

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

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

Date of Report (Date of earliest event reported): August 2, 2022

OFS Capital Corporation

(Exact name of Registrant as specified in its charter)

**Delaware
(State or other jurisdiction
of incorporation)**

**814-00813
(Commission
File Number)**

**46-1339639
(I.R.S. Employer
Identification No.)**

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

**60606
(Zip Code)**

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

**Not applicable
(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 |
| 4.95% Notes due 2028 | OFSSH | The Nasdaq Global Select Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

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.

Item 2.02. Results of Operations and Financial Condition

On August 5, 2022, OFS Capital Corporation (the “Company”) issued a press release announcing its financial results for the quarter ended June 30, 2022. On August 2, 2022, the Company’s board of directors declared a 2022 third quarter distribution of \$0.29 per common share, payable September 30, 2022 to shareholders of record as of September 23, 2022. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information disclosed under this Item 2.02, including Exhibit 99.1 hereto, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any filing made under the Securities Exchange Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits.

| Exhibit No. | Description |
|----------------------|---|
| 99.1 | Press Release issued by OFS Capital Corporation on August 5, 2022 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

OFS Capital Corporation

Date: August 5, 2022

By: /s/ Bilal Rashid
Chief Executive Officer



**OFS CAPITAL CORPORATION ANNOUNCES SECOND QUARTER 2022 FINANCIAL RESULTS
DECLARES THIRD QUARTER 2022 DISTRIBUTION OF \$0.29 PER SHARE**

Chicago, IL - August 5, 2022 - OFS Capital Corporation (NASDAQ: OFS) (“OFS Capital,” the “Company,” “we,” “us,” or “our”) today announced its financial results for the fiscal quarter ended June 30, 2022. On August 2, 2022, OFS Capital’s Board of Directors declared a distribution of \$0.29 per common share for the third quarter of 2022, payable on September 30, 2022 to stockholders of record as of September 23, 2022.

SECOND QUARTER FINANCIAL HIGHLIGHTS

- Net investment income of \$6.2 million, or \$0.47 per common share.
- Adjusted net investment income (“Adjusted NII”⁽¹⁾) of \$3.3 million, or \$0.24 per common share.
- Net loss on investments of \$1.12 per common share, primarily comprised of unrealized losses of \$1.11 per common share due to widening of liquid credit market spreads.
- Net asset value (“NAV”) per common share of \$14.57 as of June 30, 2022, a decrease from \$15.52 at March 31, 2022, primarily due to unrealized losses.
- As of June 30, 2022, based on fair value, 93% of our loan portfolio consisted of floating rate loans and 98% of our loan portfolio consisted of senior secured loans.
- As of June 30, 2022, 100% of our outstanding debt matures in 2025 and beyond, 63% of our outstanding debt has a fixed interest rate and 49% of our outstanding debt is unsecured.

SELECTED FINANCIAL HIGHLIGHTS (unaudited)

| (Per common share) | Three Months Ended | |
|---|--------------------|----------------|
| | June 30, 2022 | March 31, 2022 |
| Net Investment Income | | |
| Net investment income | \$ 0.47 | \$ 0.22 |
| Net Realized/Unrealized Gain (Loss) | | |
| Net realized gain (loss) on investments | \$ (0.01) | \$ 0.02 |
| Net unrealized gain (loss) on investments | (1.11) | 0.39 |
| Net loss on extinguishment of debt | — | (0.01) |
| Net gain (loss) | \$ (1.12) | \$ 0.40 |
| Earnings (Loss) | | |
| Earnings (loss) | \$ (0.66) | \$ 0.62 |
| Net Asset Value | | |
| Net asset value | \$ 14.57 | \$ 15.52 |
| Distributions paid | \$ 0.29 | \$ 0.28 |
| Adjusted NII ⁽¹⁾ — Non-GAAP | | |
| Net investment income | \$ 0.47 | \$ 0.22 |
| Capital gain incentive fee accrual | (0.23) | 0.08 |
| Adjusted NII — Non-GAAP | \$ 0.24 | \$ 0.30 |

| (in millions, except per share data) | As of | |
|---|---------------|----------------|
| | June 30, 2022 | March 31, 2022 |
| Balance Sheet Highlights (unaudited) | | |
| Investment portfolio, at fair value | \$ 547.7 | \$ 556.9 |
| Total assets | 567.3 | 571.7 |
| Net asset value per common share | 14.57 | 15.52 |

“We believe our balance sheet is well positioned to navigate through an uncertain economic environment with rising interest rates and a slow down in the economy,” said Bilal Rashid, OFS Capital’s Chairman and Chief Executive Officer. “Approximately, 98% of our loan portfolio is senior secured and 93% of our loans are floating rate, with 63% of our outstanding debt being fixed rate.”

- (1) *On a supplemental basis, we disclose Adjusted NII (including on a per share basis), which is a financial measure calculated and presented on basis other than in accordance with generally accepted accounting principles of the United States of America (“GAAP”). Adjusted NII represents net investment income, excluding the capital gains incentive fee, in periods in which such expense occurs. GAAP requires recognition of a capital gains incentive fee in our financial statements when aggregate net realized and unrealized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the reporting date is positive. Such fees are subject to further conditions specified in the investment advisory agreement with OFS Capital Management, LLC, principally related to the realization of such net gains, before OFS Capital Management, LLC is entitled to payment, and such recognized fees are subject to the risk of reversal should unrealized gains diminish to become losses. Management believes that Adjusted NII is a useful indicator of operations exclusive of any net capital gains incentive fee, as net investment income does not include the net gains, realized or unrealized, associated with the capital gains incentive fee.*

Management believes Adjusted NII facilitates analysis of our results of operations and provides greater transparency into the determination of incentive fees. Adjusted NII is not meant as a substitute for net investment income determined in accordance with GAAP and should be considered in the context of the entirety of our reported results of operations, financial position and cash flows determined in accordance with GAAP. A reconciliation of net investment income determined in accordance with GAAP to Adjusted NII is set forth in Schedule I to this press release.

PORTFOLIO AND INVESTMENT ACTIVITIES

(\$ in millions, except for per share data)

| Portfolio Overview | As of and for the Three Months Ended | |
|--|--------------------------------------|----------------|
| | June 30, 2022 | March 31, 2022 |
| Investment portfolio, at fair value | \$ 547.7 | \$ 556.9 |
| Weighted-average performing income yield - interest-bearing investments ⁽²⁾ | 9.1 % | 9.0 % |
| Weighted-average realized yield - interest-bearing investments ⁽³⁾ | 8.6 % | 8.6 % |
| Weighted-average realized yield on total investments ⁽⁴⁾ | 8.2 % | 8.2 % |

The weighted-average yield of our investments is not the same as a return on investment for our stockholders, but rather relates to our investment portfolio and is calculated before the payment of all of our fees and expenses.

- (2) *Income yield is calculated as (a) the actual amount earned on performing investments, including interest and prepayment fees and amortization of net loan fees, divided by (b) the weighted-average of total performing investments amortized cost.*
- (3) *Realized yield is computed as (a) the actual amount earned on interest-bearing investments, including interest, prepayment fees and net loan fees, divided by (b) the weighted-average of total interest-bearing investments amortized cost, in each case, including debt investments on non-accrual status and non-income producing Structured Finance Notes.*
- (4) *Realized yield is computed as (a) the actual amount earned on all investments including interest, dividends and prepayment fees, amortization of net loan fees, and dividends received divided by (b) the weighted-average of total investments amortized cost or cost.*

| Portfolio Activity | Three Months Ended | |
|---|--------------------|----------------|
| | June 30, 2022 | March 31, 2022 |
| Investments in new portfolio companies | \$ 26.9 | \$ 33.0 |
| Investments in existing portfolio companies | 4.4 | 15.1 |
| Investments in structured finance notes | 21.1 | 22.1 |

As of June 30, 2022, based on fair value, our investment portfolio was comprised of the following:

- Total investments of \$547.7 million, which was equal to approximately 108% of amortized cost;
- Debt investments of \$356.0 million in 66 portfolio companies, of which 98% and 2% were senior secured loans and subordinated loans, respectively;
- Equity investments of \$101.8 million;
- 23 structured finance note investments totaling \$89.9 million; and
- Unfunded commitments of \$37.3 million to 17 portfolio companies.

During the quarter ended June 30, 2022, two loans with an aggregate fair value of \$10.4 million were placed on non-accrual status. One of those loans is a PIK loan where we stopped accruing our PIK coupon due to a decline in its fair value; however, that portfolio company remains current on another debt tranche that requires cash interest payments.

RESULTS OF OPERATIONS

Investment Income

For the quarter ended June 30, 2022, total investment income of \$10.4 million decreased by \$0.5 million compared to the quarter ended March 31, 2022, primarily due to a decrease of \$1.0 million in dividend and fee income, offset by an increase of \$0.5 million in interest income. Interest income increased \$0.5 million compared to the prior quarter primarily due to an increase in our portfolio's weighted-average performing income yield to 9.1%.

Expenses

For the quarter ended June 30, 2022, total expenses of \$4.2 million decreased by \$3.8 million compared to the quarter ended March 31, 2022, primarily due to a reversal of a previously accrued capital gains fee due to a \$14.9 million reduction in net unrealized appreciation on the investment portfolio.

Net Gain (Loss) on Investments

Our portfolio experienced net losses of \$15.1 million in the second quarter of 2022, primarily as a result of unrealized depreciation of \$9.3 million and \$6.7 million on our CLO investments and broadly syndicated loan investments, respectively, attributable to widening of liquid credit market spreads. These losses were partially offset by net gains, primarily consisting of unrealized appreciation on our common equity investments that were primarily attributable to an increase in fair value of \$7.8 million on our equity investment in Pfanstiehl Holdings, Inc.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2022, we had \$14.8 million in cash, which includes \$7.5 million held by our wholly owned small business investment company, OFS SBIC I, LP (“SBIC I LP”), and \$2.9 million held by OFSCC-FS, LLC (“OFSCC-FS”), an indirect wholly owned subsidiary. Our use of cash held by SBIC I LP and OFSCC-FS is restricted by regulatory and contractual conditions, including limitations on the amount of cash SBIC I LP and OFSCC-FS can distribute to us.

As of June 30, 2022, we had an unused commitment of \$35.0 million under our senior secured revolving credit facility with Pacific Western Bank, as well as an unused commitment of \$15.9 million under our revolving credit facility with BNP Paribas (“BNP Facility”), both subject to borrowing base requirements and other covenants. Based on fair values and equity capital at June 30, 2022, we could access all unused commitments under our credit facilities and remain in compliance with the 1940 Act asset coverage requirement.

On June 24, 2022, we amended the BNP Facility to, among other things: (i) extend the reinvestment period under the BNP Facility for three years from June 20, 2022 to June 20, 2025; (ii) extend the maturity date under the BNP Facility from June 20, 2024 to June 20, 2027; (iii) convert the benchmark interest rate from LIBOR to SOFR; (iv) increase the applicable margin by 0.40% on all classes of loans; and (v) increase the applicable margin floor from 1.925% to 2.65%.

CONFERENCE CALL

OFS Capital will host a conference call to discuss these results on Friday, August 5, 2022, at 10:00 AM Eastern Time. Interested parties may participate in the call via the following:

INTERNET: Go to www.ofscapital.com at least 15 minutes prior to the start time of the call to register, download, and install any necessary audio software. A replay will be available for 90 days on OFS Capital’s website at www.ofscapital.com.

TELEPHONE: Dial (877) 510-7674 (Domestic) or (412) 902-4139 (International) approximately 15 minutes prior to the call. A telephone replay of the conference call will be available through August 15, 2022 at 9:00 AM Eastern Time and may be accessed by calling (877) 344-7529 (Domestic) or (412) 317-0088 (International) and utilizing conference ID #3869035.

For more detailed discussion of the financial and other information included in this press release, please refer to OFS Capital’s Form 10-Q for the second quarter ended June 30, 2022.

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

| | June 30, 2022 (unaudited) | December 31, 2021 |
|---|---------------------------------|----------------------|
| Assets | | |
| Total investments, at fair value (amortized cost of \$507,484 and \$457,312, respectively) | \$ 547,677 | \$ 507,099 |
| Cash | 14,844 | 43,048 |
| Interest receivable | 1,883 | 1,475 |
| Receivable for investments sold | — | 14,893 |
| Prepaid expenses and other assets | 2,917 | 2,533 |
| Total assets | \$ 567,321 | \$ 569,048 |
| Liabilities | | |
| Revolving lines of credit | \$ 134,100 | \$ 100,000 |
| SBA debentures (net of deferred debt issuance costs of \$319 and \$555, respectively) | 50,601 | 69,365 |
| Unsecured notes (net of deferred debt issuance costs of \$4,155 and \$4,554, respectively) | 175,845 | 175,446 |
| Interest payable | 3,714 | 3,685 |
| Payable to adviser and affiliates | 2,672 | 6,217 |
| Payable for investments purchased | 3,905 | 8,788 |
| Accrued professional fees | 383 | 452 |
| Other liabilities | 389 | 1,351 |
| Total liabilities | 371,609 | 365,304 |
| Commitments and contingencies | | |
| Net assets | | |
| Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively | \$ — | \$ — |
| Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,429,777 and 13,422,413 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively | 134 | 134 |
| Paid-in capital in excess of par | 185,195 | 185,113 |
| Total distributable earnings | 10,383 | 18,497 |
| Total net assets | 195,712 | 203,744 |
| Total liabilities and net assets | \$ 567,321 | \$ 569,048 |
| Number of shares outstanding | 13,429,777 | 13,422,413 |
| Net asset value per share | \$ 14.57 | \$ 15.18 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|-------------------|----------------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Investment income | | | | |
| Interest income | \$ 10,345 | \$ 10,638 | \$ 20,188 | \$ 20,794 |
| Dividend income | 5 | 195 | 763 | 242 |
| Fee income | 82 | 583 | 427 | 871 |
| Total investment income | <u>10,432</u> | <u>11,416</u> | <u>21,378</u> | <u>21,907</u> |
| Expenses | | | | |
| Interest expense | 3,943 | 4,241 | 7,567 | 9,066 |
| Management fee | 2,056 | 1,876 | 4,076 | 3,710 |
| Income Incentive Fee | — | 809 | — | 809 |
| Capital Gains Fee | (2,988) | — | (1,916) | — |
| Professional fees | 352 | 489 | 759 | 876 |
| Administration fee | 423 | 439 | 874 | 1,007 |
| Other expenses | 398 | 327 | 765 | 654 |
| Total expenses | <u>4,184</u> | <u>8,181</u> | <u>12,125</u> | <u>16,122</u> |
| Net investment income | <u>6,248</u> | <u>3,235</u> | <u>9,253</u> | <u>5,785</u> |
| Net realized and unrealized gain (loss) on investments | | | | |
| Net realized gain (loss), net of taxes | (190) | (10,841) | 27 | (10,750) |
| Net unrealized gain (loss), net of taxes | (14,882) | 30,047 | (9,599) | 33,879 |
| Net gain (loss) on investments | <u>(15,072)</u> | <u>19,206</u> | <u>(9,572)</u> | <u>23,129</u> |
| Loss on extinguishment of debt | — | — | (144) | (2,299) |
| Net increase (decrease) in net assets resulting from operations | <u>\$ (8,824)</u> | <u>\$ 22,441</u> | <u>\$ (463)</u> | <u>\$ 26,615</u> |
| Net investment income per common share – basic and diluted | <u>\$ 0.47</u> | <u>\$ 0.24</u> | <u>\$ 0.69</u> | <u>\$ 0.43</u> |
| Net increase (decrease) in net assets resulting from operations per common share – basic and diluted | <u>\$ (0.66)</u> | <u>\$ 1.67</u> | <u>\$ (0.03)</u> | <u>\$ 1.98</u> |
| Distributions declared per common share | <u>\$ 0.29</u> | <u>\$ 0.22</u> | <u>\$ 0.57</u> | <u>\$ 0.42</u> |
| Basic and diluted weighted average shares outstanding | <u>13,425,477</u> | <u>13,411,998</u> | <u>13,423,970</u> | <u>13,410,524</u> |

ABOUT OFS CAPITAL

The Company is an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company. The Company's investment objective is to provide stockholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. The Company invests primarily in privately held middle-market companies in the United States, including lower-middle-market companies, targeting investments of \$3 million to \$20 million in companies with annual EBITDA between \$5 million and \$50 million. The Company offers flexible solutions through a variety of asset classes including senior secured loans, which includes first-lien, second-lien and unitranche loans, as well as subordinated loans and, to a lesser extent, warrants and other equity securities. The Company's investment activities are managed by OFS Capital Management, LLC, an investment adviser registered under the Investment Advisers Act of 1940⁵, as amended, and headquartered in Chicago, Illinois, with additional offices in New York and Los Angeles.

FORWARD-LOOKING STATEMENTS

Statements in this press release regarding management's future expectations, beliefs, intentions, goals, strategies, plans or prospects, including statements relating to: OFS Capital's results of operations, including net investment income, adjusted net investment income, net asset value and net investment gains and losses and the factors that may affect such results; management's belief that the Company's balance sheet is well positioned for the future in a rising interest rate environment due to a high percentage of floating rate loans in the portfolio and a majority of liabilities that have a fixed rate of interest, when there can be no assurance that such a composition will lead to future success; and other factors may constitute forward-looking statements for purposes of the safe harbor protection under applicable securities laws. Forward-looking statements can be identified by terminology such as "anticipate," "believe," "could," "could increase the likelihood," "estimate," "expect," "intend," "is planned," "may," "should," "will," "will enable," "would be expected," "look forward," "may provide," "would" or similar terms, variations of such terms or the negative of those terms. Such forward-looking statements involve known and unknown risks, uncertainties and other factors including those risks, uncertainties and factors referred to in OFS Capital's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission under the section "Risk Factors," and in "Part II, Item 1A. Risk Factors" in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2022 and June 30, 2022, as well as other documents that may be filed by OFS Capital from time to time with the Securities and Exchange Commission. As a result of such risks, uncertainties and factors, actual results may differ materially from any future results, performance or achievements discussed in or implied by the forward-looking statements contained herein. OFS Capital is providing the information in this press release as of this date and assumes no obligations to update the information included in this press release or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

INVESTOR RELATIONS CONTACT:

Steve Altebrando
646-652-8473
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⁵ Registration does not imply a certain level of skill or training

Schedule 1
Non-GAAP Financial Measure – Adjusted Net Investment Income

On a supplemental basis, we disclose Adjusted NII (including on a per share basis), which is a financial measure calculated and presented on basis other than in accordance with GAAP. Adjusted NII represents net investment income, excluding the capital gains incentive fee, in periods in which such expense occurs. GAAP requires recognition of a capital gains incentive fee in our financial statements when aggregate net realized and unrealized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the reporting date is positive. Such fees are subject to further conditions specified in the investment advisory agreement with OFS Capital Management, LLC, principally related to the realization of such net gains, before OFS Capital Management, LLC is entitled to payment, and such recognized fees are subject to the risk of reversal should unrealized gains diminish to become losses. Management believes that Adjusted NII is a useful indicator of operations exclusive of any net capital gains incentive fee, as net investment income does not include the net gains, realized or unrealized, associated with the capital gains incentive fee. Management believes Adjusted NII facilitates analysis of our results of operations and provides greater transparency into the determination of incentive fees. Adjusted NII is not meant as a substitute for net investment income determined in accordance with GAAP and should be considered in the context of the entirety of our reported results of operations, financial position and cash flows determined in accordance with GAAP.

The following table provides a reconciliation from net investment income (the most comparable GAAP measure) to Adjusted NII for the three months ended June 30, 2022 and March 31, 2022 and six months ended June 30, 2022 and 2021, respectively (dollar amounts in thousands, except per share data) (unaudited):

| | Three Months Ended | | | | Six Months Ended June 30, | | | |
|-----------------------|--------------------|----------------|-----------------|----------------|---------------------------|----------------|-----------------|----------------|
| | June 30, 2022 | | March 31, 2022 | | 2022 | | 2021 | |
| | (000's) | Per Share | (000's) | Per Share | (000's) | Per Share | (000's) | Per Share |
| Net investment income | \$ 6,248 | \$ 0.47 | \$ 3,005 | \$ 0.22 | \$ 9,253 | \$ 0.69 | \$ 5,785 | \$ 0.43 |
| Capital Gains Fee | (2,988) | (0.23) | 1,072 | 0.08 | (1,916) | (0.15) | — | — |
| Adjusted NII | <u>\$ 3,260</u> | <u>\$ 0.24</u> | <u>\$ 4,077</u> | <u>\$ 0.30</u> | <u>\$ 7,337</u> | <u>\$ 0.54</u> | <u>\$ 5,785</u> | <u>\$ 0.43</u> |

Although these non-GAAP financial measures are intended to enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.