 | 10/1/2024 | 16,674 | 16,462 | 16,190 | 9.5 |
| Senior Secured Loan (Revolver) | | 9.28% | (Prime + 6.00%) | 10/1/2018 | 10/1/2024 | 1,687 | 1,664 | 1,660 | 1.0 |
| | | | | | | 18,361 | 18,126 | 17,850 | 10.5 |
| *Institutional Shareholder Services, Inc.* | Administrative Management and General Management Consulting Services | | | | | | | | |
| Senior Secured Loan | | 10.60% | (L +8.50%) | 3/4/2019 | 3/5/2027 | 6,244 | 6,070 | 6,081 | 3.6 |
| *Kindred Healthcare, Inc. (FKA Kindred at Home) (14) (15) (19)* | Home Health Care Services | | | | | | | | |
| Senior Secured Loan | | 5.81% | (L +3.75%) | 6/25/2019 | 7/2/2025 | 2,992 | 3,006 | 3,013 | 1.8 |
| *MAI Holdings, Inc. (4)* | Printing Machinery and Equipment Manufacturing | | | | | | | | |
| Senior Secured Loan | | 9.50% | N/A | 6/21/2018 | 6/1/2023 | 5,000 | 5,000 | 2,315 | 1.4 |
| *McAfee, LLC (14) (15) (19)* | Software Publishers | | | | | | | | |
| Senior Secured Loan | | 5.79% | (L +3.75%) | 6/25/2019 | 9/30/2024 | 1,990 | 1,992 | 1,997 | 1.2 |
| *Micro Holding Corp (14) (15) (19)* | Internet Publishing and Broadcasting and Web Search Portals | | | | | | | | |
| Senior Secured Loan | | 5.79% | (L +3.75%) | 6/25/2019 | 9/13/2024 | 1,990 | 1,973 | 1,980 | 1.2 |
| *Milrose Consultants, LLC (4) (8)* | All Other Business Support Services | | | | | | | | |
| Senior Secured Loan | | 8.51% | (L +6.20%) | 7/16/2019 | 7/16/2025 | 11,500 | 11,417 | 11,417 | 6.7 |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *My Alarm Center, LLC (4) (10) (13)* | Security Systems Services (except Locksmiths) | | | | | | | | |
| Preferred Equity (1,485 Class A units), 8% PIK | | | | 7/14/2017 | | | $ 1,571 | $ 1,046 | 0.6% |
| Preferred Equity (1,198 Class B units) | | | | 7/14/2017 | | | 1,198 | — | — |
| Preferred Equity (335 Class Z units) | | | | 9/12/2018 | | | 325 | 1,163 | 0.7 |
| Common Equity (64,149 units) | | | | 7/14/2017 | | | — | — | — |
| | | | | | | | 3,094 | 2,209 | 1.3 |
| *Online Tech Stores, LLC (4)* | Stationary & Office Supply Merchant Wholesaler | | | | | | | | |
| Subordinated Loan | | 10.50% cash / 1.0% PIK | N/A | 2/1/2018 | 8/1/2023 | 16,271 | 16,047 | 15,571 | 9.1 |
| *OnSite Care, PLLC (4) (8)* | Home Health Care Services | | | | | | | | |
| Senior Secured Loan | | 9.90% | (L +7.78%) | 8/10/2018 | 8/10/2023 | 7,100 | 7,044 | 6,882 | 4.0 |
| *Parfums Holding Company, Inc.* | Cosmetics, Beauty Supplies, and Perfume Stores | | | | | | | | |
| Senior Secured Loan (14) (15) (19) | | 6.37% | (L +4.25%) | 6/25/2019 | 6/30/2024 | 87 | 87 | 87 | 0.1 |
| Senior Secured Loan | | 10.86% | (L +8.75%) | 11/16/2017 | 6/30/2025 | 6,320 | 6,332 | 6,383 | 3.7 |
| | | | | | | 6,407 | 6,419 | 6,470 | 3.8 |
| *Pelican Products, Inc.* | Unlaminated Plastics Profile Shape Manufacturing | | | | | | | | |
| Senior Secured Loan | | 9.79% | (L +7.75%) | 9/24/2018 | 5/1/2026 | 6,055 | 6,059 | 5,944 | 3.5 |
| *Performance Team LLC (4)* | General Warehousing and Storage | | | | | | | | |
| Senior Secured Loan | | 12.04% | (L +10.00%) | 5/24/2018 | 11/24/2023 | 13,889 | 13,785 | 14,166 | 8.3 |
| *PM Acquisition LLC* | All Other General Merchandise Stores | | | | | | | | |
| Senior Secured Loan | | 11.50% cash / 2.5% PIK | N/A | 9/30/2017 | 10/29/2021 | 5,011 | 4,942 | 4,867 | 2.9 |
| Common Equity (499 units) (10) (13) | | | | 9/30/2017 | | | 499 | 207 | 0.1 |
| | | | | | | 5,011 | 5,441 | 5,074 | 3.0 |
| *Quest Software US Holdings Inc. (14) (15) (19)* | Computer and Computer Peripheral Equipment and Software Merchant Wholesalers | | | | | | | | |
| Senior Secured Loan | | 6.51% | (L +4.25%) | 6/25/2019 | 5/16/2025 | 1,995 | 1,976 | 1,975 | 1.2 |

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1)<br>Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Refinitiv (14) (15) (19)* | Public Finance Activities | | | | | | | | |
| Senior Secured Loan | | 5.79% | (L +3.75%) | 6/24/2019 | 10/1/2025 | $ 1,992 | $ 1,944 | $ 2,005 | 1.2% |
| | | | | | | | | | |
| *Resource Label Group, LLC* | Commercial Printing (except Screen and Books) | | | | | | | | |
| Senior Secured Loan | | 10.82% | (L +8.50%) | 6/7/2017 | 11/26/2023 | 4,821 | 4,775 | 4,643 | 2.7 |
| | | | | | | | | | |
| *Restaurant Technologies, Inc. (15) (19)* | Other Grocery and Related Products Merchant Wholesalers | | | | | | | | |
| Senior Secured Loan | | 5.29% | (L +3.25%) | 8/8/2019 | 10/1/2025 | 1,995 | 2,000 | 1,999 | 1.2 |
| | | | | | | | | | |
| *Rocket Software, Inc. (15) (19)* | Software Publishers | | | | | | | | |
| Senior Secured Loan (14) | | 6.29% | (L +4.25%) | 11/20/2018 | 11/28/2025 | 667 | 665 | 628 | 0.4 |
| Senior Secured Loan | | 10.29% | (L +8.25%) | 11/20/2018 | 11/28/2026 | 6,275 | 6,172 | 5,870 | 3.4 |
| | | | | | | 6,942 | 6,837 | 6,498 | 3.8 |
| *RPLF Holdings, LLC (10) (13)* | Software Publishers | | | | | | | | |
| Common Equity (254,110 Class A units) | | | | 1/17/2018 | | | 254 | 149 | 0.1 |
| | | | | | | | | | |
| *Sentry Centers Holdings, LLC (10) (13)* | Other Professional, Scientific, and Technical Services | | | | | | | | |
| Common Equity (5,000 Series C units) | | | | 3/31/2014 | | — | 500 | 1,389 | 0.8 |
| | | | | | | | | | |
| *Southern Technical Institute, LLC (4) (6) (10)* | Colleges, Universities, and Professional Schools | | | | | | | | |
| Subordinated Loan | | 6.00% PIK | N/A | 6/27/2018 | 12/31/2021 | 1,587 | — | — | — |
| Other | | | | 6/27/2018 | | | — | — | — |
| | | | | | | 1,587 | — | — | — |
| *Spring Education Group, Inc. (F/K/A SSH Group Holdings, Inc.,)* | Child Day Care Services | | | | | | | | |
| Senior Secured Loan (15) (19) | | 6.29% | (L +4.25%) | 7/26/2018 | 7/30/2025 | 974 | 972 | 975 | 0.6 |
| Senior Secured Loan | | 10.35% | (L +8.25%) | 7/26/2018 | 7/30/2026 | 7,216 | 7,154 | 7,288 | 4.3 |
| | | | | | | 8,190 | 8,126 | 8,263 | 4.9 |
| *Sprint Communications, Inc. (14) (15) (19)* | Wired Telecommunications Carriers | | | | | | | | |
| Senior Secured Loan | | 5.06% | (L +3.00%) | 6/24/2019 | 2/2/2024 | 1,990 | 1,976 | 1,987 | 1.2 |

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued (unaudited)
## September 30, 2019
## (Dollar amounts in thousands)

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *SSJA Bariatric Management LLC (15) (19)* | Offices of Physicians, Mental Health Specialists | | | | | | | | |
| Senior Secured Loan | | 7.04% | (L +5.00%) | 8/26/2019 | 8/26/2024 | $ 10,000 | $ 9,902 | $ 9,902 | 5.8% |
| Senior Secured Loan (Revolver) | | 7.04% | (L +5.00%) | 8/26/2019 | 8/26/2024 | 100 | 93 | 93 | 0.1 |
| | | | | | | 10,100 | 9,995 | 9,995 | 5.9 |
| *Stancor, L.P. (4)* | Pump and Pumping Equipment Manufacturing | | | | | | | | |
| Preferred Equity (1,250,000 Class A units), 8% PIK (10) | | | | 8/19/2014 | | | 1,501 | 1,552 | 0.9 |
| *Staples, Inc. (14) (15) (19)* | Business to Business Electronic Markets | | | | | | | | |
| Senior Secured Loan | | 7.12% | (L +5.00%) | 6/24/2019 | 4/16/2026 | 1,995 | 1,922 | 1,970 | 1.2 |
| *STS Operating, Inc.* | Industrial Machinery and Equipment Merchant Wholesalers | | | | | | | | |
| Senior Secured Loan (14) (15) (19) | | 6.29% | (L +4.25%) | 5/16/2018 | 12/11/2024 | 634 | 632 | 621 | 0.4 |
| Senior Secured Loan | | 10.04% | (L +8.00%) | 5/15/2018 | 4/30/2026 | 9,073 | 9,069 | 8,851 | 5.2 |
| | | | | | | 9,707 | 9,701 | 9,472 | 5.6 |
| *Tank Holding Corp. (14) (15) (19)* | Unlaminated Plastics Profile Shape Manufacturing | | | | | | | | |
| Senior Secured Loan | | 6.52% | (L +4.00%) | 6/24/2019 | 3/26/2026 | 2,000 | 2,007 | 2,003 | 1.2 |
| *The Escape Game, LLC (4)* | Other amusement and recreation industries | | | | | | | | |
| Senior Secured Loan | | 9.04% | (L +7.00%) | 7/18/2019 | 3/31/2020 | 4,667 | 4,617 | 4,625 | 2.7 |
| Senior Secured Loan | | 10.79% | (L +8.75%) | 12/22/2017 | 12/22/2022 | 7,000 | 6,965 | 6,941 | 4.1 |
| Senior Secured Loan (Delayed Draw) | | 10.79% | (L +8.75%) | 7/20/2018 | 12/22/2022 | 7,000 | 7,000 | 6,939 | 4.1 |
| | | | | | | 18,667 | 18,582 | 18,505 | 10.9 |
| *Truck Hero, Inc. (15) (19)* | Truck Trailer Manufacturing | | | | | | | | |
| Senior Secured Loan | | 10.29% | (L +8.25%) | 5/30/2017 | 4/21/2025 | 7,014 | 6,981 | 6,646 | 3.9 |
| *United Biologics Holdings, LLC (4) (10)* | Medical Laboratories | | | | | | | | |
| Preferred Equity (151,787 units) | | | | 4/16/2013 | | | 9 | 20 | — |
| Warrants (29,374 units) | | | | 7/26/2012 | 3/05/2022 (12) | | 82 | 17 | — |
| | | | | | | | 91 | 37 | — |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *U.S. Anesthesia Partners (14) (15) (19)* | Freestanding Ambulatory Surgical and Emergency Centers | | | | | | | | |
| Senior Secured Loan | | 5.04% | (L +3.00%) | 6/24/2019 | 6/23/2024 | $ 2,987 | $ 2,956 | $ 2,915 | 1.7% |
| *Verifone Intermediate Holdings, Inc (14) (15) (19)* | Other Commercial and Service Industry Machinery Manufacturing | | | | | | | | |
| Senior Secured Loan | | 6.14% | (L +4.00%) | 6/24/2019 | 8/20/2025 | 2,992 | 2,934 | 2,866 | 1.7 |
| *Wastebuilt Environmental Solutions, LLC (4)* | Industrial Supplies Merchant Wholesalers | | | | | | | | |
| Senior Secured Loan | | 10.85% | (L +8.75%) | 10/11/2018 | 10/11/2024 | 7,000 | 6,877 | 6,745 | 4.0 |
| **Total Debt and Equity Investments** | | | | | | $367,773 | $368,923 | $346,440 | 203.9% |
| ***Structured Finance Note Investments (7)*** | | | | | | | | | |
| *Dryden 76 CLO, Ltd.* | | | | | | | | | |
| Subordinated Notes | | 15.37% (9) | | 9/27/2019 | 10/20/2032 (17) | 2,750 | 2,420 (16) | 2,420 | 1.4 |
| *Elevation CLO 2017-7, Ltd.* | | | | | | | | | |
| Subordinated Notes | | 17.03% (9) | | 2/6/2019 | 7/15/2030 (17) | 10,000 | 7,613 (16) | 6,785 | 4.0 |
| *Flatiron CLO 18, Ltd.* | | | | | | | | | |
| Subordinated Notes | | 16.59% (9) | | 1/2/2019 | 4/17/2031 (17) | 9,680 | 7,436 (16) | 7,550 | 4.4 |
| *THL Credit Wind River 2019-3 CLO Ltd* | | | | | | | | | |
| Subordinated Notes | | 13.92 (9) | | 4/5/2019 | 4/15/2031 (17) | 7,000 | 5,897 (16) | 5,439 | 3.2 |
| **Total Structured Finance Note Investments** | | | | | | $ 29,430 | $ 23,366 | $ 22,194 | 13.0% |
| **Total Non-control/Non-affiliate Investments** | | | | | | $397,203 | $392,289 | $368,634 | 216.9% |

**Consolidated Schedule of Investments - Continued (unaudited)**
**September 30, 2019**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| **Affiliate Investments** | | | | | | | | | |
| *3rd Rock Gaming Holdings, LLC* | Software Publishers | | | | | | | | |
| Senior Secured Loan | | 9.60% cash / 1.0% PIK | (L +7.50%) | 3/13/2018 | 3/12/2023 | $ 21,319 | $ 21,098 | $ 19,986 | 11.7% |
| Common Equity (2,547,250 units) (10) (13) | | | | 3/13/2018 | | | 2,547 | 1,522 | 0.9 |
| | | | | | | 21,319 | 23,645 | 21,508 | 12.6 |
| *Chemical Resources Holdings, Inc.* | Custom Compounding of Purchased Resins | | | | | | | | |
| Senior Secured Loan (4) | | 10.25% | (L +8.00%) | 1/25/2019 | 1/25/2024 | 13,743 | 13,583 | 13,667 | 8.0 |
| Common Equity (1,832 Class A shares) (10) (13) | | | | 1/25/2019 | | | 1,813 | 2,040 | 1.2 |
| | | | | | | 13,743 | 15,396 | 15,707 | 9.2 |
| *Contract Datascan Holdings, Inc. (4)* | Office Machinery and Equipment Rental and Leasing | | | | | | | | |
| Subordinated Loan | | 11.50% | N/A | 8/5/2015 | 2/5/2021 | 8,000 | 7,993 | 8,000 | 4.7 |
| Preferred Equity (3,061 Series A shares), 10% PIK | | | | 8/5/2015 | | | 5,429 | 6,570 | 3.9 |
| Common Equity (11,273 shares) (10) | | | | 6/28/2016 | | | 104 | — | — |
| | | | | | | 8,000 | 13,526 | 14,570 | 8.6 |
| *DRS Imaging Services, LLC* | Data Processing, Hosting, and Related Services | | | | | | | | |
| Senior Secured Loan (4) (8) | | 11.42% | (L +9.32%) | 3/8/2018 | 11/20/2023 | 10,779 | 10,704 | 10,633 | 6.2 |
| Common Equity (1,135 units) (10) (13) | | | | 3/8/2018 | | | 1,135 | 1,731 | 1.0 |
| | | | | | | 10,779 | 11,839 | 12,364 | 7.2 |
| *Master Cutlery, LLC (4) (6) (10)* | Sporting and Recreational Goods and Supplies Merchant Wholesalers | | | | | | | | |
| Subordinated Loan (11) | | 13.00% | N/A | 4/17/2015 | 4/17/2020 | 5,760 | 4,764 | 317 | 0.2 |
| Preferred Equity (3,723 Series A units), 8% PIK | | | | 4/17/2015 | | | 3,483 | — | — |
| Common Equity (15,564 units) | | | | 4/17/2015 | | | — | — | — |
| | | | | | | 5,760 | 8,247 | 317 | 0.2 |
| *NeoSystems Corp. (4)* | Other Accounting Services | | | | | | | | |
| Preferred Equity (521,962 convertible shares), 10% PIK | | | | 8/14/2014 | | | 1,656 | 2,250 | 1.3 |

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued (unaudited)
## September 30, 2019
## (Dollar amounts in thousands)

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Pfanstiehl Holdings, Inc. (4)* | Pharmaceutical Preparation Manufacturing | | | | | | | | |
| Subordinated Loan | | 10.50% | N/A | 1/1/2014 | 9/29/2022 | $ 3,788 | $ 3,809 | $ 3,788 | 2.2% |
| Common Equity (400 Class A shares) | | | | 1/1/2014 | | | 217 | 10,138 | 5.9 |
| | | | | | | 3,788 | 4,026 | 13,926 | 8.1 |
| *Professional Pipe Holdings, LLC* | Plumbing, Heating, and Air-Conditioning Contractors | | | | | | | | |
| Senior Secured Loan | | 10.79% cash / 1.50% PIK | (L +8.75%) | 3/23/2018 | 3/23/2023 | 7,601 | 7,496 | 7,753 | 4.5 |
| Common Equity (1,414 Class A units) (10) | | | | 3/23/2018 | | | 1,414 | 3,399 | 2.0 |
| | | | | | | 7,601 | 8,910 | 11,152 | 6.5 |
| *TRS Services, LLC (4) (11)* | Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance | | | | | | | | |
| Senior Secured Loan | | 10.79% cash / 1.50% PIK | (L +8.75%) | 12/10/2014 | 3/16/2020 | 14,638 | 14,620 | 14,580 | 8.6 |
| Preferred Equity (329,266 Class AA units), 15% PIK | | | | 6/30/2016 | | | 520 | 527 | 0.3 |
| Preferred Equity (3,000,000 Class A units), 11% PIK (10) | | | | 12/10/2014 | | | 3,374 | 2,901 | 1.7 |
| Common Equity (3,000,000 units) (10) | | | | 12/10/2014 | | | 572 | — | — |
| | | | | | | 14,638 | 19,086 | 18,008 | 10.6 |
| *TTG Healthcare, LLC* | Diagnostic Imaging Centers | | | | | | | | |
| Senior Secured Loan (4) | | 11.10% | (L +9.00%) | 3/1/2019 | 3/1/2024 | 12,103 | 11,930 | 12,036 | 7.1 |
| Preferred Equity ( 2,309 Class B units) (10) (13) | | | | 3/1/2019 | | | 2,309 | 2,389 | 1.4 |
| | | | | | | 12,103 | 14,239 | 14,425 | 8.5 |
| **Total Affiliate Investments** | | | | | | $ 97,731 | $120,570 | $124,227 | 72.8% |
| **Control Investment** | | | | | | | | | |
| *MTE Holding Corp. (4)* | Travel Trailer and Camper Manufacturing | | | | | | | | |
| Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.) | | 10.52% cash / 4.5% PIK | (L +8.50%) | 11/25/2015 | 11/25/2020 | 7,380 | 7,273 | 7,380 | 4.3 |
| Common Equity (554 shares) | | | | 11/25/2015 | | | 3,069 | 1,920 | 1.1 |
| | | | | | | 7,380 | 10,342 | 9,300 | 5.4 |
| **Total Control Investment** | | | | | | $ 7,380 | $ 10,342 | $ 9,300 | 5.4% |
| **Total Investments** | | | | | | $502,314 | $523,201 | $502,161 | 295.1% |

(Dollar amounts in thousands)

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.
(2) Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), generally between 2.0% and 2.3% at September 30, 2019, and reset monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of $405,599 include LIBOR reference rate floor provisions of generally 1% to 2%; at September 30, 2019, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at September 30, 2019. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.
(3) Unless otherwise noted with footnote 14, fair value was determined using significant unobservable inputs for all of the Company's investments and are considered Level 3 under GAAP. See Note 5 for further details.
(4) Investments (or portion thereof) held by SBIC I LP. These assets are pledged as collateral of the SBA debentures and can not be pledged under any debt obligation of the Company.
(5) Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity. The investment continued to accrue interest as the borrower continued to make interest and amortization payments. On October 9, 2019 the Company sold the investment for proceeds of $3,361.
(6) Investment was on non-accrual status as of September 30, 2019, meaning the Company has ceased recognition of all or a portion of income on the investment. See Note 4 for further details.
(7) Structured Finance Notes are considered CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses.
(8) The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co-lenders pursuant to a payment waterfall. The table below provides additional details as of September 30, 2019:

| Portfolio Company | Reported Interest Rate | Interest Rate per Credit Agreement | Additional Interest per Annum |
|---|---|---|---|
| Carolina Lubes, Inc. | 9.86% | 9.35% | 0.51% |
| Cenexel Clinical Research, Inc. (F/K/A JBR Clinical Research, Inc.) | 9.45% | 8.57% | 0.88% |
| Chemical Resources Holdings, Inc. | 10.26% | 8.26% | 2.00% |
| DRS Imaging Services, LLC | 11.42% | 10.10% | 1.32% |
| Milrose Consultants, LLC | 8.30% | 7.60% | 0.70% |
| OnSite Care, PLLC | 9.90% | 8.35% | 1.55% |

(9) The rate disclosed is an estimated effective yield based upon the current projection of the amount and timing of distributions in addition to the estimated amount and timing of terminal principal payments. Effective yields for the Company's Structured Finance Note investments are monitored and evaluated at each reporting date. The estimated yield and investment cost may ultimately not be realized.
(10) Non-income producing.
(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of September 30, 2019:

| Portfolio Company | Investment Type | Range of PIK Option | Range of Cash Option | Maximum PIK Rate Allowed |
|---|---|---|---|---|
| Community Intervention Services, Inc. | Subordinated Loan | 0% or 6.00% | 13.00% or 7.00% | 6.00% |
| Eblens Holdings, Inc. | Subordinated Loan | 0% or 1.00% | 13.00% or 12.00% | 1.00% |
| Master Cutlery, LLC | Senior Secured Loan | 0% to 13.00% | 13.00% to 0% | 13.00% |
| TRS Services, LLC | Senior Secured Loan | 0% or 1.00% | 12.15% or 1.00% | 1.00% |

(12) Represents expiration date of the warrants.
(13) All or portion of investment held by a wholly-owned subsidiary subject to income tax.
(14) Fair value was determined by reference to observable inputs other than quoted prices in active markets and are considered Level 2 under GAAP. See Note 5 for further details.
(15) Investments (or portion thereof) held by OFSCC-FS. These assets are pledged as collateral of the BNP Credit Facility and can not be pledged under any debt obligation of the Company.
(16) Amortized cost reflects accretion of effective yield less any cash distributions received or entitled to be received from CLO Structured Finance Note investments.

(17) Maturity represents the contractual maturity date of the structured finance notes. Expected maturity and cash flows, not contractual maturity and cash flows, were utilized in deriving the effective yield of the investments.
(18) Commitment fee on undrawn funds.
(19) Investments (or portion thereof) held by OFSCC-FS.

See Notes to Consolidated Financial Statements.

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments**
**December 31, 2018**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| **Non-control/Non-affiliate Investments** | | | | | | | | | |
| *BayMark Health Services* | Outpatient Mental Health and Substance Abuse Centers | | | | | | | | |
| Senior Secured Loan | | 10.60% | (L +8.25%) | 3/22/2018 | 3/1/2025 | $ 4,000 | $ 3,964 | $3,933 | 2.2% |
| *Brookfield WEC Holdings Inc.,* | Business to Business Electronic Markets | | | | | | | | |
| Senior Secured Loan | | 9.27% | (L +6.75%) | 12/6/2018 | 8/3/2026 | 1,959 | 1,959 | 1,914 | 1.1 |
| *Carolina Lubes, Inc. (4)* | Automotive Oil Change and Lubrication Shops | | | | | | | | |
| Senior Secured Loan (8) | | 10.24% | (L +7.82%) | 8/23/2017 | 8/23/2022 | 20,840 | 20,705 | 20,839 | 11.9 |
| Senior Secured Loan (Revolver) (7) | | 9.65% | (L +7.25%) | 8/23/2017 | 8/23/2022 | — | (11) | — | — |
| | | | | | | 20,840 | 20,694 | 20,839 | 11.9 |
| *Cirrus Medical Staffing, Inc. (4)* | Temporary Help Services | | | | | | | | |
| Senior Secured Loan | | 11.05% | (L +8.25%) | 3/5/2018 | 10/19/2022 | 12,926 | 12,779 | 12,732 | 7.3 |
| Senior Secured Loan (Revolver) (7) | | 11.05% | (L +8.25%) | 3/5/2018 | 10/19/2022 | 1,280 | 1,280 | 1,261 | 0.7 |
| | | | | | | 14,206 | 14,059 | 13,993 | 8.0 |
| *Community Intervention Services, Inc. (4) (6) (10) (11)* | Outpatient Mental Health and Substance Abuse Centers | | | | | | | | |
| Subordinated Loan | | 7.0% cash / 6.0% PIK | N/A | 7/16/2015 | 1/16/2021 | 9,060 | 7,639 | — | — |
| *Confie Seguros Holdings II Co.* | Insurance Agencies and Brokerages | | | | | | | | |
| Senior Secured Loan | | 11.24% | (L +8.50%) | 7/7/2015 | 11/1/2025 | 9,678 | 9,489 | 9,290 | 5.3 |
| *Constellis Holdings, LLC* | Other Justice, Public Order, and Safety Activities | | | | | | | | |
| Senior Secured Loan | | 11.52% | (L +9.00%) | 4/28/2017 | 4/21/2025 | 9,950 | 9,832 | 9,437 | 5.4 |
| *Convergint Technologies* | Security Systems Services (except Locksmiths) | | | | | | | | |
| Senior Secured Loan | | 9.27% | (L +6.75%) | 9/28/2018 | 2/2/2026 | 3,481 | 3,422 | 3,327 | 1.9 |

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
December 31, 2018
(Dollar amounts in thousands)

| Portfolio Company (1)<br>Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Davis Vision, Inc.* | Direct Health and Medical Insurance Carriers | | | | | | | | |
| Senior Secured Loan | | 9.28% | (L +6.75%) | 7/17/2018 | 12/1/2025 | $ 5,854 | $ 5,700 | $5,570 | 3.2% |
| *DuPage Medical Group* | Offices of Physicians, Mental Health Specialists | | | | | | | | |
| Senior Secured Loan | | 9.50% | (L +7.00%) | 8/22/2017 | 8/15/2025 | 10,098 | 10,185 | 9,771 | 5.6 |
| *Eblens Holdings, Inc.* | Shoe Store | | | | | | | | |
| Subordinated Loan (11) | | 12.0% cash / 1.00% PIK | N/A | 7/13/2017 | 1/13/2023 | 8,920 | 8,855 | 8,821 | 5 |
| Common Equity (71,250 Class A units) (10) | | | | 7/13/2017 | | | 713 | 722 | 0.4 |
| | | | | | | 8,920 | 9,568 | 9,543 | 5.4 |
| *Elgin Fasteners Group* | Bolt, Nut, Screw, Rivet, and Washer Manufacturing | | | | | | | | |
| Senior Secured Loan | | 9.30% | (L +6.50%) | 10/31/2011 | 8/27/2018 | 3,645 | 3,645 | 3,509 | 2.0 |
| *Envocore Holding, LLC (FKA LRI Holding, LLC) (4)* | Electrical Contractors and Other Wiring Installation Contractors | | | | | | | | |
| Senior Secured Loan | | 12.05% | (L +9.25%) | 6/30/2017 | 6/30/2022 | 17,344 | 17,212 | 16,821 | 9.6 |
| Preferred Equity (238,095 Series B units) (10) | | | | 6/30/2017 | | | 300 | 300 | 0.2 |
| Preferred Equity (13,315 Series C units) (10) | | | | 8/13/2018 | | | 13 | 13 | — |
| | | | | | | 17,344 | 17,525 | 17,134 | 9.8 |
| *Excelin Home Health, LLC* | Home Health Care Services | | | | | | | | |
| Senior Secured Loan | | 12.31% | (L +9.50%) | 10/25/2018 | 4/25/2024 | 4,250 | 4,168 | 4,168 | 2.4 |
| *GGC Aerospace Topco L.P.* | Other Aircraft Parts and Auxiliary Equipment Manufacturing | | | | | | | | |
| Senior Secured Loan | | 11.49% | (L +8.75%) | 12/29/2017 | 9/8/2024 | 5,000 | 4,894 | 4,033 | 2.3 |
| Common Equity (368,852 Class A units) (10) | | | | 12/29/2017 | | | 450 | 104 | 0.1 |
| Common Equity (40,984 Class B units) (10) | | | | 12/29/2017 | | | 50 | 4 | — |
| | | | | | | 5,000 | 5,394 | 4,141 | 2.4 |
| *GOBP Holdings, Inc.,* | Supermarkets and Other Grocery (except Convenience) Stores | | | | | | | | |
| Senior Secured Loan | | 10.05% | (L +7.25%) | 10/17/2018 | 10/22/2026 | 1,400 | 1,386 | 1,349 | 0.8 |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued**
**December 31, 2018**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Hyland Software, Inc.* | Software Publishers | | | | | | | | |
| Senior Secured Loan | | 6.02% | (L +3.50%) | 10/24/2018 | 7/1/2024 | $ 173 | $ 173 | $ 166 | 0.1% |
| Senior Secured Loan | | 9.52% | (L +7.00%) | 10/24/2018 | 7/7/2025 | 2,601 | 2,620 | 2,534 | 1.4 |
| | | | | | | 2,774 | 2,793 | 2,700 | 1.5 |
| *Inergex Holdings* | Other Computer Related Services | | | | | | | | |
| Senior Secured Loan | | 9.39% | (L +7.00%) | 10/1/2018 | 10/1/2024 | 13,092 | 12,904 | 12,904 | 7.4 |
| Senior Secured Loan (Revolver) (7) | | 0.50% | | 10/1/2018 | 10/1/2024 | — | (27) | — | — |
| | | | | | | 13,092 | 12,877 | 12,904 | 7.4 |
| *JBR Clinical Research, Inc. (4) (8)* | Research and Development in the Social Sciences and Humanities | | | | | | | | |
| Senior Secured Loan | | 9.10% | (L +6.71%) | 8/2/2018 | 8/2/2023 | 29,943 | 29,693 | 29,016 | 16.5 |
| *MAI Holdings, Inc. (4)* | Printing Machinery and Equipment Manufacturing | | | | | | | | |
| Senior Secured Loan | | 9.50% | N/A | 6/21/2018 | 6/1/2023 | 5,000 | 5,000 | 4,841 | 2.8 |
| *My Alarm Center, LLC (4) (10) (13)* | Security Systems Services (except Locksmiths) | | | | | | | | |
| Preferred Equity (1,485 Class A units), 8% PIK | | | | 7/14/2017 | | | 1,571 | 1,536 | 0.9 |
| Preferred Equity (1,198 Class B units) | | | | 7/14/2017 | | | 1,198 | — | — |
| Preferred Equity (335 Class Z units) 25% PIK | | | | 9/12/2018 | | | 325 | 1,038 | 0.6 |
| Common Equity (64,149 units) | | | | 7/14/2017 | | | — | — | — |
| | | | | | | | 3,094 | 2,574 | 1.5 |
| *Online Tech Stores, LLC (4)* | Stationery and Office Supplies Merchant Wholesalers | | | | | | | | |
| Subordinated Loan | | 10.50% cash / 1.0% PIK | N/A | 2/1/2018 | 8/1/2023 | 16,150 | 15,882 | 15,785 | 8.9 |
| *OnSite Care, PLLC (4) (8)* | Home Health Care Services | | | | | | | | |
| Senior Secured Loan | | 10.22% | (L +7.85%) | 8/10/2018 | 8/10/2023 | 7,100 | 7,035 | 7,008 | 4.0 |
| *Parfums Holding Company, Inc.* | Cosmetics, Beauty Supplies, and Perfume Stores | | | | | | | | |
| Senior Secured Loan | | 11.56% | (L +8.75%) | 11/16/2017 | 6/30/2025 | 6,320 | 6,334 | 6,292 | 3.6 |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued**
**December 31, 2018**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Pelican Products, Inc.* | Unlaminated Plastics Profile Shape Manufacturing | | | | | | | | |
| Senior Secured Loan | | 10.13% | (L +7.75%) | 9/24/2018 | 5/1/2026 | $ 6,055 | $ 6,060 | $5,901 | 3.4% |
| *Performance Team LLC (4)* | General Warehousing and Storage | | | | | | | | |
| Senior Secured Loan | | 12.52% | (L +10.00%) | 5/24/2018 | 11/24/2023 | 20,300 | 20,118 | 20,647 | 11.7 |
| *PM Acquisition LLC* | All Other General Merchandise Stores | | | | | | | | |
| Senior Secured Loan | | 11.50% cash / 2.50% PIK | N/A | 9/30/2017 | 10/29/2021 | 5,512 | 5,431 | 5,217 | 3.0 |
| Common Equity (499 units) (10) (13) | | | | 9/30/2017 | | | 499 | 137 | 0.1 |
| | | | | | | 5,512 | 5,930 | 5,354 | 3.1 |
| *Resource Label Group, LLC* | Commercial Printing (except Screen and Books) | | | | | | | | |
| Senior Secured Loan | | 10.90% | (L +8.50%) | 6/7/2017 | 11/26/2023 | 4,821 | 4,767 | 4,772 | 2.7 |
| *Rocket Software, Inc.* | Software Publishers | | | | | | | | |
| Senior Secured Loan | | 6.77% | (L +4.25%) | 11/20/2018 | 11/19/2025 | 670 | 667 | 645 | 0.4 |
| Senior Secured Loan | | 10.77% | (L +8.25%) | 11/20/2018 | 11/19/2026 | 5,187 | 5,136 | 5,046 | 2.9 |
| | | | | | | 5,857 | 5,803 | 5,691 | 3.3 |
| *RPLF Holdings, LLC (10) (13)* | Software Publishers | | | | | | | | |
| Common Equity (254,110 Class A units) | | | | 1/17/2018 | | | 254 | 291 | 0.2 |
| *Sentry Centers Holdings, LLC* | Other Professional, Scientific, and Technical Services | | | | | | | | |
| Senior Secured Loan (14) | | 13.50% | (L +11.50%) | 1/25/2016 | 7/24/2020 | 8,855 | 8,802 | 8,753 | 5.0 |
| Common Equity (5,000 Series C units) (10) (13) | | | | 3/31/2014 | | — | 500 | 983 | 0.6 |
| | | | | | | 8,855 | 9,302 | 9,736 | 5.6 |
| *Southern Technical Institute, LLC (4) (6) (10)* | Colleges, Universities, and Professional Schools | | | | | | | | |
| Subordinated Loan | | 6.00% PIK | N/A | 6/27/2018 | 12/31/2021 | 1,517 | — | — | — |
| Other | | | | 6/27/2018 | | — | — | — | — |
| | | | | | | 1,517 | — | — | — |

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments - Continued**
**December 31, 2018**
**(Dollar amounts in thousands)**

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *SSH Group Holdings, Inc.,* | Child Day Care Services | | | | | | | | |
| Senior Secured Loan | | 6.77% | (L +4.25%) | 7/26/2018 | 7/30/2025 | $ 982 | $ 979 | $ 920 | 0.5% |
| Senior Secured Loan | | 10.77% | (L +8.25%) | 7/26/2018 | 7/30/2026 | 7,216 | 7,147 | 6,839 | 3.9 |
| | | | | | | 8,198 | 8,126 | 7,759 | 4.4 |
| *Stancor, L.P. (4) (10)* | Pump and Pumping Equipment Manufacturing | | | | | | | | |
| Preferred Equity (1,250,000 Class A units), 8% PIK | | | | 8/19/2014 | | — | 1,501 | 1,416 | 0.8 |
| *STS Operating, Inc.* | Industrial Machinery and Equipment Merchant Wholesalers | | | | | | | | |
| Senior Secured Loan | | 6.77% | (L +4.25%) | 5/16/2018 | 12/11/2024 | 638 | 637 | 602 | 0.3 |
| Senior Secured Loan | | 10.52% | (L +8.00%) | 5/15/2018 | 4/30/2026 | 9,073 | 9,069 | 8,484 | 4.8 |
| | | | | | | 9,711 | 9,706 | 9,086 | 5.1 |
| *The Escape Game, LLC (4)* | | | | | | | | | |
| Senior Secured Loan | Other amusement and recreation industries | 11.27% | (L +8.75%) | 12/22/2017 | 12/22/2022 | 7,000 | 6,958 | 6,855 | 3.9 |
| Senior Secured Loan (Delayed Draw) (7) | | 11.22% | (L +8.75%) | 7/20/2018 | 12/22/2022 | 3,733 | 3,733 | 3,656 | 2.1 |
| | | | | | | 10,733 | 10,691 | 10,511 | 6.0 |
| *Truck Hero, Inc.* | Truck Trailer Manufacturing | | | | | | | | |
| Senior Secured Loan | | 10.76% | (L +8.25%) | 5/30/2017 | 4/21/2025 | 7,014 | 6,977 | 6,808 | 3.9 |
| *United Biologics Holdings, LLC (4) (10)* | Medical Laboratories | | | | | | | | |
| Preferred Equity (151,787 units) | | | | 7/26/2012 | | — | 9 | 20 | — |
| Warrants (29,374 units) | | | | 7/26/2012 | 3/5/2022 | — | 82 | 25 | — |
| | | | | | | — | 91 | 45 | — |
| *Wand Intermediate I LP* | Automotive Body, Paint, and Interior Repair and Maintenance | | | | | | | | |
| Senior Secured Loan | | 9.84% | (L +7.25%) | 5/14/2018 | 9/19/2022 | 3,770 | 3,802 | 3,747 | 2.1 |
| *Wastebuilt Environmental Solutions, LLC.* | Industrial Supplies Merchant Wholesalers | | | | | | | | |
| Senior Secured Loan | | 11.27% | (L +8.75%) | 10/11/2018 | 10/11/2024 | 7,000 | 6,858 | 6,858 | 3.9 |

## OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments - Continued
## December 31, 2018
## (Dollar amounts in thousands)

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Other* | | | | | | | $ 900 | $ 89 | 0.1% |
| **Total Non-control/Non-affiliate Investments** | | | | | | 309,407 | 312,223 | 297,749 | 169.9 |
| **Affiliate Investments** | | | | | | | | | |
| *3rd Rock Gaming Holdings, LLC* | Software Publishers | | | | | | | | |
| Senior Secured Loan | | 10.30% | (L +7.50%) | 3/13/2018 | 3/12/2023 | 21,626 | 21,353 | 20,023 | 11.4 |
| Common Equity (2,547,250 units) (10) (13) | | | | 3/13/2018 | | — | 2,547 | 1,073 | 0.6 |
| | | | | | | 21,626 | 23,900 | 21,096 | 12.0 |
| *Contract Datascan Holdings, Inc. (4)* | Office Machinery and Equipment Rental and Leasing | | | | | | | | |
| Subordinated Loan | | 11.50% | N/A | 8/5/2015 | 2/5/2021 | 8,000 | 7,990 | 8,000 | 4.6 |
| Preferred Equity (3,061 Series A shares), 10% PIK | | | | 8/5/2015 | | — | 4,944 | 6,652 | 3.8 |
| Common Equity (11,273 shares) (10) | | | | 6/28/2016 | | — | 104 | 2,313 | 1.3 |
| | | | | | | 8,000 | 13,038 | 16,965 | 9.7 |
| *DRS Imaging Services, LLC* | Data Processing, Hosting, and Related Services | | | | | | | | |
| Senior Secured Loan (4) (8) | | 12.23% | (L +9.42%) | 3/8/2018 | 11/20/2023 | 10,864 | 10,774 | 10,617 | 6.1 |
| Common Equity (1,135 units) (10) (13) | | | | 3/8/2018 | | — | 1,135 | 1,197 | 0.7 |
| | | | | | | 10,864 | 11,909 | 11,814 | 6.8 |
| *Master Cutlery, LLC (4) (6) (10)* | Sporting and Recreational Goods and Supplies Merchant Wholesalers | | | | | | | | |
| Subordinated Loan (11) | | 13.00% PIK | N/A | 4/17/2015 | 4/17/2020 | 5,229 | 4,764 | 850 | 0.5 |
| Preferred Equity (3,723 Series A units), 8% PIK | | | | 4/17/2015 | | — | 3,483 | — | — |
| Common Equity (15,564 units) | | | | 4/17/2015 | | — | — | — | — |
| | | | | | | 5,229 | 8,247 | 850 | 0.5 |
| *NeoSystems Corp. (4) (10)* | Other Accounting Services | | | | | | | | |
| Preferred Equity (521,962 convertible shares), 10% PIK | | | | 8/14/2014 | | — | 1,537 | 2,250 | 1.3 |

## Consolidated Schedule of Investments - Continued
## December 31, 2018
## (Dollar amounts in thousands)

| Portfolio Company (1) Investment Type | Industry | Interest Rate (2) | Spread Above Index (2) | Initial Acquisition Date | Maturity | Principal Amount | Amortized Cost | Fair Value (3) | Percent of Net Assets |
|---|---|---|---|---|---|---|---|---|---|
| *Pfanstiehl Holdings, Inc. (4)* | Pharmaceutical Preparation Manufacturing | | | | | | | | |
| Subordinated Loan | | 10.50% | N/A | 1/1/2014 | 9/29/2022 | $ 3,788 | $ 3,814 | $ 3,788 | 2.2% |
| Common Equity (400 Class A shares) | | | | 1/1/2014 | | — | 217 | 8,360 | 4.8 |
| | | | | | | 3,788 | 4,031 | 12,148 | 7.0 |
| *Professional Pipe Holdings, LLC* | Plumbing, Heating, and Air-Conditioning Contractors | | | | | | | | |
| Senior Secured Loan | | 12.77% | (L +10.25%) | 3/23/2018 | 3/23/2023 | 7,779 | 7,647 | 7,466 | 4.3 |
| Common Equity (1,414 Class A units) (10) | | | | 3/23/2018 | | — | 1,414 | 769 | 0.4 |
| | | | | | | 7,779 | 9,061 | 8,235 | 4.7 |
| *TRS Services, LLC (4) (11)* | Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance | | | | | | | | |
| Senior Secured Loan | | 11.27% cash / 1.0% PIK | (L +8.75%) | 12/10/2014 | 12/10/2019 | 14,681 | 14,617 | 14,446 | 8.3 |
| Preferred Equity (329,266 Class AA units), 15% PIK | | | | 6/30/2016 | | — | 465 | 473 | 0.3 |
| Preferred Equity (3,000,000 Class A units), 11% PIK (10) | | | | 12/10/2014 | | — | 3,374 | 826 | 0.5 |
| Common Equity (3,000,000 units) (10) | | | | 12/10/2014 | | — | 572 | — | — |
| | | | | | | 14,681 | 19,028 | 15,745 | 9.1 |
| **Total Affiliate Investments** | | | | | | 71,967 | 90,751 | 89,103 | 51.1 |
| | | | | | | | | | |
| **Control Investment** | | | | | | | | | |
| *MTE Holding Corp. (4)* | Travel Trailer and Camper Manufacturing | | | | | | | | |
| Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.) | | 14.00% cash / 1.50% PIK | (L +11.50%) | 11/25/2015 | 11/25/2020 | 7,296 | 7,268 | 7,296 | 4.2 |
| Common Equity (554 shares) | | | | 11/25/2015 | | — | 3,069 | 2,649 | 1.5 |
| | | | | | | 7,296 | 10,337 | 9,945 | 5.7 |
| **Total Control Investment** | | | | | | 7,296 | 10,337 | 9,945 | 5.7 |
| | | | | | | | | | |
| **Total Investments** | | | | | | $388,670 | $413,311 | $396,797 | 226.7% |

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

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

(Dollar amounts in thousands)

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

(3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.
(4) Investments (or portion thereof) held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.
(5) Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity through September 26, 2019. The investment shall continue to accrue interest as the borrower has continued to make interest and amortization payments.
(6) Investment was on non-accrual status as of December 31, 2018, meaning the Company has ceased recognition of all or a portion of income on the investment. See Note 5 for further details.
(7) Subject to unfunded commitments. See Note 6 for further details.
(8) The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its principal payment after the repayment of certain co-lenders pursuant to a payment waterfall. The table below provides additional details as of December 31, 2018:

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

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

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

(12) Represents expiration date of the warrants.
(13) All or portion of investment held by a wholly-owned subsidiary subject to corporate income tax. See Note 8 for further details.
(14) Maximum interest rate allowable under the terms of this investment is 13.50%

See Notes to Consolidated Financial Statements.

## Note 1. Organization

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

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

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

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

OFSCC-FS, a special-purpose vehicle was formed in April 2019 for the purpose of acquiring senior secured loan investments. OFSCC-FS has debt financing through its BNP Facility which provides OFSCC-FS with borrowing capacity of up to $150 million.

OFSCC-MB, LLC is a wholly-owned subsidiary taxed under subchapter C of the Code and generally holds the equity investments of the Company that are taxed as pass-through entities.

## Note 2. Summary of Significant Accounting Policies

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

***Significant Accounting Policies:*** The following information supplements the description of significant accounting policies contained in Note 2 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

***Investments - Structured Finance Notes:*** The Company acquired Structured Finance Notes of CLO investment vehicles. The Company considers CLO performance metrics, including prepayment rates, default rates, loss-on-default and recovery rates, and other metrics, as well as estimated market yields provided by a recognized industry pricing service as a primary source for discounted cash flow fair value estimates, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers in its estimate of the fair value of such investments. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests, concentration limits, defaults, restructuring activity and prepayment rates on the underlying loans, if applicable. The Company engages a third-party valuation firm to provide assistance to the Board in determining the fair value of our investments.

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

(Dollar amounts in thousands, except per share data)

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

***Concentration of credit risk:*** Aside from its debt instruments, including investments in Structured Finance Notes of CLOs, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. The Company places cash deposits only with high credit quality institutions, which OFS Advisor believes will mitigate the risk of loss due to credit risk. The amount of loss due to credit risk from debt investments if borrowers fail to perform according to the terms of the contracts, and the collateral or other security for those instruments proved to be of no value to the Company, is equal to the Company's recorded investment in debt instruments and the unfunded loan commitments as disclosed in Note 6. The amount of loss due to credit risk from investments in Structured Finance Notes, if underlying funds and managers fail to perform according to the terms of the indentures and collateral management agreements, and the collateral or other security for those instruments proved to be of no value to the Company is equal to the Company's recorded investment in Structured Finance Notes.

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

The Company did not adopt any other new accounting pronouncements during the nine months ended September 30, 2019 that had, or is expected to have, a material impact on the Company's consolidated financial statements.

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

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

**Note 3. Related Party Transactions**

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

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

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

Advisor has elected to exclude the value of the intangible asset and goodwill resulting from the SBIC Acquisition from the base management fee calculation.

OFS Advisor agreed to waive a portion of its base management fee by reducing the portion of such fee from 0.4375% per quarter (1.75% annualized) to 0.25% per quarter (1.00% annualized) of the average value of the portion of the total assets held by the Company through OFSCC-FS (the "OFSCC-FS Assets"), at the end of the two most recently completed calendar quarters to the extent that such portion of the OFSCC-FS Assets are financed using leverage (also calculated on an average basis) that causes the Company’s statutory asset coverage ratio to fall below 200%. When calculating its statutory asset coverage ratio, the Company excludes its SBA guaranteed debentures from its total outstanding senior securities as permitted pursuant to exemptive relief granted by the SEC dated November 26, 2013. The waiver is renewable on an annual basis and the amount of the base management fee waived with respect to the OFSCC-FS Assets shall not be subject to recoupment by OFS Advisor.

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

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

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

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

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

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

On May 1, 2018, OFS Advisor agreed to irrevocably waive the receipt of $22 in Income Incentive Fees (based on net investment income) related to net investment income, that it would otherwise be entitled to receive under the Investment Advisory Agreement for the three months ended March 31, 2018. As a result of the voluntary fee waiver, the Company incurred

(Dollar amounts in thousands, except per share data)

Income Incentive Fee expense of $714 for the three months ended March 31, 2018, which is equal to the Income Incentive Fee expense the Company incurred for the three months ended December 31, 2017. The voluntary fee waiver did not include Capital Gain Fees, which was $0 for the three months ended March 31, 2018.

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

**Administration Agreement:** OFS Services furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to the Administration Agreement. Under the Administration Agreement, OFS Services performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records that the Company is required to maintain and preparing reports to its stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, OFS Services also provides managerial assistance on the Company's behalf to those portfolio companies that have accepted the Company's offer to provide such assistance. Payment under the Administration Agreement is equal to an amount based upon the Company's allocable portion of OFS Services's overhead in performing its obligations under the Administration Agreement, including, but not limited to, rent, information technology services and the Company's allocable portion of the cost of its officers, including its chief executive officer, chief financial officer, chief compliance officer, chief accounting officer and their respective staffs. To the extent that OFS Services outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without profit to OFS Services.

Expenses recognized for the three and nine months ended September 30, 2019 and 2018, under agreements with OFS Advisor and OFS Services are presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Base management fees | $ 2,164 | $ 1,678 | $ 6,062 | $ 4,586 |
| Incentive fees: | | | | |
| Income Incentive Fee | 1,214 | 1,170 | 3,622 | 3,041 |
| Incentive fee waiver | — | — | — | (22) |
| Administration fee expense | 396 | 311 | 1,250 | 1,252 |

**Note 4. Investments**

As of September 30, 2019, the Company had loans to 67 portfolio companies, of which 90% were senior secured loans and 10% were subordinated loans, at fair value, as well as equity investments in 14 of these portfolio companies. The Company also held equity investments in six portfolio companies in which it did not hold a debt investment and four investments in Structured Finance Notes. At September 30, 2019, the Company's investments consisted of the following:

| | | Percentage of Total | | | Percentage of Total | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Amortized Cost | Net Assets | Fair Value | Fair Value | Net Assets |
| Senior secured debt investments [(1)] | $ 408,268 | 78.0% | 239.6% | $ 393,857 | 78.4% | 231.2% |
| Subordinated debt investments | 56,460 | 10.8 | 33.1 | 44,079 | 8.8 | 25.9 |
| Preferred equity | 21,688 | 4.1 | 12.7 | 18,566 | 3.7 | 10.9 |
| Common equity and warrants | 13,419 | 2.6 | 7.9 | 23,465 | 4.7 | 13.8 |
| Total debt and equity investments | 499,835 | 95.5 | 293.3 | 479,967 | 95.6 | 281.8 |
| Structured Finance Notes | 23,366 | 4.5 | 13.7 | 22,194 | 4.4 | 13.0 |
| Total investments | $ 523,201 | 100.0% | 307.0% | $ 502,161 | 100.0% | 294.8% |

(1) Includes debt investments, typically referred to as unitranche, in which we have entered into contractual arrangements with co-lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of

(Dollar amounts in thousands, except per share data)

certain co-lenders pursuant to a payment waterfall. Amortized cost and fair value of these investments were $87,207 and $87,177, respectively.

As of September 30, 2019, all but one (domiciled in Ireland) of the Company's debt and equity investments, with an amortized cost and fair value of $1,897 and $1,817, respectively, were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's debt and equity investment portfolio was as follows:

| | | Percentage of Total | | | Percentage of Total | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Amortized Cost | Net Assets | Fair Value | Fair Value | Net Assets |
| **Administrative and Support and Waste Management and Remediation Services** | | | | | | |
| Security Systems Services (except Locksmiths) | $ 6,522 | 1.3% | 3.8% | $ 5,621 | 1.2% | 3.3% |
| Temporary Help Services | 12,949 | 2.6 | 7.6 | 12,585 | 2.7 | 7.4 |
| **Arts, Entertainment, and Recreation** | | | | | | |
| Other Amusement and Recreation Industries | 18,582 | 3.7 | 10.9 | 18,505 | 3.9 | 10.9 |
| **Construction** | | | | | | |
| Electrical Contractors and Other Wiring Installation Contractors | 16,505 | 3.3 | 9.7 | 15,532 | 3.2 | 9.1 |
| Plumbing, Heating, and Air-Conditioning Contractors | 8,910 | 1.8 | 5.2 | 11,152 | 2.3 | 6.5 |
| **Education Services** | | | | | | |
| Colleges, Universities, and Professional Schools | — | — | — | — | — | — |
| **Finance and Insurance** | | | | | | |
| Insurance Agencies and Brokerages | 9,509 | 1.9 | 5.6 | 9,115 | 1.9 | 5.3 |
| **Health Care and Social Assistance** | | | | | | |
| All Other Outpatient Care Centers | 2,002 | 0.4 | 1.2 | 2,002 | 0.4 | 1.2 |
| Child Day Care Services | 8,126 | 1.6 | 4.8 | 8,263 | 1.7 | 4.8 |
| Diagnostic Imaging Centers | 14,239 | 2.8 | 8.4 | 14,425 | 3.0 | 8.5 |
| Freestanding Ambulatory Surgical and Emergency Centers | 2,956 | 0.6 | 1.7 | 2,915 | 0.6 | 1.7 |
| General Medical and Surgical Hospitals | 2,619 | 0.5 | 1.5 | 2,624 | 0.6 | 1.5 |
| Home Health Care Services | 14,229 | 2.8 | 8.4 | 14,060 | 2.9 | 8.3 |
| Medical Laboratories | 91 | — | 0.1 | 37 | — | — |
| Offices of Physicians, Mental Health Specialists | 20,172 | 4.0 | 11.8 | 20,063 | 4.2 | 11.9 |
| Outpatient Mental Health and Substance Abuse Centers | 11,608 | 2.3 | 6.8 | 4,026 | 0.8 | 2.4 |
| Residential Intellectual and Developmental Disability Facilities | 2,999 | 0.6 | 1.8 | 3,002 | 0.6 | 1.8 |
| **Information** | | | | | | |
| Data Processing, Hosting, and Related Services | 11,839 | 2.4 | 6.9 | 12,364 | 2.6 | 7.3 |
| Internet Publishing and Broadcasting and Web Search Portals | 1,973 | 0.4 | 1.2 | 1,980 | 0.4 | 1.2 |
| Software Publishers | 38,996 | 7.9 | 22.8 | 36,401 | 7.5 | 21.5 |
| Wired Telecommunications Carriers | 1,976 | 0.4 | 1.2 | 1,987 | 0.4 | 1.2 |

(Dollar amounts in thousands, except per share data)

| | Amortized Cost | Percentage of Total: Amortized Cost | Percentage of Total: Net Assets | Fair Value | Percentage of Total: Fair Value | Percentage of Total: Net Assets |
|---|---|---|---|---|---|---|
| **Manufacturing** | | | | | | |
| Bolt, Nut, Screw, Rivet, and Washer Manufacturing | $ 3,483 | 0.7% | 2.0% | $ 3,361 | 0.7% | 2.0% |
| Commercial Printing (except Screen and Books) | 4,775 | 1.0 | 2.8 | 4,643 | 1.0 | 2.7 |
| Custom Compounding of Purchased Resins | 15,396 | 3.1 | 9.0 | 15,707 | 3.3 | 9.2 |
| Other Aircraft Parts and Auxiliary Equipment Manufacturing | 5,408 | 1.1 | 3.2 | 4,044 | 0.8 | 2.4 |
| Other Commercial and Service Industry Machinery Manufacturing | 2,934 | 0.6 | 1.7 | 2,866 | 0.6 | 1.7 |
| Pharmaceutical Preparation Manufacturing | 5,923 | 1.2 | 3.5 | 15,743 | 3.3 | 9.2 |
| Plastics Plumbing Fixture Manufacturing | 1,487 | 0.3 | 0.9 | 1,483 | 0.3 | 0.9 |
| Printing Machinery and Equipment Manufacturing | 5,000 | 1.0 | 2.9 | 2,315 | 0.5 | 1.4 |
| Pump and Pumping Equipment Manufacturing | 1,501 | 0.3 | 0.9 | 1,552 | 0.3 | 0.9 |
| Travel Trailer and Camper Manufacturing | 10,342 | 2.1 | 6.1 | 9,300 | 1.9 | 5.5 |
| Truck Trailer Manufacturing | 6,981 | 1.4 | 4.1 | 6,646 | 1.4 | 3.9 |
| Unlaminated Plastics Profile Shape Manufacturing | 8,066 | 1.6 | 4.7 | 7,947 | 1.7 | 4.7 |
| **Other Services (except Public Administration)** | | | | | | |
| Automotive Oil Change and Lubrication Shops | 20,297 | 4.1 | 11.8 | 20,532 | 4.3 | 12.1 |
| Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance | 19,086 | 3.8 | 11.2 | 18,008 | 3.8 | 10.6 |
| Communication Equipment Repair and Maintenance | 2,990 | 0.6 | 1.8 | 3,001 | 0.6 | 1.8 |
| **Professional, Scientific, and Technical Services** | | | | | | |
| Administrative Management and General Management Consulting Services | 17,487 | 3.5 | 10.3 | 17,498 | 3.6 | 10.3 |
| Advertising Agencies | 1,992 | 0.4 | 1.2 | 1,992 | 0.4 | 1.2 |
| Other Accounting Services | 1,656 | 0.3 | 1.0 | 2,250 | 0.5 | 1.3 |
| Other Computer Related Services | 18,126 | 3.6 | 10.6 | 17,850 | 3.7 | 10.5 |
| Other Professional, Scientific, and Technical Services | 500 | 0.1 | 0.3 | 1,389 | 0.3 | 0.8 |
| Research and Development in the Social Sciences and Humanities | 24,154 | 4.8 | 14.1 | 24,046 | 5.0 | 14.2 |
| Testing Laboratories | 1,992 | 0.4 | 1.2 | 1,989 | 0.4 | 1.2 |
| **Public Administration** | | | | | | |
| Other Justice, Public Order, and Safety Activities | 9,846 | 2.0 | 5.8 | 2,856 | 0.6 | 1.7 |
| Public Finance Activities | 1,944 | 0.4 | 1.1 | 2,005 | 0.4 | 1.2 |
| **Real Estate and Rental and Leasing** | | | | | | |
| Office Machinery and Equipment Rental and Leasing | 13,526 | 2.7 | 7.9 | 14,570 | 3.0 | 8.6 |

(Dollar amounts in thousands, except per share data)

| | Amortized Cost | Percentage of Total Amortized Cost | Percentage of Total Net Assets | Fair Value | Percentage of Total Fair Value | Percentage of Total Net Assets |
|---|---|---|---|---|---|---|
| **Retail Trade** | | | | | | |
| Cosmetics, Beauty Supplies, and Perfume Stores | $ 6,419 | 1.3% | 3.8% | $ 6,470 | 1.3% | 3.8% |
| Shoe store | 9,648 | 1.9 | 5.7 | 9,862 | 2.1 | 5.8 |
| Sporting Goods Stores | 1,923 | 0.4 | 1.1 | 1,920 | 0.4 | 1.1 |
| Supermarkets and Other Grocery (except Convenience) Stores | 2,150 | 0.4 | 1.3 | 2,169 | 0.5 | 1.3 |
| All Other General Merchandise Stores | 5,441 | 1.1 | 3.2 | 5,074 | 1.1 | 3.0 |
| **Transportation and Warehousing** | | | | | | |
| General Warehousing and Storage | 13,785 | 2.8 | 8.1 | 14,166 | 3.0 | 8.3 |
| **Wholesale Trade** | | | | | | |
| Business to Business Electronic Markets | 3,927 | 0.8 | 2.3 | 3,975 | 0.8 | 2.3 |
| Computer and Computer Peripheral Equipment and Software Merchant Wholesalers | 1,976 | 0.4 | 1.2 | 1,975 | 0.4 | 1.2 |
| Industrial Machinery and Equipment Merchant Wholesalers | 9,701 | 1.9 | 5.7 | 9,472 | 2.0 | 5.6 |
| Industrial Supplies Merchant Wholesalers | 6,877 | 1.4 | 4.0 | 6,745 | 1.4 | 4.0 |
| Other Grocery and Related Products Merchant Wholesalers | 2,000 | 0.4 | 1.2 | 1,999 | 0.4 | 1.2 |
| Sporting and Recreational Goods and Supplies Merchant Wholesalers | 8,247 | 1.6 | 4.8 | 317 | 0.1 | 0.2 |
| Stationary & Office Supply Merchant Wholesaler | 16,047 | 3.2 | 9.4 | 15,571 | 3.2 | 9.1 |
| Total debt and equity investments | $ 499,835 | 100.0% | 293.3% | $ 479,967 | 100.0% | 281.7% |
| Structured Finance Notes | 23,366 | — | 13.7% | 22,194 | — | 13.0% |
| Total investments | $ 523,201 | 100.0% | 307% | $ 502,161 | 100.0% | 294.7% |

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

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

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

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

(Dollar amounts in thousands, except per share data)

| | Amortized Cost | Percentage of Total | | Fair Value | Percentage of Total | |
|---|---|---|---|---|---|---|
| | | Amortized Cost | Net Assets | | Fair Value | Net Assets |
| **Administrative and Support and Waste Management and Remediation Services** | | | | | | |
| Security Systems Services (except Locksmiths) | $ 6,516 | 1.6% | 3.7% | $ 5,901 | 1.5% | 3.4% |
| Temporary Help Services | 14,059 | 3.4 | 8.0 | 13,993 | 3.5 | 8.0 |
| **Arts, Entertainment, and Recreation** | | | | | | |
| Other Amusement and Recreation Industries | 10,691 | 2.6 | 6.1 | $ 10,511 | 2.6 | 6.0 |
| **Construction** | | | | | | |
| Electrical Contractors and Other Wiring Installation Contractors | 17,525 | 4.2 | 10.0 | 17,134 | 4.3 | 9.8 |
| Plumbing, Heating, and Air-Conditioning Contractors | 9,061 | 2.2 | 5.2 | 8,235 | 2.1 | 4.7 |
| **Education Services** | | | | | | |
| Colleges, Universities, and Professional Schools | — | — | — | — | — | — |
| **Finance and Insurance** | | | | | | |
| Direct Health and Medical Insurance Carriers | 5,700 | 1.4 | 3.3 | 5,570 | 1.4 | 3.2 |
| Insurance Agencies and Brokerages | 9,489 | 2.3 | 5.4 | 9,290 | 2.3 | 5.3 |
| **Health Care and Social Assistance** | | | | | | |
| Child Day Care Services | 8,126 | 2.0 | 4.6 | 7,759 | 2.0 | 4.4 |
| Home Health Care Services | 11,203 | 2.7 | 6.4 | 11,176 | 2.8 | 6.4 |
| Medical Laboratories | 91 | — | 0.1 | 45 | — | — |
| Offices of Physicians, Mental Health Specialists | 10,185 | 2.5 | 5.8 | 9,771 | 2.5 | 5.6 |
| Outpatient Mental Health and Substance Abuse Centers | 11,603 | 2.8 | 6.6 | 3,933 | 1.0 | 2.2 |
| **Information** | | | | | | |
| Data Processing, Hosting, and Related Services | 11,909 | 2.9 | 6.8 | 11,814 | 3.0 | 6.7 |
| Software Publishers | 32,750 | 7.9 | 18.6 | 29,778 | 7.5 | 16.9 |
| **Manufacturing** | | | | | | |
| Bolt, Nut, Screw, Rivet, and Washer Manufacturing | 3,645 | 0.9 | 2.1 | 3,509 | 0.9 | 2.0 |
| Commercial Printing (except Screen and Books) | 4,767 | 1.2 | 2.7 | 4,772 | 1.2 | 2.7 |
| Other Aircraft Parts and Auxiliary Equipment Manufacturing | 5,394 | 1.3 | 3.1 | 4,141 | 1.0 | 2.4 |
| Pharmaceutical Preparation Manufacturing | 4,031 | 1.0 | 2.3 | 12,148 | 3.1 | 6.9 |
| Printing Machinery and Equipment Manufacturing | 5,000 | 1.2 | 2.9 | 4,841 | 1.2 | 2.8 |
| Pump and Pumping Equipment Manufacturing | 1,501 | 0.4 | 0.9 | 1,416 | 0.4 | 0.8 |
| Travel Trailer and Camper Manufacturing | 10,337 | 2.5 | 5.9 | 9,945 | 2.5 | 5.7 |
| Truck Trailer Manufacturing | 6,977 | 1.7 | 4.0 | 6,808 | 1.7 | 3.9 |
| Unlaminated Plastics Profile Shape Manufacturing | 6,060 | 1.5 | 3.5 | 5,901 | 1.5 | 3.4 |
| **Other Services (except Public Administration)** | | | | | | |

| | | Percentage of Total | | | Percentage of Total | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Amortized Cost | Net Assets | Fair Value | Fair Value | Net Assets |
| Automotive Body, Paint, and Interior Repair and Maintenance | 3,802 | 0.9 | 2.2 | 3,747 | 0.9 | 2.1 |
| Automotive Oil Change and Lubrication Shops | 20,694 | 5.0 | 11.8 | 20,839 | 5.3 | 11.9 |
| Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance | $ 19,028 | 4.6% | 10.9% | $ 15,745 | 4.0% | 9.0% |
| **Professional, Scientific, and Technical Services** | | | | | | |
| Other Accounting Services | 1,537 | 0.4 | 0.9 | 2,250 | 0.6 | 1.3 |
| Other Computer Related Services | 12,877 | 3.1 | 7.4 | 12,904 | 3.3 | 7.4 |
| Other Professional, Scientific, and Technical Services | 9,302 | 2.3 | 5.3 | 9,736 | 2.5 | 5.6 |
| Research and Development in the Social Sciences and Humanities | 29,693 | 7.2 | 17.0 | 29,016 | 7.3 | 16.5 |
| **Public Administration** | | | | | | |
| Other Justice, Public Order, and Safety Activities | 9,832 | 2.4 | 5.6 | 9,437 | 2.4 | 5.4 |
| **Real Estate and Rental and Leasing** | | | | | | |
| Home Health Equipment Rental | 900 | 0.2 | 0.5 | 89 | — | 0.1 |
| Office Machinery and Equipment Rental and Leasing | 13,038 | 3.2 | 7.4 | 16,965 | 4.3 | 9.7 |
| **Retail Trade** | | | | | | |
| Cosmetics, Beauty Supplies, and Perfume Stores | 6,334 | 1.5 | 3.6 | 6,292 | 1.6 | 3.6 |
| Shoe store | 9,568 | 2.2 | 5.5 | 9,543 | 2.4 | 5.5 |
| Supermarkets and Other Grocery (except Convenience) Stores | 1,386 | 0.3 | 0.8 | 1,349 | 0.3 | 0.8 |
| All Other General Merchandise Stores | 5,930 | 1.4 | 3.4 | 5,354 | 1.2 | 3.1 |
| **Transportation and Warehousing** | | | | | | |
| General Warehousing and Storage | 20,118 | 4.9 | 11.5 | 20,647 | 5.2 | 11.8 |
| **Wholesale Trade** | | | | | | |
| Business to Business Electronic Markets | 1,959 | 0.5 | 1.1 | 1,914 | 0.5 | 1.1 |
| Industrial Machinery and Equipment Merchant Wholesalers | 9,706 | 2.3 | 5.5 | 9,086 | 2.3 | 5.2 |
| Industrial Supplies Merchant Wholesalers | 6,858 | 1.7 | 3.9 | 6,858 | 1.7 | 3.9 |
| Sporting and Recreational Goods and Supplies Merchant Wholesalers | 8,247 | 2.0 | 4.7 | 850 | 0.2 | 0.5 |
| Stationery and Office Supplies Merchant Wholesalers | 15,882 | 3.7 | 9.1 | 15,785 | 4.0 | 9.0 |
| | $ 413,311 | 100.0% | 236.1% | $ 396,797 | 100.0% | 226.7% |

When there is reasonable doubt that principal, cash interest, or PIK interest will be collected, loan investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, or Net Loan Fee amortization, as applicable. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal. The aggregate amortized cost and fair value of loans on non-accrual status with respect to all interest and Net Loan Fee amortization was $12,403 and $317, respectively, at September 30, 2019, and $12,403 and $850 at December 31, 2018, respectively.

In June 2018, the Company's investment in Southern Technical Institute, LLC was restructured. The Company converted its subordinated note, SP-1 preferred shares, and warrants for a $1,471 subordinated loan and 1,764 shares of Class A-1 common units. The cost and fair value of the securities received were $-0- and $-0- as of September 30, 2018. The Company recognized a realized loss on the restructuring of $5,608 for the nine months ended September 30, 2018, of which $4,407 was recognized as unrealized losses as of December 31, 2017.

On January 31, 2019, Maverick Healthcare Equity, LLC was acquired in a purchase transaction. Proceeds from this transaction were insufficient to redeem the class of equity held by the Company. Accordingly, in the nine months ended September 30, 2019, the Company recognized a net loss of $89, which is comprised of $900 realized loss net of $811 unrealized loss reversal.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date, subject to other terms and conditions. The investment continued to accrue interest as the borrower continued to make interest and amortization payments. On October 9, 2019, the Company sold its investment in Elgin Fasteners Group for proceeds of $3,361, resulting in a realized loss of $122.

**Note 5. Fair Value of Financial Instruments**

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

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

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

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

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

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

Beginning in the first quarter of 2019 and with the addition of Structured Finance Notes to the Company's portfolio, the Company values Structure Finance Notes primarily through discounted cash flow fair value estimates. In valuing such investments, the Company considers CLO performance metrics, including prepayment rates, default rates, loss-on-default and recovery rates, and other metrics, as well as estimated market yields provided by a recognized industry pricing service as a primary source for discounted cash flow fair value estimates, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers in its estimate of the fair value of such investments. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests, concentration limits, defaults, restructuring activity and prepayment rates on the underlying loans, if applicable. The Company engages a third-party valuation firm to provide assistance to the Company's Board in valuing our investments, which they will evaluate and consider in determining fair value.

(Dollar amounts in thousands, except per share data)

Senior securities with a fair value of $0 and $628 were transfered from Level 3 to Level 2 during the three and nine months ended September 30, 2019, respectively. There were no transfers among Level 1, 2 and 3 during the three and nine months ended September 30, 2018.

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

The following tables provide quantitative information about valuation techniques and the Company’s significant inputs to the Company’s Level 3 fair value measurements as of September 30, 2019 and December 31, 2018. In addition to the techniques and inputs noted in the tables below, according to the Company’s valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company’s fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company’s fair value measurements.

Senior securities with a fair value of $29,198 were valued at their Transaction Price.

| | Fair Value at September 30, 2019 | Valuation technique | Unobservable inputs | Range (Weighted average) |
|---|---|---|---|---|
| Debt investments: | | | | |
| Senior secured | $ 307,559 | Discounted cash flow | Discount rates | 5.4% - 19.6% (12.5%) |
| Senior secured | 7,465 | Market approach | EBITDA multiples | 0.3x - 14.8x (7.5x) |
| Senior secured | 26,778 | Transaction Price | | |
| Subordinated | 36,383 | Discounted cash flow | Discount rates | 5.7% - 17.7% (11.7) |
| Subordinated | 7,696 | Market approach | EBITDA multiples | 0.2x - 6.1x (3.2x) |
| | | | | |
| Structured Finance Notes: | | | | |
| Subordinated notes | 19,774 | Discounted cash flow | Discount rates | 15.5% - 20.0% (17.4%) |
| | | | Constant Default Rate | 1.3% - 1.4% (1.32%) |
| | | | Recovery Rate | 69.2% - 69.8% (69.6%) |
| Subordinated notes | 2,420 | Transaction Price | | |
| | | | | |
| Equity investments: | | | | |
| Preferred equity | 16,358 | Market approach | EBITDA multiples | 0.2x - 40.0x (20.1x) |
| Preferred equity | 2,208 | Market approach | Reoccurring monthly revenue | 40.0x- 40.0x (40.0x) |
| Common equity and warrants | 23,465 | Market approach | EBITDA multiples | 0.2x - 10.8x (5.5x) |
| | $ 450,106 | | | |

(Dollar amounts in thousands, except per share data)

| | Fair Value at December 31, 2018 | Valuation technique | Unobservable inputs | Range (Weighted average) |
|---|---|---|---|---|
| Debt investments: | | | | |
| Senior secured | $ 295,087 | Discounted cash flow | Discount rates | 6.94% - 19.70% (12.49%) |
| | 23,930 | Transaction Price | | |
| | | | | |
| Subordinated | 36,394 | Discounted cash flow | Discount rates | 7.16% - 15.40% (7.21%) |
| Subordinated | 8,146 | Market approach | EBITDA multiples | 3.50x - 7.65x (5.10x) |
| | | | | |
| Equity investments | | | | |
| Preferred equity | 12,039 | Market approach | EBITDA multiples | 4.50x - 8.50x (7.42x) |
| Preferred equity | 2,574 | Market approach | Reoccurring monthly revenue | 38.0x - 42.0x (40.0x) |
| Common equity and warrants | 18,627 | Market approach | EBITDA multiples | 3.50x - 11.00x (8.68x) |
| | $ 396,797 | | | |

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

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

The following tables presents the Company's investment portfolio measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018.

| Security | Level 1 | Level 2 | Level 3 | Fair Value at September 30, 2019 |
|---|---|---|---|---|
| Debt investments | $ — | $ 52,055 | $ 385,881 | $ 437,936 |
| Equity investments | — | — | 42,031 | 42,031 |
| Structured Finance Notes | — | — | 22,194 | 22,194 |
| | $ — | $ 52,055 | $ 450,106 | $ 502,161 |

| Security | Level 1 | Level 2 | Level 3 | Fair Value at December 31, 2018 |
|---|---|---|---|---|
| Debt investments | $ — | $ — | $ 363,557 | $ 363,557 |
| Equity investments | — | — | 33,240 | 33,240 |
| Structured Finance Notes | — | — | — | — |
| | $ — | $ — | $ 396,797 | $ 396,797 |

(Dollar amounts in thousands, except per share data)

The following tables present changes in investments measured at fair value using Level 3 inputs for the nine months ended September 30, 2019 and September 30, 2018.

| | Nine Months Ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Senior Secured Debt Investments | Subordinated Debt Investments | Preferred Equity | Common Equity and Warrants | Structured Finance Notes | Total |
| Level 3 assets, January 1, 2019 | $ 319,017 | $ 44,540 | $ 14,613 | $ 18,627 | $ — | $ 396,797 |
| Net realized gain (loss) on investments | 186 | — | (900) | — | — | (714) |
| Net unrealized appreciation (depreciation) on investments | (7,551) | (709) | 1,885 | 3,025 | (1,172) | (4,522) |
| Amortization of Net Loan Fees | 724 | 64 | — | — | — | 788 |
| Accretion of interest income on structured-finance notes | — | — | — | — | 2,001 | 2,001 |
| Capitalized PIK interest and dividends | 338 | 274 | 659 | — | — | 1,271 |
| Amendment fees | — | (90) | — | — | — | (90) |
| Purchase and origination of portfolio investments | 90,782 | — | 2,309 | 1,813 | 23,341 | 118,245 |
| Proceeds from principal payments on portfolio investments | (30,750) | — | — | — | — | (30,750) |
| Sale and redemption of portfolio investments | (30,316) | — | — | — | — | (30,316) |
| Proceeds from distributions received from portfolio investments | — | — | — | — | (1,976) | (1,976) |
| Transfers out of Level 3 | (628) | — | — | — | — | (628) |
| Level 3 assets, September 30, 2019 | $ 341,802 | $ 44,079 | $ 18,566 | $ 23,465 | $ 22,194 | $ 450,106 |

(Dollar amounts in thousands, except per share data)

| | Nine Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | **Senior Secured Debt Investments** | **Subordinated Debt Investments** | **Preferred Equity** | **Common Equity and Warrants** | **Total** |
| Level 3 assets, January 1, 2018 | $ 195,112 | $ 51,198 | $ 19,200 | $ 11,989 | 277,499 |
| Net realized loss on investments | (3,076) | (3,469) | (1,890) | (586) | (9,021) |
| Net unrealized appreciation on investments | 1,286 | 1,425 | (65) | 7,226 | 9,872 |
| Amortization of Net Loan Fees | 893 | 99 | — | — | 992 |
| Capitalized PIK interest, dividends | 506 | 452 | 701 | — | 1,659 |
| Purchase and origination of portfolio investments | 166,386 | 20,930 | 338 | 4,928 | 192,582 |
| Proceeds from principal payments on portfolio investments | (29,726) | (5,165) | — | — | (34,891) |
| Sale and redemption of portfolio investments | (39,106) | — | (3,339) | (214) | (42,659) |
| Reclassification between preferred equity and common equity and warrants | | | (500) | 500 | — |
| Level 3 assets, September 30, 2018 | $ 292,275 | $ 65,470 | $ 14,445 | $ 23,843 | $ 396,033 |

The net unrealized appreciation (depreciation) reported in the Company’s consolidated statements of operations for the nine months ended September 30, 2019 and 2018, attributable to the Company’s Level 3 assets still held at those respective period ends was as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Senior secured debt investments | $ (7,993) | $ (869) |
| Subordinated debt investments | (709) | 1,425 |
| Preferred equity | 1,074 | (2,845) |
| Common equity and warrants | 3,025 | 6,727 |
| Structured Finance Notes | (1,172) | — |
| Net unrealized appreciation (depreciation) on investments held | $ (5,775) | $ 4,438 |

(Dollar amounts in thousands, except per share data)

***Other Financial Assets and Liabilities***

GAAP requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. The PWB Facility and BNP Facility are variable rate instruments and fair value is approximately book value.

The following tables present the fair value measurements of the Company's debt and indicate the fair value hierarchy of the significant unobservable inputs utilized by the Company to determine such fair values as of September 30, 2019 and December 31, 2018:

| | September 30, 2019 | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3 (1)** | **Total** |
| PWB Credit Facility | $ — | $ — | $ 45,825 | $ 45,825 |
| BNP Facility | — | — | 46,650 | 46,650 |
| OFS Capital Corporation 6.375% Notes due 2025 | 51,100 | — | — | 51,100 |
| OFS Capital Corporation 6.5% Notes due 2025 | 49,496 | — | — | 49,496 |
| SBA-guaranteed debentures | — | — | 154,574 | 154,574 |
| Total debt, at fair value | $ 100,596 | $ — | $ 247,049 | $ 347,645 |

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

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

The following are the carrying values and fair values of the Company's debt as of September 30, 2019 and December 31, 2018:

| | As of September 30, 2019 | | As of December 31, 2018 | |
|---|---|---|---|---|
| **Description** | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| PWB Credit Facility | $ 45,825 | $ 45,825 | $ 12,000 | $ 12,000 |
| BNP Facility | 46,650 | 46,650 | — | — |
| OFS Capital Corporation 6.375% Notes due 2025 | 48,569 | 51,100 | 48,377 | 48,500 |
| OFS Capital Corporation 6.5% Notes due 2025 | 47,031 | 49,496 | 46,849 | 46,603 |
| SBA-guaranteed debentures | 147,881 | 154,574 | 147,600 | 147,956 |
| Total debt, at fair value | $ 335,956 | $ 347,645 | $ 254,826 | $ 255,059 |

(Dollar amounts in thousands, except per share data)

**Note 6. Commitments and Contingencies**

The Company has the following unfunded commitments to portfolio companies as of September 30, 2019:

| Name of Portfolio Company | Investment Type | Commitment |
|---|---|---|
| Carolina Lubes, Inc. | Senior Secured Loan (Revolver) | $ 2,920 |
| Cirrus Medical Staffing, Inc. | Senior Secured Loan (Revolver) | 998 |
| Inergex Holdings, LLC | Senior Secured Loan (Revolver) | 188 |
| SSJA Bariatric Management LLC | Senior Secured Loan (Revolver) | 567 |
| | | $ 4,673 |

From time to time, the Company is involved in legal proceedings in the normal course of its business. Although the outcome of such litigation cannot be predicted with any certainty, management is of the opinion, based on the advice of legal counsel, that final disposition of any litigation should not have a material adverse effect on the financial position of the Company as of September 30, 2019.

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

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

**Note 7. Borrowings**

***SBA Debentures:*** The SBA Debentures issued by SBIC I LP and other SBA regulations generally restrict assets held by SBIC I LP. On a stand-alone basis, SBIC I LP held $251,968 and $251,060 in assets at September 30, 2019, and December 31, 2018, respectively, which accounted for approximately 49% and 57% of the Company's total consolidated assets, respectively. These assets can not be pledged under any debt obligation of the Company.

***BNP Facility:*** On June 20, 2019, OFSCC-FS entered into the BNP Facility, which provides for borrowings in an aggregate principal amount up to $150,000, of which $46,650 was drawn as of September 30, 2019. Borrowings under the BNP Facility bear interest of LIBOR plus an applicable spread, which is determined on the basis of industry-recognized portfolio company metrics at the time of funding. The effective interest rate on the BNP Facility was 4.73% at September 30, 2019. The BNP Facility will mature on the earlier of June 20, 2024 or upon certain other events defined in the credit agreement which result in accelerated maturity. The BNP Facility also contains customary events of default, including, without limitation, nonpayment, failure to maintain valid ownership interest in all of the collateral and bankruptcy. Borrowings under the BNP Facility are secured by substantially all of the assets held by OFSCC-FS, which were $70,317, or 13.6% of the Company's total consolidated assets at September 30, 2019. OFSCC-FS incurred fees to the lenders as well as legal costs of approximately $1,346 to establish the BNP Facility, which are amortized over the life of the facility. The unused commitment under the BNP Facility was $103,350 as of September 30, 2019.

***PWB Credit Facility:*** The Company has up to $100,000 of available credit under its PWB Credit Facility maturing February 28, 2021, of which $45,825 was drawn as of September 30, 2019. The average dollar amount of borrowings outstanding during the nine months ended September 30, 2019 and 2018, were $35,158 and $11,607, respectively. The effective interest rate on the PWB Credit Facility was 5.63% at September 30, 2019. Availability under the PWB Credit Facility as of September 30, 2019 was $29,218 based on the stated advance rate of 50% of the borrowing base.

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

***Unsecured Notes:*** As of September 30, 2019, the Company has Unsecured Notes with an aggregate outstanding principal of $98,525. The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all current and future unsecured indebtedness of the Company. Because the Unsecured Notes are not secured by any of the Company's assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which the Company subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility.

(Dollar amounts in thousands, except per share data)

In October and November 2019, the Company closed the public offering of $54,325 in aggregate principal amount of its 5.95% notes due 2026 (the "Unsecured Notes Due October 2026"), which included a partial exercise of the underwriters overallotment option. The total net proceeds to the Company from the Unsecured Notes Due October 2026, after deducting underwriting discounts of approximately $1,698 and estimated offering expenses of $300, were approximately $52,327. The Unsecured Notes Due October 2026 will mature on October 31, 2026 and bear an effective interest rate, including amortization of deferred debt issuance costs, of 6.48%. Because the Unsecured Notes Due October 2026 are not secured by any of the Company's assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which the Company subsequently grants a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility. The Unsecured Notes Due October 2026 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after October 31, 2021 at the redemption price of 100% of the aggregate principal amount thereof plus accrued and unpaid interest. The indenture governing the Unsecured Notes Due October 2026 contain covenants substantially identical to the Unsecured Notes.

Interest expense for the three and nine months ended September 30, 2019 and 2018 on the Company's outstanding borrowings is presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| SBA Debentures | $ 1,295 | $ 1,295 | $ 3,843 | $ 3,846 |
| PWB Credit Facility | 802 | 233 | 1,896 | 773 |
| Unsecured Notes Due April 2025 | 860 | 865 | 2,580 | 1,577 |
| Unsecured Notes Due October 2025 | 866 | — | 2,598 | — |
| BNP Facility | 641 | — | 647 | — |
| Total interest expense(1) | $ 4,464 | $ 2,393 | $ 11,564 | $ 6,196 |
| | | | | |
| Average dollar borrowings | $ 325,127 | $ 209,543 | $ 293,442 | $ 193,546 |
| Average interest rate | 4.93% | 4.44% | 4.92% | 4.23% |

(1) Interest expense is inclusive of interest on the outstanding balance, commitment fees on undrawn amounts, and the amortization of deferred financing costs.

## Note 8. Federal Income Tax

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

(Dollar amounts in thousands, except per share data)

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

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of September 30, 2019 and December 31, 2018, were as follows:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Tax-basis amortized cost of investments | $ 516,436 | $ 408,715 |
| Tax-basis gross unrealized appreciation on investments | 23,002 | 18,426 |
| Tax-basis gross unrealized depreciation on investments | (37,277) | (30,344) |
| Tax-basis net unrealized depreciation on investments | (14,275) | (11,918) |
| Fair value of investments | $ 502,161 | $ 396,797 |

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

**Note 9. Financial Highlights**

The following is a schedule of financial highlights for the three and nine months ended September 30, 2019 and 2018:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Per share operating performance:** | | | | |
| Net asset value per share at beginning of period | $ 12.95 | $ 13.70 | $ 13.10 | $ 14.12 |
| Net investment income [4] | 0.36 | 0.35 | 1.09 | 0.98 |
| Net realized loss on non-control/non-affiliate investments [4] | — | — | (0.06) | (0.37) |
| Net realized loss on affiliate investments [4] | — | — | — | (0.30) |
| Net unrealized appreciation (depreciation) on non-control/non-affiliate investments [4] | (0.49) | (0.07) | (0.72) | 0.22 |
| Net unrealized appreciation on affiliate investments [4] | 0.36 | 0.10 | 0.40 | 0.48 |
| Net unrealized appreciation (depreciation) on control investment [4] | (0.10) | 0.01 | (0.05) | 0.01 |
| Total from investment operations | 0.13 | 0.39 | 0.66 | 1.02 |
| Distributions | (0.34) | (0.34) | $ (1.02) | (1.39) |
| **Net asset value per share at end of period** | $ 12.74 | $ 13.75 | $ 12.74 | $ 13.75 |
| | | | | |
| Per share market value, end of period | $ 11.61 | $ 11.90 | $ 11.61 | $ 11.90 |
| Total return based on market value [1] | (0.4)% | 6.8% | 19.3% | 12.2% |
| Total return based on net asset value [2] | 1.3 % | 2.8% | 5.9% | 7.2% |
| Shares outstanding at end of period | 13,371,451 | 13,352,824 | 13,371,451 | 13,352,824 |
| Weighted average shares outstanding | 13,366,515 | 13,350,484 | 13,361,757 | 13,346,630 |
| **Ratio/Supplemental Data (in thousands except ratios)** | | | | |
| Average net asset value [3] | $ 171,769 | $ 183,264 | $ 173,211 | $ 184,329 |
| Net asset value at end of period | $ 170,406 | $ 183,598 | $ 170,406 | $ 183,598 |
| Net investment income | $ 4,853 | $ 4,690 | $ 14,541 | $ 13,064 |
| Ratio of total expenses, net to average net assets [5] [7] | 21.0 % | 13.7% | 18.9% | 12.4% |
| Ratio of net investment income to average net assets [5] [8] | 11.3 % | 10.2% | 11.2% | 9.5% |
| Portfolio turnover [6] | 4.5 % | 4.1% | 13.9% | 22.6% |

(1) Calculated as ending market value less beginning market value, adjusted for distributions reinvested at prices based on the Company's dividend reinvestment plan for the respective distributions.
(2) Calculated as ending net asset value less beginning net asset value, adjusted for distributions reinvested at the Company's dividend reinvestment plan for the respective distributions.
(3) Based on the average of the net asset value at the beginning of the indicated period and the preceding calendar quarter.
(4) Calculated on the average share method.
(5) Annualized.
(6) Portfolio turnover rate is calculated using the lesser of period-to-date sales and principal payments or period-to-date purchases over the average of the invested assets at fair value.
(7) Ratio of total expenses before incentive fee waiver to average net assets was 12.5% for the nine months ended September 30, 2018.
(8) Ratio of net investment income before incentive fee waiver to average net assets was 9.5% for the nine months ended September 30, 2018.

(Dollar amounts in thousands, except per share data)

## Note 10. Capital Transactions

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

The Company may be limited in its ability to make distributions due to the BDC asset coverage requirements of the 1940 Act. The Company's ability to make distributions may also be affected by SBIC I LP's distributions to the Company, which are governed by SBA regulations. In addition, distributions from OFSCC-FS to the Company are restricted by the terms and conditions of the BNP Facility. Net assets of SBIC I LP were $103,607, and consolidated cash at September 30, 2019 includes $3,981 held by SBIC I LP, of which approximately $3,981 was available for distribution to the Company. Net Assets of OFSCC-FS were $20,401, and consolidated cash at September 30, 2019 includes $876 held by OFSCC-FS, of which $-0- was available for distribution to the Company.

The following table summarizes distributions declared and paid for the nine months ended September 30, 2019 and 2018:

| Date Declared | Record Date | Payment Date | Amount Per Share | Cash Distribution | DRIP Shares Issued | DRIP Shares Value |
|---|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2018** | | | | | | |
| February 12, 2018 (1) | March 22, 2018 | March 29, 2018 | $ 0.37 | $ 4,886 | 4,459 | $ 50 |
| February 27, 2018 | March 22, 2018 | March 29, 2018 | 0.34 | 4,490 | 4,098 | 46 |
| May 1, 2018 | June 22, 2018 | June 29, 2018 | 0.34 | 4,518 | 1,684 | 20 |
| August 3, 2018 | September 13, 2018 | September 28, 2018 | 0.34 | 4,511 | 2,366 | 28 |
| | | | $ 1.39 | $ 18,405 | $ 12,607 | $ 144 |
| **Nine Months Ended September 30, 2019** | | | | | | |
| March 5, 2019 | March 22, 2019 | March 29, 2019 | $ 0.34 | $ 4,497 | 3,797 | $ 45 |
| April 30, 2019 | June 21, 2019 | June 28, 2019 | 0.34 | 4,479 | 5,327 | 64 |
| August 2, 2019 | September 23, 2019 | September 30, 2019 | 0.34 | 4,488 | 4,990 | 58 |
| | | | $ 1.02 | $ 13,464 | $ 14,114 | $ 167 |

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

Distributions in excess of the Company's current and accumulated ICTI would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based upon its ICTI for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. Each year, a statement on Form 1099-DIV identifying the tax character of distributions is mailed to the Company's stockholders.

***Stock repurchase program:***

The Company maintains a Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. No shares of common stock were repurchased under the Stock Repurchase Program during the nine months ended September 30, 2019 and 2018, respectively.

(Dollar amounts in thousands, except per share data)

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

| | | Period Ended September 30, 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name of Portfolio Company** | **Investment Type (1)** | **Net Realized Gain (Loss)** | **Net change in unrealized appreciation/(depreciation)** | **Interest & PIK Interest** | **Dividends** | **Fees** | **Total Income (2)** | **December 31, 2018, Fair Value** | **Gross Additions (3)** | **Gross Reductions (4)** | **September 30, 2019, Fair Value (5)** |
| **Control Investment** | | | | | | | | | | | |
| MTE Holding Corp. | Subordinated Loan | $ — | $ 79 | $ 867 | $ — | $ 39 | $ 906 | $ 7,296 | $ 174 | $ (90) | $ 7,380 |
| | Common Equity | — | (729) | — | 89 | — | 89 | 2,649 | — | (729) | 1,920 |
| | | — | (650) | 867 | 89 | 39 | 995 | 9,945 | 174 | (819) | 9,300 |
| **Total Control Investment** | | — | (650) | 867 | 89 | 39 | 995 | 9,945 | 174 | (819) | 9,300 |
| **Affiliate Investments** | | | | | | | | | | | |
| 3rd Rock Gaming Holdings, LLC | Senior Secured Loan | — | 218 | 1,765 | — | — | 1,765 | 20,023 | 339 | (376) | 19,986 |
| | Common Equity (6) | — | 449 | — | — | — | — | 1,073 | 449 | — | 1,522 |
| | | — | 667 | 1,765 | — | — | 1,765 | 21,096 | 788 | (376) | 21,508 |
| Chemical Resources Holdings, Inc. | Senior Secured Loan | — | 84 | 1,035 | — | 205 | 1,240 | — | 13,852 | (185) | 13,667 |
| | Common Equity (6) | — | 227 | — | — | — | — | — | 2,040 | — | 2,040 |
| | | — | 311 | 1,035 | — | 205 | 1,240 | — | 15,892 | (185) | 15,707 |
| Contract Datascan Holdings, Inc. | Subordinated Loan | — | (3) | 695 | — | — | 695 | 8,000 | 3 | (3) | 8,000 |
| | Preferred Equity A (7) | — | (567) | 486 | — | — | 486 | 6,652 | 485 | (567) | 6,570 |
| | Common Equity (6) | — | (2,313) | — | — | — | — | 2,313 | — | (2,313) | — |
| | | — | (2,883) | 1,181 | — | — | 1,181 | 16,965 | 488 | (2,883) | 14,570 |
| DRS Imaging Services, LLC | Senior Secured Loan | — | 86 | 996 | — | — | 996 | 10,617 | 101 | (85) | 10,633 |
| | Common Equity (6) | — | 534 | — | — | — | — | 1,197 | 534 | — | 1,731 |
| | | — | 620 | 996 | — | — | 996 | 11,814 | 635 | (85) | 12,364 |
| Master Cutlery, LLC | Subordinated Loan (6) | — | (533) | — | — | — | — | 850 | 531 | (1,064) | 317 |
| | Preferred Equity (6) | — | — | — | — | — | — | — | — | — | — |
| | Common Equity (6) | — | — | — | — | — | — | — | — | — | — |
| | | — | (533) | — | — | — | — | 850 | 531 | (1,064) | 317 |
| NeoSystems Corp. | Convertible Preferred Stock (7) | — | (119) | 120 | — | — | 120 | 2,250 | 119 | (119) | 2,250 |

(Dollar amounts in thousands, except per share data)

| | | Period Ended September 30, 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name of Portfolio Company** | **Investment Type (1)** | **Net Realized Gain (Loss)** | **Net change in unrealized appreciation/(depreciation)** | **Interest & PIK Interest** | **Dividends** | **Fees** | **Total Income (2)** | **December 31, 2018, Fair Value** | **Gross Additions (3)** | **Gross Reductions (4)** | **September 30, 2019, Fair Value (5)** |
| Pfanstiehl Holdings, Inc | Subordinated Loan | $ — | $ 5 | $ 292 | $ — | $ — | $ 292 | $ 3,788 | $ 5 | $ (5) | $ 3,788 |
| | Common Equity (Class A) | — | 1,778 | — | 173 | — | 173 | 8,360 | 1,778 | — | 10,138 |
| | | — | 1,783 | 292 | 173 | — | 465 | 12,148 | 1,783 | (5) | 13,926 |
| Professional Pipe Holdings, LLC | Senior Secured Loan | — | 438 | 760 | — | — | 760 | 7,466 | 523 | (236) | 7,753 |
| | Common Equity (6) | — | 2,630 | — | — | — | — | 769 | 2,630 | — | 3,399 |
| | | — | 3,068 | 760 | — | — | 760 | 8,235 | 3,153 | (236) | 11,152 |
| TRS Services, Inc. | Senior Term Loan | — | 131 | 1,398 | — | 4 | 1,402 | 14,446 | 134 | — | 14,580 |
| | Preferred Equity (Class AA units) (7) | — | (1) | 55 | — | — | 55 | 473 | 55 | (1) | 527 |
| | Preferred Equity (Class A units) (6) | — | 2,075 | — | — | — | — | 826 | 2,075 | — | 2,901 |
| | Common Equity (6) | — | — | — | — | — | — | — | — | — | — |
| | | — | 2,205 | 1,453 | — | 4 | 1,457 | 15,745 | 2,264 | (1) | 18,008 |
| TTG Healthcare, LLC | Senior Secured Loan | — | 106 | 937 | — | 7 | 944 | — | 15,048 | (3,012) | 12,036 |
| | Preferred Equity (6) | — | 80 | — | — | — | — | — | 2,389 | — | 2,389 |
| | | — | 186 | 937 | — | 7 | 944 | — | 17,437 | (3,012) | 14,425 |
| **Total Affiliate Investments** | | — | 5,305 | 8,539 | 173 | 216 | 8,928 | 89,103 | 43,090 | (7,966) | 124,227 |
| **Total Control and Affiliate Investments** | | $ — | $ 4,655 | $ 9,406 | $ 262 | $ 255 | $ 9,923 | $ 99,048 | $ 43,264 | $ (8,785) | $ 133,527 |

(1) Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated schedule of investments. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.
(2) Represents the total amount of interest, fees or dividends included in income for the nine months ended September 30, 2019, that an investment was included in Control or Affiliate Investment categories, respectively.
(3) Gross additions include increases in cost basis resulting from a new portfolio investment, PIK interest, fees and dividends, accretion of OID, and net increases in unrealized net appreciation or decreases in net unrealized depreciation.
(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any, and net decreases in net unrealized appreciation or net increases in unrealized depreciation.
(5) Fair value was determined using significant unobservable inputs. See Note 5 for further details.
(6) Non-income producing.
(7) Dividends credited to income include dividends contractually earned but not declared.

**Note 12. Subsequent Events Not Disclosed Elsewhere**

On November 6, 2019, the Company’s Board declared a distribution of $0.34 per share for the fourth quarter of 2019, payable on December 31, 2019, to stockholders of record as of December 24, 2019.

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

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

### Overview

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

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

We execute our investment strategy, in part, through SBIC I LP, a licensee under the SBA's SBIC program. The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA leverage funding is subject to SBIC I LP's payment of certain fees to the SBA, and the ability of SBIC I LP to draw on the leverage commitment is subject to its compliance with SBA regulations and policies, including an audit by the SBA. For additional information regarding the regulation of SBIC I LP, see "Item 1. Business—Regulation—Small Business Investment Company Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2018. On a stand-alone basis, SBIC I LP held approximately $252.0 million and $251.1 million in assets at September 30, 2019 and December 31, 2018, respectively, which accounted for approximately 49% and 57% of our total consolidated assets, respectively.

We also execute on our investment strategy to add additional leverage, in part, through OFSCC-FS, which established the BNP Facility on June 20, 2019, to provide borrowings in an aggregate principal amount up to $150.0 million. The BNP Facility will enable us to use the flexibility and incremental leverage permitted under the SBCAA. On a stand-alone basis, OFSCC-FS held approximately $70.3 million and $-0- million in assets at September 30, 2019 and December 31, 2018, respectively, which accounted for approximately 13.6% and -0-% of our total consolidated assets, respectively.

We generate revenue in the form of interest income on debt investments, and capital gains and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of September 30, 2019, floating rate and fixed rate loans comprised 90% and 10%, respectively, of our current debt investment portfolio at fair value. Our Structured Finance Notes comprise 4.4% of our portfolio at fair value. We expect to make quarterly distributions, such that we distribute substantially all of our ICTI. In addition, although we intend to distribute at least annually net realized capital gains, net of taxes if any, out of assets legally available for such distributions, we may also retain such capital gains for investment through a deemed distribution.

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

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

On May 3, 2018, the Board, including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, effective May 3, 2019, the asset coverage ratio test applicable to us has decreased from 200% to 150%. Additionally, we received exemptive relief from the SEC effective November 26, 2013, which allows us to exclude our SBA guaranteed debentures from the definition of senior securities in the statutory asset coverage ratio under the 1940 Act.

We may borrow money when the terms and conditions available are favorable to do so and are aligned with our investment strategy and portfolio composition. The use of borrowed funds or the proceeds of preferred stock to make investments would have its own specific benefits and risks, and all of the costs of borrowing funds or issuing preferred stock would be borne by holders of our common stock. For a discussion of the risks associated with leverage, see "Item 1A. Risk Factors—Risks Related to our Business and Structure" in our Annual Report on Form 10-K for the year ended December 31, 2018 as supplemented by our other reports filed with the SEC. As a BDC, we may need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage. For additional overview information on the Company, see "Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2018.

**Critical Accounting Policies and Significant Estimates**

Our critical accounting policies and estimates are those relating to revenue recognition and fair value estimates. Management has discussed the development and selection of each critical accounting policy and estimate with the Audit Committee of the Board. For descriptions of our revenue recognition and fair value policies, see "Item 8. Financial Statements - Notes to Financial Statements - Note 2" and "Management's Discussion and Analysis - Critical Accounting Policies and Significant Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2018.

***Fair value estimates.*** As of September 30, 2019, approximately 97% of our total assets were carried at fair value, which was generally measured using the either the discounted cash flow or market-approach valuation techniques, or on the basis of NBIB provided by pricing services. Our discounted cash flow valuations involve a determination of a discount rate commensurate with the risk inherent of each investment. Management uses two primary methods to estimate discount rates: the weighted-average cost of capital method, which is a method based upon a hypothetical recapitalization of the entity given its current operating performance and current market conditions; and a hypothetical debt rating method, which assigns a surrogate debt rating to the entity based on known industry standards for assigning such ratings and then estimates the discount rate based on observed market yields for actual rated debt. Management may also use a relative value method to estimate yields, which involves measuring the discount rate of non-traded subject debt investments based on an expected or assumed relationship between NBIB or observed prices on traded debt and the subject debt for a portfolio company. All methods for estimating the discount rate generally involve calibration of the internal rate of return on the subject investment at close or purchase date to the observable inputs utilized in each method as of or near that date. These methods generally produce a range of discount rates, and management, under the supervision of the Board, generally selects the midpoint of the range for fair value measures. Such midpoint values may be further limited based on the portfolio company's ability to prepay the investment without penalty.

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

The following table illustrates the impact of our fair value measures if we selected the low or high end of the range of values for all investments at September 30, 2019 (dollar amounts in thousands):

| Investment Type | Fair Value at September 30, 2019 | Range of Fair Value | |
|---|---|---|---|
| | | Low-end | High-end |
| Debt investments: | | | |
| Senior secured | $ 367,079 | $ 361,968 | $ 378,448 |
| Senior secured (valued at Transaction Prices) | 26,778 | 26,778 | 26,778 |
| Subordinated | 44,079 | 43,764 | 45,928 |
| | | | |
| Investment: | | | |
| Structured Finance Notes | 19,774 | $ 19,162 | 20,409 |
| Structured Finance Notes (valued at Transaction Prices) | 2,420 | 2,420 | 2,420 |
| | | | |
| Equity investments: | | | |
| Preferred equity | 18,566 | 16,054 | 20,895 |
| Common equity and warrants | 23,465 | 18,600 | 25,694 |
| | $ 502,161 | $ 488,746 | $ 520,572 |

**Related Party Transactions**

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

- The Investment Advisory Agreement with OFS Advisor to manage our operating and investment activities. Under the Investment Advisory Agreement we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. See “Item 1–Financial Statements–Note 3”.

- The Administration Agreement with OFS Services, an affiliate of OFS Advisor, to provide us with the office facilities and administrative services necessary to conduct our operations. See “Item 1–Financial Statements–Note 3.

- A license agreement with OFSAM, the parent company of OFS Advisor, under which OFSAM has agreed to grant us a non-exclusive, royalty-free license to use the name “OFS.” Under this agreement, we have a right to use the “OFS” name for so long as OFS Advisor or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we have no legal right to the “OFS” name. This license agreement will remain in effect for so long as the Investment Advisory Agreement with OFS Advisor is in effect.

OFS Advisor’s services under the Investment Advisory Agreement are not exclusive to us and OFS Advisor is free to furnish similar services to other entities, including other funds affiliated with OFS Advisor, so long as its services to us are not impaired. OFS Advisor also serves as the investment adviser to CLO funds and other assets, including HPCI and OCCI. Additionally, OFS Advisor expects to provide sub-advisory services to CIM Real Assets & Credit Fund, a newly organized externally managed registered investment company that intends to operate as an interval fund that expects to invest primarily in a combination of real estate, credit and related investments.

OFS Advisor agreed to waive a portion of its base management fee by reducing the portion of such fee from 0.4375% per quarter (1.75% annualized) to 0.25% per quarter (1.00% annualized) of the average value of the portion of the total assets held by the Company through OFSCC-FS (the "OFSCC-FS Assets"), at the end of the two most recently completed calendar quarters to the extent that such portion of the OFSCC-FS Assets are financed using leverage (also calculated on an average basis) that causes the Company’s statutory asset coverage ratio to fall below 200%. When calculating its statutory asset coverage ratio, the Company excludes its SBA guaranteed debentures from its total outstanding senior securities as permitted pursuant to exemptive relief granted by the SEC dated November 26, 2013. The waiver will be renewable on an annual basis and the amount of the base management fee waived with respect to the OFSCC-FS Assets shall not be subject to recoupment by OFS Advisor.

The 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so. On October 12, 2016, we received the Order from the SEC to permit us to co-invest in portfolio companies with certain BDCs, registered investment companies and private funds managed by OFS

Advisor, or any adviser that controls, is controlled by, or is under common control with, OFS Adviser and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Pursuant to the Order, we are generally permitted to participate in a co-investment transaction if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We have applied for a new exemptive order, which, if granted, would supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

**Portfolio Composition and Investment Activity**

*Portfolio Composition*

As of September 30, 2019, the fair value of our debt investment portfolio totaled $437.9 million in 67 portfolio companies, of which 90% and 10% were senior secured loans and subordinated loans, respectively, and approximately $42.0 million in equity investments, at fair value, in 14 portfolio companies in which we also held debt investments. We also have six portfolio companies in which we solely held an equity investment, as well as four investments in Structured Finance Notes with a fair value of $22.2 million. We had unfunded commitments of $4.7 million to four portfolio companies at September 30, 2019. Set forth in the tables and charts below is selected information with respect to our portfolio as of September 30, 2019 and December 31, 2018.

The following table summarizes the composition of our portfolio of Direct Investments as of September 30, 2019, and December 31, 2018 (dollar amounts in thousands):

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Senior secured debt investments [1] | $ 408,268 | $ 393,857 | $ 325,873 | $ 319,017 |
| Subordinated debt investments | 56,460 | 44,079 | 56,212 | 44,540 |
| Preferred equity | 21,688 | 18,566 | 19,620 | 14,613 |
| Common equity and warrants | 13,419 | 23,465 | 11,606 | 18,627 |
| Total Direct Investments | $ 499,835 | $ 479,967 | $ 413,311 | $ 396,797 |
| Total number of portfolio companies | 69 | 69 | 50 | 50 |

(1) Includes debt investments in which we have entered into contractual arrangements with co-lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of certain co-lenders pursuant to a payment waterfall. The aggregate amortized cost and fair value of these investments was $87,207 and $87,177, respectively, at September 30, 2019, and $68,207 and $67,480, respectively, at December 31, 2018.

As of September 30, 2019, our investment portfolio’s three largest industries by fair value, were (1) Manufacturing (15.8%), (2) Health Care and Social Assistance (14.9%), and (3) Professional, Scientific, and Technical Services (14.0%), totaling approximately 44.7% of the investment portfolio. For a full summary of our investment portfolio by industry, see “Item 1–Financial Statements–Note 4."

The following table presents our investment portfolio by each wholly owned legal entity within the consolidated group as of September 30, 2019, and December 31, 2018 (dollar amounts in thousands):

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| OFS Capital Corporation (Parent) | $ 187,630 | $ 177,451 | $ 185,999 | $ 178,772 |
| SBIC LP | 257,467 | 245,642 | 221,559 | 212,675 |
| OFSCC-FS | 68,229 | 68,024 | — | — |
| OFSCC-MB | 9,875 | 11,044 | 5,753 | 5,350 |
| Total investments | $ 523,201 | $ 502,161 | $ 413,311 | $ 396,797 |

The following table presents our debt investment portfolio by investment size as of September 30, 2019, and December 31, 2018 (dollar amounts in thousands):

| | Amortized Cost | | | | Fair Value | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2019 | | December 31, 2018 | | September 30, 2019 | | December 31, 2018 | |
| Up to $4,000 | $ 65,425 | 14.1% | $ 24,785 | 6.4% | $ 70,681 | 16.1% | $ 25,117 | 6.9% |
| $4,001 to $7,000 | 72,084 | 15.5 | 66,756 | 17.5 | 67,228 | 15.4 | 60,151 | 16.5 |
| $7,001 to $10,000 | 93,557 | 20.1 | 92,389 | 24.2 | 69,001 | 15.8 | 92,687 | 25.5 |
| $10,001 to $13,000 | 57,177 | 12.3 | 44,527 | 11.7 | 56,739 | 13.0 | 34,032 | 9.4 |
| Greater than $13,000 | 176,484 | 38.0 | 153,628 | 40.2 | 174,287 | 39.7 | 151,570 | 41.7 |
| Total | $ 464,727 | 100.0% | $ 382,085 | 100.0% | $ 437,936 | 100.0% | $ 363,557 | 100.0% |

The following table displays the composition of our performing debt investment and Structured Finance Note portfolio by weighted average yield as of September 30, 2019, and December 31, 2018:

| | September 30, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Weighted Ave. Yield (1) | Senior Secured Debt | Subordinated Debt | Structured Finance Notes | Total | Senior Secured Debt | Subordinated Debt | Structured Finance Notes | Total |
| Less than 8% | 14.9% | —% | —% | 12.8% | 0.7% | —% | —% | 0.7% |
| 8% - 10% | 20.8 | — | — | 17.9 | 22.5 | — | — | 19.8 |
| 10% - 12% | 49.3 | 26.8 | — | 44.8 | 42.9 | 26.9 | — | 41.0 |
| 12% - 14% | 13.8 | 56.7 | 25.2 | 18.3 | 29.5 | 56.5 | — | 32.7 |
| Greater than 14% | 1.2 | 16.5 | 74.8 | 6.2 | 4.4 | 16.6 | — | 5.8 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | —% | 100.0% |
| Weighted average yield - performing debt and Structured Finance Note investments (1) | 10.25% | 12.94% | 15.94% | 10.78% | 11.33% | 12.74% | —% | 11.50% |
| Weighted average yield - total debt and Structured Finance Note investments (2) | 10.25% | 10.10% | 15.94% | 10.51% | 11.33% | 9.93% | —% | 11.12% |

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

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

The weighted average yield on total investments was 9.96% and 10.49% at September 30, 2019 and December 31, 2018, respectively. Weighted average yield on total investments is computed as (a) the sum of (i) the annual stated accruing interest on our debt investments at the balance sheet date plus the annualized accretion of Net Loan Fees, (ii) the effective yield on our performing preferred equity investments, and (iii) the annual effective yield on Structured Finance Notes, divided by (b) amortized cost of our total investment portfolio, including assets in non-accrual status as of the balance sheet date. The weighted average yield of our investments is not the same as a return on investment for our stockholders but, rather, the gross investment income from our investment portfolio before the payment of all of our fees and expenses. There can be no assurance that the weighted average yield will remain at its current level.

The weighted average yield on performing portfolio-company debt securities, including Structured Finance Notes, decreased slightly to 10.78% at September 30, 2019, from 11.50% at December 31, 2018, primarily due to the 10.1% weighted-average yield of new investments during the nine months ended September 30, 2019.

As of September 30, 2019, and December 31, 2018, floating rate loans at fair value were 90% and 87% of our debt portfolio, excluding Structured Finance Notes, respectively, and fixed rate loans at fair value were 10% and 13% of this portfolio, respectively.

*Investment Activity*

The following is a summary of our Direct Investment activity for the three and nine months ended September 30, 2019 (dollar amounts in millions).

| | Three Months Ended September 30, 2019 | | Nine Months Ended September 30, 2019 | |
|---|---|---|---|---|
| | **Debt Investments** | **Equity Investments** | **Debt Investments** | **Equity Investments** |
| Investments in new portfolio companies | $ 25.5 | $ — | $ 97.7 | $ 4.1 |
| Investments in existing portfolio companies | | | | |
| Follow-on investments | 13.2 | — | 36.1 | — |
| Delayed draw and revolver funding | 0.2 | — | 8.4 | — |
| Total investments in existing portfolio companies | 13.4 | — | 44.5 | — |
| Total investments in new and existing portfolio companies | $ 38.9 | $ — | $ 142.2 | $ 4.1 |
| Number of new portfolio company investments | 4 | — | 29 | 2 |
| Number of existing portfolio company investments | 10 | — | 24 | — |
| | | | | |
| Proceeds/distributions from principal payments/ equity investments | 21.5 | — | 30.8 | — |
| Proceeds from investments sold or redeemed | 0.1 | — | 30.4 | — |
| Total proceeds from principal payments, equity distributions and investments sold | $ 21.6 | $ — | $ 61.2 | $ — |

Notable investments in new portfolio companies during the nine months ended September 30, 2019, include Chemical Resources Holdings, Inc. ($13.6 million senior secured loan and $1.8 million in common equity), TTG Healthcare, LLC ($11.9 million senior secured loan and $2.3 million preferred equity) as well as $11.5 million and $10.1 million senior secured loans in Milrose Consultants, LLC and SSJA Bariatric, respectively, during the three months ended September 30, 2019.

The weighted-average yield of direct debt investments in new portfolio companies during the nine months ended September 30, 2019 was 8.5%.

We also invested $23.4 million in Structure Finance Notes with a weighted average annual effective yield of 15.94% during the nine months ended September 30, 2019.

The following is a summary of our Direct Investment activity for the three and nine months ended September 30, 2018 (dollar amounts in millions).

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|---|---|---|---|---|
| | **Debt Investments** | **Equity Investments** | **Debt Investments** | **Equity Investments** |
| Investments in new portfolio companies | $ 38.2 | $ — | $ 150.8 | $ 4.6 |
| Investments in existing portfolio companies | | | | |
| Follow-on investments | 6.5 | 0.3 | 32.8 | 0.6 |
| Delayed draw and revolver funding | 2.3 | — | 3.7 | — |
| Total investments in existing portfolio companies | 8.8 | 0.3 | 36.5 | 0.6 |
| Total investments in new and existing portfolio companies | $ 47.0 | $ 0.3 | $ 187.3 | $ 5.2 |
| Number of new portfolio company investments | 6 | — | 19 | 4 |
| Number of existing portfolio company investments | 3 | 2 | 10 | 3 |
| | | | | |
| Proceeds/distributions from principal payments/ equity investments | $ 15.7 | $ — | $ 34.9 | $ — |
| Proceeds from investments sold or redeemed | — | — | 38.9 | 3.5 |
| Total proceeds from principal payments, equity distributions and investments sold | $ 15.7 | $ — | $ 73.8 | $ 3.5 |

Notable investments in new portfolio companies during the nine months ended September 30, 2018, included Online Tech Stores, LLC ($16.1 million subordinated loan), 3rd Rock Gaming, LLC (dba Planet Bingo) ($21.6 million senior secured loan and $2.5 million common equity), Performance Team, LLC ($20.3 million senior secured loan) as well as JBR Clinical Research, Inc. ($13.1 million senior secured loan), and Onsite Care, PLLC ($7.1 million in senior secured loan) during the three months ended September 30, 2018.

The weighted-average yield of debt investments in new portfolio companies during the nine months ended September 30, 2018, was 11.0%.

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

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.

*Risk Monitoring*

We categorize direct investments in the debt securities of portfolio companies into seven risk categories based on relevant information about the ability of borrowers to service their debt. For additional information regarding our risk categories, see “Item 1. Business–Portfolio Review/Risk Monitoring” in our Annual Report on Form 10-K for the year ended December 31, 2018. The following table shows the classification of our debt securities of portfolio companies, excluding Structured Finance Notes, by credit risk rating as of September 30, 2019, and December 31, 2018 (dollar amounts in thousands):

| | Debt Investments, at Fair Value | | | |
|---|---|---|---|---|
| **Risk Category** | **September 30, 2019** | | **December 31, 2018** | |
| 1 (Low Risk) | $ — | —% | $ — | —% |
| 2 (Below Average Risk) | 3,788 | 0.9 | 3,788 | 1.0 |
| 3 (Average) | 381,528 | 87.1 | 329,635 | 90.7 |
| 4 (Special Mention) | 49,988 | 11.4 | 29,284 | 8.1 |
| 5 (Substandard) | 2,315 | 0.5 | — | — |
| 6 (Doubtful) | 317 | 0.1 | 850 | 0.2 |
| 7 (Loss) | — | — | — | — |
| | $ 437,936 | 100.0% | $ 363,557 | 100.0% |

Changes in the distribution of our debt investments across risk categories were a result of new debt investments, the receipt of amortization payments on existing debt investments, repayment of certain debt investments in full, changes in the fair value of our existing debt investments, realized gains on the sale of investments, as well as changes in risk categories. Debt investments with a cost and fair value of $18,103 and $17,105 respectively, had risk rating upgrades from risk category 4 to risk category 3 during the nine months ended September 30, 2019. Debt investments with a cost and fair value of $52,027 and $40,993, respectively, had risk rating downgrades from risk category 3 to risk category 4 and risk category 5 during the nine months ended September 30, 2019.

*Non-Accrual Loans*

When there is reasonable doubt that principal, cash interest, or PIK interest will be collected, loan investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, or Net Loan Fee amortization, as applicable. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal. The aggregate amortized cost and fair value of loans on non-accrual status with respect to all interest and Net Loan Fee amortization was $12,403 and $317, respectively, at September 30, 2019, and $12,403 and $850, respectively, at December 31, 2018.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date, subject to other terms and conditions. The investment continued to accrue interest as the borrower continued to make interest and amortization payments. On October 9, 2019, the Company sold its investment in Elgin Fasteners Group for proceeds of $3,361, resulting in a realized loss of $122.

## Results of Operations

### *Key Financial Measures*

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

***Total Investment Income.*** We generate revenue in the form of interest income on direct debt investments in portfolio companies and Structured Finance Notes, as well as dividend income from our equity investments. Our direct debt investments in portfolio companies typically have a term of three to eight years and bear interest at fixed and floating rates. As of September 30, 2019, floating rate and fixed rate loans comprised 90% and 10%, respectively, of our direct debt investments in portfolio companies at fair value; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will continue to increase. In some cases, our direct debt investments in portfolio companies provide for PIK interest, or PIK dividends (meaning interest or dividends paid in the form of additional principal amount of the loan or equity security instead of in cash). We also generate revenue in the form of management, valuation, and other contractual fees, which is recognized as the related services are rendered. In the general course of business, we receive certain fees from portfolio companies that are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and syndication fees for sourcing, structuring, and arranging the lending group, which are recognized as earned upon closing of the investment. Net Loan Fees are capitalized, and accreted or amortized over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its amortized cost, we will also recognize the excess principal payment as income in the period it is received.

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;
- out-of-pocket fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- U.S. federal, state and local taxes;
- independent directors’ fees and expenses;
- brokerage commissions;
- fidelity bond, directors’ and officers’ liability insurance and other insurance premiums;
- direct costs, such as printing, mailing and long-distance telephone;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S. federal and state securities laws; and
- other expenses incurred by either OFS Services or us in connection with administering our business.

***Net Gain (Loss) on Investments.*** Net gain (loss) on investments consists of the sum of: (a) realized gains and losses from the sale of debt or equity securities, or the redemption of equity securities; and (b) net unrealized appreciation or depreciation on debt and equity investments. In the period in which a realized gain or loss is recognized, such gain or loss will generally be offset by the reversal of accumulated net unrealized appreciation or depreciation, and the net gain recognized in that period will generally be smaller. The accumulated net unrealized appreciation or depreciation on debt securities is also reversed when those investments are redeemed or paid off prior to maturity. In such instances, the reversal of accumulated unrealized appreciation or depreciation will be reported as a net loss or gain, respectively, and may be partially offset by the acceleration of any premium or discount on the debt security, which is reported in interest income, and any prepayment fees on the debt security, which is reported in fee income.

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

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

***Comparison of the three and nine months ended September 30, 2019, and 2018***

Consolidated operating results for the three and nine months ended September 30, 2019 and 2018, are as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Investment income** | | | | |
| Interest income: | | | | |
| Cash interest income (including accretion of interest on Structured Finance Notes) | $ 12,698 | $ 9,686 | $ 35,639 | $ 26,370 |
| Net Loan Fee amortization | 382 | 409 | 788 | 992 |
| Other interest income | 10 | 38 | 107 | 197 |
| Total interest income | 13,090 | 10,134 | 36,534 | 27,560 |
| PIK income: | | | | |
| PIK interest income | 245 | 353 | 611 | 959 |
| Preferred equity PIK dividends | 226 | 161 | 660 | 701 |
| Total PIK income | 471 | 514 | 1,271 | 1,660 |
| Dividend income: | | | | |
| Common and preferred equity cash dividends | — | 58 | 262 | 315 |
| Total dividend income | — | 58 | 262 | 315 |
| Fee income: | | | | |
| Management and syndication | 121 | 273 | 772 | 694 |
| Prepayment and other fees | 175 | 5 | 264 | 36 |
| Total fee income | 297 | 276 | 1,036 | 728 |
| **Total investment income** | 13,858 | 10,982 | 39,103 | 30,263 |
| Total expenses, net | 9,005 | 6,292 | 24,562 | 17,199 |
| Net investment income | 4,853 | 4,690 | 14,541 | 13,064 |
| **Net gain (loss) on investments** | (3,091) | 489 | (5,694) | 603 |
| **Net increase in net assets resulting from operations** | $ 1,762 | $ 5,179 | $ 8,847 | $ 13,667 |

Interest and PIK income by debt investment type for the three and nine months ended September 30, 2019 and 2018, is summarized below (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Interest income and PIK interest income: | | | | |
| Senior secured debt investments | $ 11,013 | $ 8,425 | $ 30,946 | $ 22,196 |
| Subordinated debt investments | 1,418 | 2,061 | 4,198 | 6,322 |
| Structured Finance Notes | 904 | — | 2,001 | — |
| Total interest income and PIK interest income | 13,335 | 10,486 | 37,145 | 28,518 |
| Plus purchased premiums (less Net Loan Fees) accelerations | (130) | (133) | (118) | (256) |
| Recurring interest income and PIK interest income | $ 13,205 | $ 10,353 | $ 37,027 | $ 28,262 |

***Investment Income***

We consider our interest income on direct debt investments to portfolio companies, other than acceleration of Net Loan Fees recognized upon the repayment of a loan, PIK interest income, and the accretable yield on Structured Finance Notes to be recurring in nature. Such recurring interest income and PIK interest income increased by $2.8 million for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to a $3.2 million increase from an approximately $104 million increase in the average outstanding performing loan balance and a $0.4 million decrease resulting from a 33 basis point decrease in the recurring earned yield on our portfolio.

Syndication fees, prepayment fees and the acceleration of Net Loan Fees generally result from periodic transactions rather than from holding portfolio investments and are considered to be non-recurring. Syndication fees of $122,000 and $745,000 included in management, valuation and syndication fees for the three and nine months ended September 30, 2019, respectively, resulted from approximately $17.0 million and $91.5 million in loan originations during those periods, respectively, in which OFS Advisor sourced, structured, and arranged the lending group, and for which we were additionally compensated.

Fee income increased $0.3 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to an increase in prepayment fees.

***Expenses***

Operating expenses for the three and nine months ended September 30, 2019 and 2018, are presented below (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Interest expense | $ 4,464 | $ 2,393 | $ 11,564 | $ 6,196 |
| Management fee | 2,164 | 1,678 | 6,062 | 4,586 |
| Incentive fee | 1,214 | 1,170 | 3,622 | 3,041 |
| Professional fees | 510 | 458 | 1,413 | 859 |
| Administration fee | 396 | 311 | 1,250 | 1,252 |
| Other expenses | 257 | 282 | 651 | 1,287 |
| Total expenses before incentive fee waiver | 9,005 | 6,292 | 24,562 | 17,221 |
| Incentive fee waiver | — | — | — | (22) |
| Total expenses, net of incentive fee waiver | $ 9,005 | $ 6,292 | $ 24,562 | $ 17,199 |

Interest expense for the three and nine months ended September 30, 2019 increased over the corresponding periods in the prior year primarily due to the issuance of the Unsecured Notes Due October 2025 and borrowings under the BNP Facility, as well as an increase in the average dollar amount of borrowings under the PWB Credit Facility. Interest expense incurred on our debt during the three and nine months ended September 30, 2019 and 2018 is summarized below (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| SBA Debentures | $ 1,295 | $ 1,295 | $ 3,843 | $ 3,846 |
| PWB Credit Facility | 802 | 233 | 1,896 | 773 |
| Unsecured Notes Due April 2025 | 860 | 865 | 2,580 | 1,577 |
| Unsecured Notes Due October 2025 | 866 | — | 2,598 | — |
| BNP Facility | 641 | — | 647 | — |
| Total interest expense [1] | $ 4,464 | $ 2,393 | $ 11,564 | $ 6,196 |

(1) Interest expense is inclusive of interest on the outstanding balance, commitment fees on undrawn amounts, and the amortization of deferred financing costs.

Management fee expense for the three and nine months ended September 30, 2019, increased over the corresponding periods in the prior year due to an increase in our average total assets, resulting primarily from the issuance of the Unsecured Notes and the establishment of the BNP Facility.

The $0.5 million increase in incentive fee expense for nine months ended September 30, 2019 compared to the corresponding period in the prior year was attributable to an increase in net investment income resulting from the increase in the size of the investment portfolio. On May 1, 2018, OFS Advisor irrevocably waived Income Incentive Fees of approximately $22,000 related to net investment income that it would otherwise be entitled to under the Investment Advisory Agreement for the three months ended March 31, 2018. The incentive fee for the three months ended September 30, 2019 compared to the corresponding period remained stable.

The $0.1 million and $0.6 million increase in professional fees for the three and nine months ended September 30, 2019 compared to the corresponding periods in the prior year, respectively, was attributable to fees relating to the 2018 audit, legal and accounting costs for capital markets activities, as well as the retention of additional third-party valuation services.

Administration fee expense for the three months ended September 30, 2019, increased $0.1 million over the corresponding period in the prior year primarily due to an increase in our allocable portion of OFS Services's overhead. Administration fee expense of $1.25 million for the nine months ended September 30, 2019 remained stable compared to the corresponding period in the prior year.

Other expenses for the nine months ended September 30, 2019, decreased over the corresponding period in the prior year primarily due to legal and other offering costs incurred during the first quarter of 2018 in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions. Other expenses of $257,000 for the three months ended September 30, 2019 remained stable over the corresponding period in the prior year.

***Net Gain (Loss) on Investments***

Net gain (loss) by investment type for the three and nine months ended September 30, 2019 and 2018, were as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Senior secured debt | $ (3,981) | $ (394) | $ (7,364) | $ (1,790) |
| Subordinated debt | (921) | (436) | (709) | (2,044) |
| Preferred equity | 2,396 | 144 | 804 | (1,955) |
| Common equity and warrants | 797 | 1,175 | 2,747 | 6,392 |
| Structured Finance Notes | (1,382) | — | (1,172) | — |
| Net gain (loss) on investments | $ (3,091) | $ 489 | $ (5,694) | $ 603 |

Three and nine months ended September 30, 2019

We recognized net losses of $4.0 million on senior secured debt during the three months ended September 30, 2019, primarily as a result of the unrealized depreciation of $4.1 million on Constellis Holdings, LLC and $0.8 million on MAI Holdings, Inc, offset by unrealized appreciation of $0.6 million on TRS Services, LLC. Additional net unrealized losses on senior secured debt of $3.4 million for the nine months ended September 30, 2019 were primarily a result of additional unrealized depreciation on Constellis Holdings, LLC and MAI Holdings, Inc. We also recognized a realized gain of $0.2 million primarily as a result of the partial sale of our investment in Cenexel Clinical Research Holdings, Inc. and the sale of our investment in Davis Vision, Inc.

We recognized net losses of $0.9 million on subordinated debt during the three months ended September 30, 2019, primarily as a result of unrealized depreciation of $0.9 million on Online Tech Stores, LLC. Net gains of $0.2 million for the nine months ended September 30, 2019 were primarily a result of net positive impact of portfolio company-specific performance factors.

We recognized net gains of $2.4 million on preferred equity investments for the three months ended September 30, 2019, primarily as a result of unrealized appreciation of $2.9 million on TRS Services, LLC Class A units, offset by unrealized depreciation of $0.5 million on Contract Datascan Series A units. We recognized net gains of $0.8 million on preferred equity securities for the nine months ended September 30, 2019, primarily due to unrealized appreciation of $1.7 million on our preferred equity portfolio as a result of net positive impact of portfolio company-specific performance factors, offset by a realized loss of $0.9 million on Maverick Healthcare Equity, LLC.

We recognized net gains of $0.8 million on common equity and warrant investments for the three months ended September 30, 2019, primarily as a result of unrealized appreciation of $1.3 million on Pfanstiehl Holdings, Inc. and $0.9 million on Professional Pipe Holdings, LLC, offset by unrealized depreciation of $1.5 million on MTE Holdings Corp. We recognized net gains of $2.7 million on common equity and warrant investments for the nine months ended September 30, 2019, primarily due to unrealized appreciation of $6.1 million across several portfolio company investments from the positive impact of portfolio company-specific performance factors, offset primarily by unrealized depreciation of $2.3 million in Contract Datascan Holdings, Inc. as a result of negative portfolio company-specific performance factors.

We recognized unrealized depreciation of $1.4 million on Structured Finance Notes for the three months ended September 30, 2019, and unrealized depreciation of $1.2 million for the nine months ended September 30, 2019, primarily as a result of negative impact of mark-to-market adjustments since our investment purchases.

Three and nine months ended September 30, 2018

We recognized net losses of $0.4 million on senior secured debt during the three months ended September 30, 2018, primarily as a result of the net negative impact of portfolio company-specific performance factors and the impact of changes to certain market loan indices. Additional unrealized losses of $1.3 million for the nine months ended September 30, 2018 were primarily a result from a $1.2 million loss from the sale of Jobson Healthcare Information, LLC.

We recognized net losses of $0.4 million on subordinated debt during the three months ended September 30, 2018, primarily due to unrealized depreciation of $0.6 million recognized on our subordinated debt investment in Master Cutlery, LLC, which was placed on non-accrual during the second quarter of 2018 and written down to a fair value of $1.7 million at September 30, 2018. We recognized net losses of $2.0 million for the nine months ended September 30, 2018, primarily as a result of a realized loss of $3.5 million on Southern Technical Institute, LLC, of which $2.2 million was recognized for the nine months ended September 30, 2018.

We recognized net gains of $0.1 million on preferred equity investments for the three months ended September 30, 2018, primarily as a result of unrealized appreciation on certain portfolio investments due to the net positive impact of portfolio company-specific performance factors. We recognized net losses of $1.9 million for the nine months ended September 30, 2018, primarily due to a $1.2 million unrealized loss on My Alarm Center Class B Preferred Stock and a $1.3 million unrealized loss in TRS Services, LLC Class A units.

We recognized net gains of $1.2 million on common equity and warrant investments for the three months ended September 30, 2018, primarily as a result of unrealized appreciation stemming from the positive impact of portfolio company-specific performance factors. We recognized net gains of $6.4 million on common equity and warrant investments for the nine months ended September 30, 2018, primarily as a result of a $2.6 million unrealized gain in Pfanstiehl Holdings, Inc. and a $2.4 million unrealized gain in Contract Datascan Holdings, Inc.

## Liquidity and Capital Resources

At September 30, 2019, we held cash of $8.0 million, which includes cash of $4.0 million held by SBIC I LP, our wholly owned SBIC. Our use of cash held by SBIC I LP is restricted by SBA regulation, including limitations on the amount of cash SBIC I LP can distribute to the Parent. Any such distributions to the Parent from SBIC I LP are generally restricted under SBA regulations to a statutory measure of undistributed accumulated earnings of SBIC I LP. During the nine months ended September 30, 2019, the Parent received $11.0 million in cash distributions from SBIC I LP. At September 30, 2019, OFSCC-FS held cash of $0.9 million and had available borrowings under the BNP Facility of $103.4 million, of which $-0- were available for distribution under the terms of the BNP Facility. Distributions from OFSCC-FS to the parent are restricted by the terms and conditions of the BNP Facility.

At September 30, 2019, the Parent had available borrowings of $29.2 million under its PWB Credit Facility, as well as unused commitments of $103.4 million under its BNP Facility. The Parent may make unsecured loans to SBIC I LP the aggregate which cannot exceed $35 million at any given time, and no interest may be charged on the unpaid principal balance. There were no intercompany loans between the Parent and SBIC I LP as of September 30, 2019.

### *Sources and Uses of Cash*

We generate cash through operations from net investment income and the net liquidation of portfolio investments, and use cash in our operations in the net purchase of portfolio investments. Significant variations may exist between net investment income and cash from net investment income, primarily due to the recognition of non-cash investment income, including certain Net Loan Fee amortization, PIK interest, and PIK dividends, which generally will not be fully realized in cash until we exit the investment. As discussed in "Item 1.–Financial Statements–Note 3," we pay OFS Advisor a quarterly incentive fee with respect to our pre-incentive fee net investment income, which includes investment income that we have not received in cash. In addition, we must distribute substantially all our taxable income, which approximates, but will not always equal, the cash we generate from net investment income to maintain our RIC tax treatment. Historically, our distributions have been in excess of taxable income, and we have limited history of net taxable gains. We also obtain cash to fund investments or general corporate activities from the issuance of securities and our revolving line of credit. These principal sources and uses of cash and liquidity are presented below (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Cash from net investment income | $ 10,270 | $ 12,329 |
| Cash received from realized gains | 181 | 518 |
| Net (purchases and originations) repayments of portfolio investments | (105,800) | (108,774) |
| Net cash used in operating activities | (95,349) | (95,927) |
| | | |
| Distributions paid to stockholders[(1)]: | | |
| From net investment income | (13,464) | (13,519) |
| From realized gains | — | (4,886) |
| Net borrowings (repayments) under lines of credit | 80,475 | (600) |
| Net proceeds from issuance of Unsecured Notes Due April 2025 | — | 48,023 |
| Other financing | (1,860) | — |
| Net cash provided by financing activities | 65,151 | 29,018 |
| Decrease in cash | $ (30,198) | $ (66,909) |

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

#### *Cash from net investment income*

Cash from net investment income decreased $2.0 million for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018 principally due to an increase in collected net interest and fee income of $8.9 million, offset by an increase in fees paid to OFS Advisor and affiliates of $2.6 million, as well as increase in interest expense of $7.0 million and other expenses paid of $1.3 million.

***Cash received from realized gains***

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

***Net (purchases and originations) repayments of portfolio investments***

During the nine months ended September 30, 2019, net purchases and originations of portfolio investments were primarily due to $168.7 million of cash we used to purchase portfolio investments, offset by $63.1 million of cash we received from amortized cost repayments and sales on our portfolio investments. During the nine months ended September 30, 2018, net repayments were due to $185.8 million of cash we received from principal payments and sales on our portfolio investments, offset by $77.6 million of cash we used to purchase portfolio investments. See "—Portfolio Composition and Investment Activity–Investment Activity."

***Borrowings***

SBA Debentures

SBIC I LP has a SBIC license that allows it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to us, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate was fixed at the first pooling date after issuance, which was March and September of each year, at a market-driven spread over U.S. Treasury Notes with ten-year maturities. SBA regulations currently limit the amount that an SBIC may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed $350 million. As of September 30, 2019 and 2018, SBIC I LP had fully drawn the $149.9 million of leverage commitments from the SBA.

On a stand-alone basis, SBIC I LP held $252.0 million, and $251.1 million in assets at September 30, 2019, and December 31, 2018, respectively, which accounted for approximately 49% and 57% of the Company’s total consolidated assets, respectively.

SBIC I LP is periodically examined and audited by the SBA’s staff to determine its compliance with SBA regulations. If SBIC I LP fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit SBIC I LP’s use of debentures, declare outstanding debentures immediately due and payable, and/or limit SBIC I LP from making new investments.

We have received exemptive relief from the SEC effective November 26, 2013, which permits us to exclude SBA guaranteed debentures from the definition of senior securities in the statutory 200% asset coverage ratio under the 1940 Act, allowing for greater capital deployment.

PWB Credit Facility

We are party to a BLA with Pacific Western Bank, as lender, to provide us with a senior secured revolving credit facility, or the PWB Credit Facility, which is available for general corporate purposes including investment funding. The maximum availability of the PWB Credit Facility is equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base, which excludes subordinated loan investments (as defined in the BLA) and as otherwise specified in the BLA. The PWB Credit Facility is guaranteed by our subsidiaries OFS Capital WM and OFSCC-MB, Inc. and secured by all of our current and future assets, excluding assets held by SBIC I LP, OFSCC-FS and the Company’s partnership interests in SBIC I LP and OFS SBIC I, GP.

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

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

As of September 30, 2019, we had $45.8 million outstanding at a variable interest rate of 5.25% per annum, and $29.2 million available for use under the PWB Credit Facility.

The BLA contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The BLA also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition. As of September 30, 2019, the Company was in compliance with the applicable covenants.

Unsecured Notes

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

The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all of our current and future unsecured indebtedness. Because the Unsecured Notes are not secured by any of our assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which we subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility.

As of September 30, 2019, the Unsecured Notes had the following terms and balances (amounts in thousands):

| **Unsecured Notes** | **Principal** | **Stated Interest Rate** [(1)] | **Effective Interest Rate** [(2)] | **Maturity** [(3)] | **Interest Expense** [(4)] |
|---|---|---|---|---|---|
| Unsecured Notes Due April 2025 | $ 50,000 | 6.375% | 6.875% | 4/30/2025 | $ 2,580 |
| Unsecured Notes Due October 2025 | 48,525 | 6.50% | 7.01% | 10/31/2025 | 2,598 |
| Total | $ 98,525 | | | | $ 5,178 |

(1) The weighted-average fixed cash interest rate on the Unsecured Notes as of September 30, 2019 was 6.44%.
(2) The effective interest rate on the Unsecured Notes includes deferred debt issuance cost amortization.
(3) The Unsecured Notes Due April 2025 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after April 30, 2020. The Unsecured Notes Due October 2025 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after October 31, 2020.
(4) Interest expense includes deferred debt issuance costs amortization.

BNP Facility

On June 20, 2019, OFSCC-FS entered into the BNP Facility, which provides for borrowings in an aggregate principal amount up to $150,000, of which $46,650 was drawn as of September 30, 2019. Borrowings under the BNP Facility will bear interest based on LIBOR for the relevant interest period, plus an applicable spread. The effective interest rate on the BNP Facility was 4.73% at September 30, 2019. The BNP Facility will mature on the earlier of June 20, 2024 or upon certain other events defined in the credit agreement which result in accelerated maturity. Borrowings under the BNP Facility are secured by substantially all of the assets held by OFSCC-FS. OFSCC-FS incurred fees to the lenders as well as legal costs of approximately $1,346 to establish the BNP Facility, which are amortized over the life of the facility. The unused commitment under the BNP Facility was $103,350 as of September 30, 2019.

***Other Liquidity Matters***

We expect to fund the growth of our investment portfolio utilizing borrowings under SBA debentures, follow-on equity offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act. We cannot assure stockholders that our plans to raise capital will be successful. In addition, we intend to distribute to our stockholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments or make additional investments in our portfolio companies. The illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

In addition, as a BDC, we generally will be required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities (including SBIC I LP’s SBA-guaranteed debt), to total senior securities, which include all of our borrowings (excluding SBA-guaranteed debt) and any outstanding preferred stock (of which we had none at September 30, 2019), of at least 150% on and after May 3, 2019 (or 200% before that date (see below). We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the statutory asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate the need to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

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

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

On May 22, 2018, the Board authorized the Company to initiate the Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. Under the Stock Repurchase Program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The Stock Repurchase Program may be extended, modified or discontinued at any time for any reason. The Company expects the Stock Repurchase Program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases. No shares of common stock were repurchased during the three and nine months ended September 30, 2019.

As of September 30, 2019, the aggregate amount outstanding of the senior securities issued by us was $340.9 million, for which our asset coverage was 189%. The Small Business Administration Debentures are not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC effective November 26, 2013. The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness.

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

The following table shows our contractual obligations as of September 30, 2019 (in thousands):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligation [1]** | **Total** | **Less than year** | **1-3 years (2)** | **3-5 years (2)** | **After 5 years (2)** |
| PWB Credit Facility | $ 45,825 | $ — | $ 45,825 | $ — | $ — |
| Unsecured Notes | 98,525 | — | — | — | 98,525 |
| SBA Debentures | 149,880 | — | 14,000 | 47,375 | 88,505 |
| BNP Facility | 46,650 | — | — | 46,650 | — |
| Total | $ 340,880 | $ — | $ 59,825 | $ 94,025 | $ 187,030 |

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The PWB Credit Facility is scheduled to mature on February 28, 2021. The SBA debentures are scheduled to mature between September 2022 and 2025. The Unsecured Notes are scheduled to mature between April 2025 and October 2025. The BNP Facility is scheduled to mature on June 20, 2024.

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

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. We had $4.7 million in unfunded commitments to four portfolio companies at September 30, 2019. We will meet these unfunded commitments by using our cash on hand or utilizing our available borrowings under the PWB Credit Facility.

## Distributions

We are taxed as a RIC under the Code. In order to maintain our status as a RIC, we are required to distribute annually to our stockholders at least 90% of our ICTI, as defined by the Code. Additionally, to avoid a 4% excise tax on undistributed earnings we are required to distribute each calendar year the sum of (i) 98% of our ordinary income for such calendar year (ii) 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year, and (iii) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax. Maintenance of our RIC status also requires adherence to certain source of income and asset diversification requirements. Generally, a RIC is entitled to deduct dividends it pays to its stockholders from its income to determine “taxable income.” Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual PIK interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest and dividends or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation, and amortization expense.

Our board of directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount not less than 90-100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend, or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income to a following year. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company’s stockholders. Generally, a RIC is entitled to deduct dividends it pays to its stockholders from its income to determine “taxable income.” Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual PIK interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest and dividends or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation, and amortization expense.

## Recent Developments

On November 6, 2019, our Board declared a distribution of $0.34 per share for the fourth quarter of 2019, payable on December 31, 2019, to stockholders of record as of December 24, 2019.

In October and November 2019, we closed the public offering of $54.3 million in aggregate principal amount of its 5.95% notes due 2026 (the "Unsecured Notes Due October 2026"), which included a partial exercise of the underwriters overallotment option. The total net proceeds to us from the Unsecured Notes Due October 2026, after deducting underwriting discounts of approximately $1.7 million and estimated offering expenses of $0.3 million, were approximately $52.3 million. The Unsecured Notes Due October 2026 will mature on October 31, 2026 and bear an effective interest rate, including amortization of deferred debt issuance costs, of 6.48%. Because the Unsecured Notes Due October 2026 are not secured by any of our assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which we subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility. The Unsecured Notes Due October 2026 may be redeemed in whole or in part at any time or from time to time at our option on or after October 31, 2021 at the redemption price of 100% of the aggregate principal amount thereof plus accrued and unpaid interest. The indenture governing the Unsecured Notes Due October 2026 contains covenants substantially identical to the Unsecured Notes.

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

We are subject to financial market risks, including changes in interest rates. As of September 30, 2019, 90% of our debt investments bore interest at floating interest rates, at fair value. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current market rates on a periodic basis. A significant portion of our loans that are subject to the floating LIBOR rates are also subject to a minimum base rate, or floor, that we charge on our loans if the current market rates are below the respective floors. As of September 30, 2019, substantially all of our floating rate loans were based on a floating LIBOR (not subject to a floor).

Our outstanding SBA debentures and Unsecured Notes bear interest at fixed rates. Our PWB Credit Facility and BNP Facility have floating interest rate provisions based on the Prime Rate and LIBOR, respectively, with effective interest rates of 5.63% and 6.39%, respectively, as of September 30, 2019.

Assuming that the interim and unaudited consolidated balance sheet as of September 30, 2019 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following tables show the annualized impact of hypothetical base rate changes in interest rates (in thousands).

| Basis point increase | Interest income | Interest expense | Net increase |
|---|---|---|---|
| 50 | $ 1,764 | $ (410) | $ 1,354 |
| 100 | 3,823 | (879) | 2,944 |
| 150 | 5,883 | (1,348) | 4,535 |
| 200 | 7,942 | (1,817) | 6,125 |
| 250 | 10,002 | (2,285) | 7,717 |

| Basis point decrease | Interest income | Interest expense | Net decrease |
|---|---|---|---|
| 50 | $ (2,338) | $ 295 | $ (2,043) |
| 100 | (4,288) | 532 | (3,756) |
| 150 | (5,148) | 768 | (4,380) |
| 200 | (5,802) | 1,005 | (4,797) |
| 250 | (5,866) | 1,044 | (4,822) |

## Item 4. Controls and Procedures

### Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. The term "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the foregoing evaluation of our disclosure controls and procedures as of September 30, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

We, OFS Advisor and OFS Services, are not currently subject to any material pending legal proceedings threatened against us as of September 30, 2019. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition, results of operations or cash flows.

## Item 1A. Risk Factors

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

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

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

During the three month period ended September 30, 2019, we issued 4,990 shares of common stock to stockholders in connection with our DRIP. These issuances were not subject to the registration requirements of the Securities Act. The aggregate value of the shares of our common stock issued under our distribution reinvestment plan was approximately $57,928.

***Issuer Purchases of Equity Securities***

On May 22, 2018, the Board authorized the Company to initiate the Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. Under the Stock Repurchase Program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The Stock Repurchase Program may be extended, modified or discontinued at any time for any reason. The Company expects the Stock Repurchase Program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

During the nine months ended September 30, 2019, we repurchased -0- shares of common stock on the open market for under the Stock Repurchase Program. The following table provides information regarding the Stock Repurchase Program (amount in thousands except shares):

| Period | Total Number of Shares Purchased (1) | Cost of Shares Purchased | Average Price Paid Per Share | Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Stock Repurchase Program |
|---|---|---|---|---|
| January 1, 2019 through March 31, 2019 | — | $ — | $ — | $ 9,997 |
| April 1, 2019 through June 30, 2019 | — | $ — | $ — | $ 9,997 |
| July 1, 2019 through September 30, 2019 | — | $ — | $ — | $ 9,997 |

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

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

## 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 | Incorporated by Reference | | Filed with this 10-Q |
|---|---|---|---|---|
| | | Form and SEC File No. | Filing Date with SEC | |
| 4.1 | Third Supplemental Indenture as of October 15, 2019, between OFS Capital Corporation and U.S. Bank National Association, as Trustee | POS EX 333-222419 | October 15, 2019 | |
| 4.2 | Form of Global Note with respect to the 5.95% Notes Due 2026 | POS EX 333-222419 | October 15, 2019 | |
| 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 | | | † |

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

* Filed herewith

† Furnished herewith

## SIGNATURES

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

| | | |
|---|---|---|
| Dated: November 8, 2019 | OFS CAPITAL CORPORATION | |
| | By: | /s/ Bilal Rashid |
| | Name: | Bilal Rashid |
| | Title: | Chief Executive Officer |
| | By: | /s/ Jeffrey A. Cerny |
| | Name: | Jeffrey A. Cerny |
| | Title: | Chief Financial Officer |

**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 November, 2019.

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 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 November, 2019.

By: /s/ Jeffrey A. Cerny

**Jeffrey A. Cerny**
**Chief Financial Officer**

**Exhibit 32.1**

**Certification of Chief Executive Officer**

**Pursuant to 18 U.S.C. Section 1350 , as adopted Pursuant to**

**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2019 (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, pursuant to 18 U.S.C. Section 1350, 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:** | **November 8, 2019** |

**Exhibit 32.2**

**Certification of Chief Financial Officer**

**Pursuant to 18 U.S.C. Section 1350 , as adopted Pursuant to**

**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2019 (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, pursuant to 18 U.S.C. Section 1350, 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:** | **November 8, 2019** |