

OFS Capital Corp  
Form 497  
March 29, 2017

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Filed Pursuant to Rule 497  
Registration No. 333-200376**

***Subject to Completion  
Preliminary Prospectus Supplement dated March 29, 2017***

***PRELIMINARY PROSPECTUS SUPPLEMENT  
(to Prospectus dated July 1, 2016)***

***OFS Capital Corporation***

***3,500,000 Shares of Common Stock***

***We are offering for sale 3,500,000 shares of our common stock. Our common stock is traded on the Nasdaq Global Select Market under the symbol OFS. The last reported closing sale price for our common stock on March 28, 2017 was \$15.22 per share. The net asset value of our common stock on December 31, 2016 was \$14.82 per share.***

***OFS Capital Corporation, a Delaware corporation, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended.***

***Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments.***

***We are managed by OFS Capital Management, LLC. OFS Capital Services, LLC provides the administrative services necessary for us to operate.***

***This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before investing and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting us at OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606, or by calling us at (847) 734-2000 or on our website at [www.ofscapital.com](http://www.ofscapital.com). The Securities and Exchange Commission maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon request. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement and the accompanying prospectus.***

*Investing in our securities involves a high degree of risk, including the risk of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page S-22 of this prospectus supplement and page 16 of the accompanying prospectus.*

*Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

	<i>Per Share</i>	<i>Total</i>
<i>Public offering price</i>	\$	\$
<i>Underwriting discounts and commissions (sales load)<sup>(1)</sup></i>	\$	\$
<i>Proceeds to OFS Capital Corporation (before estimated expenses of \$350,000)</i>		

*OFS Capital Management, LLC has agreed to pay all of the underwriting commissions to the underwriters of approximately \$ million, or \$ per share (or approximately \$ million, or \$ per share if the option to purchase additional shares is fully exercised) in connection with this offering, which amount is not reflected in the above table. All other expenses of the offering will be borne by us.*

*The underwriters may also purchase up to an additional 525,000 shares from us at the public offering price, within 30 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be approximately \$ million, the underwriting commissions (sales load) paid by OFS Capital Management, LLC will be approximately \$ million, the additional supplemental payment to the underwriters paid by OFS Capital Management, LLC will be approximately \$ million and our total proceeds, before estimated expenses, will be approximately \$ million.*

*The underwriters expect to deliver the shares on or about March , 2017.*

*Bookrunning Managers*

*Morgan Stanley*

*UBS Investment Bank*

*Citigroup*

*J.P. Morgan*

*Lead Managers*

*Janney Montgomery Scott*

*Ladenburg Thalmann*

*Co-Managers*

*Aegis Capital Corp.*

*National Securities Corporation*

*The date of this prospectus supplement is March , 2017.*

TABLE OF CONTENTS

**TABLE OF CONTENTS**

**PRELIMINARY PROSPECTUS SUPPLEMENT**

	Page
<u>PROSPECTUS SUPPLEMENT SUMMARY</u>	<u>S-1</u>
<u>THE OFFERING</u>	<u>S-12</u>
<u>FEES AND EXPENSES</u>	<u>S-16</u>
<u>SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA</u>	<u>S-19</u>
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>S-21</u>
<u>RISK FACTORS</u>	<u>S-22</u>
<u>USE OF PROCEEDS</u>	<u>S-52</u>
<u>CAPITALIZATION</u>	<u>S-53</u>
<u>OUR BUSINESS</u>	<u>S-54</u>
<u>PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS</u>	<u>S-77</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>S-78</u>
<u>SENIOR SECURITIES</u>	<u>S-95</u>
<u>MATERIAL FEDERAL INCOME TAX CONSIDERATIONS</u>	<u>S-96</u>
<u>UNDERWRITING</u>	<u>S-104</u>
<u>LEGAL MATTERS</u>	<u>S-109</u>
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>S-109</u>
<u>AVAILABLE INFORMATION</u>	<u>S-109</u>
<u>INDEX TO FINANCIAL STATEMENTS</u>	<u>SF-1</u>

S-i

---

TABLE OF CONTENTS

**PROSPECTUS SUPPLEMENT**

<u>PROSPECTUS SUMMARY</u>	<u>1</u>
<u>FEES AND EXPENSES</u>	<u>9</u>
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	<u>12</u>
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	<u>15</u>
<u>RISK FACTORS</u>	<u>16</u>
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>48</u>
<u>USE OF PROCEEDS</u>	<u>49</u>
<u>PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS</u>	<u>50</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>54</u>
<u>THE COMPANY</u>	<u>79</u>
<u>SENIOR SECURITIES</u>	<u>89</u>
<u>PORTFOLIO COMPANIES</u>	<u>90</u>
<u>MANAGEMENT</u>	<u>95</u>
<u>PORTFOLIO MANAGEMENT</u>	<u>102</u>
<u>MANAGEMENT AND OTHER AGREEMENTS</u>	<u>104</u>
<u>RELATED-PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS</u>	<u>112</u>
<u>CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS</u>	<u>115</u>
<u>DETERMINATION OF NET ASSET VALUE</u>	<u>117</u>
<u>DISTRIBUTION REINVESTMENT PLAN</u>	<u>120</u>
<u>DESCRIPTION OF OUR CAPITAL STOCK</u>	<u>122</u>
<u>DESCRIPTION OF OUR PREFERRED STOCK</u>	<u>125</u>
<u>DESCRIPTION OF OUR SUBSCRIPTION RIGHTS</u>	<u>126</u>
<u>DESCRIPTION OF OUR WARRANTS</u>	<u>128</u>
<u>DESCRIPTION OF OUR DEBT SECURITIES</u>	<u>130</u>
<u>REGULATION</u>	<u>142</u>
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	<u>149</u>
<u>PLAN OF DISTRIBUTION</u>	<u>156</u>
<u>CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR</u>	<u>157</u>
<u>BROKERAGE ALLOCATION AND OTHER PRACTICES</u>	<u>158</u>
<u>LEGAL MATTERS</u>	<u>158</u>
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>158</u>
<u>CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>158</u>
<u>AVAILABLE INFORMATION</u>	<u>159</u>
<u>INDEX TO FINANCIAL STATEMENTS</u>	<u>F-1</u>

TABLE OF CONTENTS

## **ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of shares of our common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings Available Information, Prospectus Supplement Summary, and Risk Factors before investing in our common stock.

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any shares of our common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of shares of our common stock. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in that prospectus.**

S-iii

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TABLE OF CONTENTS

## PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider before investing in our securities. You should read the entire prospectus supplement and the accompanying prospectus carefully, including Risk Factors sections included in the prospectus supplement and accompanying prospectus. Throughout this prospectus supplement and the accompanying prospectus, we refer to OFS Capital Corporation and its consolidated subsidiaries as the Company, we, us or our; OFS Capital Management, LLC as OFS Advisor or the Advisor; and OFS Capital Services, LLC as OFS Services or the Administrator.*

### OFS Capital Corporation

We are an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a BDC under the Investment Company Act of 1940, as amended (the 1940 Act ). Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. Our investment strategy focuses primarily on investments in middle-market companies in the United States. We use the term middle-market to refer to companies that may exhibit one or more of the following characteristics: number of employees between 150 and 2,000; revenues between \$15 million and \$300 million; annual earnings before interest, taxes, depreciation and amortization ( EBITDA ), between \$3 million and \$50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between \$10 million and \$500 million. For additional information about how we define the middle-market, see The Company Investment Criteria/Guidelines in the accompanying prospectus.

As of December 31, 2016, the fair value of our debt investment portfolio totaled \$244.4 million in 39 portfolio companies, of which 74% and 26% were senior secured loans and subordinated loans, respectively, and approximately \$37.3 million in equity investments, at fair value, in 17 portfolio companies in which we also held debt investments and two portfolio companies in which we solely held an equity investment. As of December 31, 2016, 64% of our investment portfolio was comprised of senior secured loans, 23% of subordinated loans and 13% of equity investments, at fair value.

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

Our investment strategy includes SBIC I LP, which received a license under the SBA s SBIC Program in May 2012.

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 Regulation Small Business Investment Company Regulations.

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

S-1

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TABLE OF CONTENTS

On a stand-alone basis, SBIC I LP held approximately \$247.5 million and \$248.6 million in assets at December 31, 2016 and 2015, respectively, which accounted for approximately 81% and 83% of our total consolidated assets at December 31, 2016 and 2015, respectively.

Our investment activities are managed by OFS Capital Management, LLC ( OFS Advisor ) and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the investment advisory agreement between us and OFS Advisor (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 and cash equivalents 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. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013. We have also entered into an Administration Agreement with OFS Services. Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.

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

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

We have elected to be treated for tax purposes as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended ( Code ). To continue to qualify as a RIC, we must, among other things, meet certain source-of-income and assets diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income we distribute to our shareholders.

On October 24, 2016, the SEC granted our exemptive application, which permits us to co-invest with funds or entities managed by OFS Advisor in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. The order is subject to certain terms and conditions. Specifically, we are permitted to co-invest with our affiliates if a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by 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.



TABLE OF CONTENTS

## **Organizational Structure**

### **About OFS and Our Adviser**

OFS (which refers to the collective activities and operations of Orchard First Source Asset Management, LLC (OFSAM) and its subsidiaries and certain affiliates) is an established investment platform focused on meeting the capital needs of middle-market companies. OFS is the successor to First Source Financial Inc., which was founded in 1995 as a joint venture between Dominion Capital, Inc., a wholly-owned subsidiary of Dominion Resources, Inc., or Dominion, and Household Commercial Financial Services Inc., a unit of Household International, or Household. Household sold its interest in First Source Financial Inc. to Dominion in 1997. In 2003, Orchard Paladin Management, LLC, our predecessor, acquired from Dominion a portfolio of performing and non-performing loans of approximately \$625 million in aggregate commitment amount, plus additional investments in equity securities. Shortly thereafter, in 2004, Orchard Paladin Management, LLC acquired Dominion's interest in First Source Financial Inc. Most of the loan workouts and special situations investments managed by our senior managers since 2003 involved loans in the portfolio acquired from Dominion and loans acquired as a result of the purchase of Dominion's interest in First Source Financial Inc.

As of December 31, 2016, OFS had 44 full-time employees. OFS is headquartered in Chicago, Illinois and also has offices in New York, New York and Los Angeles, California.

Our investment activities are managed by OFS Advisor, our investment adviser. OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. OFS Advisor is a registered investment adviser under the Investment Advisers Act of 1940 (the Advisers Act) and a subsidiary of OFSAM

Our relationship with OFS Advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. OFS Advisor provides us with advisory services in exchange for a base management fee and incentive fee; see Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus. The base management fee is based on our total assets (other than cash and cash equivalents) which consist of cash and highly liquid investments not held for resale with original maturities of three months or less, and the intangible asset and goodwill resulting from the limited partnership interests in SBIC I LP and membership interests in SBIC I GP (the SBIC Acquisitions); but including assets purchased with borrowed amounts, and including assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is

S-3

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## TABLE OF CONTENTS

charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance.

OFS Advisor has entered into a Staffing Agreement (the "Staffing Agreement") with Orchard First Source Capital, Inc. ("OFSC") a wholly-owned subsidiary of OFSAM. Under the Staffing Agreement, OFSC makes experienced investment professionals available to OFS Advisor and provides access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment adviser, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

OFS Advisor capitalizes on the deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFS's professionals. The senior management team of OFS, including Bilal Rashid, Jeff Cerny and Mark Hauser, provides services to OFS Advisor. These managers have developed a broad network of contacts within the investment community, averaging over 20 years of experience investing in debt and equity securities of middle-market companies. In addition, these managers have gained extensive experience investing in assets that will constitute our primary focus and have expertise in investing across all levels of the capital structure of middle-market companies.

## **Our Administrator**

OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and recordkeeping services at such facilities. OFS Services oversees our financial reporting as well as prepares our reports to shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. OFS Services also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services may retain third parties to assist in providing administrative services to us. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions on a direct basis without incremental profit to OFS Services.

## **Market Opportunity**

Our investment strategy is focused primarily on investments in middle-market companies in the United States. We find the middle-market attractive for the following reasons:

**Large Target Market.** According to the U.S. Census Bureau in its 2012 economic census, there were approximately 197,000 companies in the United States with annual revenues between \$10 million and \$2.5 billion, compared with approximately 1,300 companies with revenues greater than \$2.5 billion. 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 vast bulk of OFS's portfolio companies since its inception, and constituted the vast bulk of our portfolio as of December 31, 2016. We believe that this market segment will continue to produce significant investment opportunities for us.

***Specialized Lending Requirements with High Barriers to Entry.*** We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to private middle-market companies in the United States (a) is generally more labor-intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (b) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market and (c) may also require more extensive ongoing monitoring by the lender. As a result, middle-market companies historically have been

S-4

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TABLE OF CONTENTS

served by a limited segment of the lending community. As a result of the unique challenges facing lenders to middle-market companies, there are high barriers to entry that a new lender must overcome.

***Robust Demand for Debt Capital.*** We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. Subject to market conditions, we expect the large amount of unfunded buyout commitments will drive demand for leveraged buyouts over the next several years, which should, in turn, create leveraged lending opportunities for us.

## **Competitive Strengths and Core Competencies**

***Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure.*** We are managed by OFS Advisor, which has access through the Staffing Agreement with OFSC to the resources and expertise of OFS's investment professionals. As of December 31, 2016, OFS's credit and investment professionals (including all investment committee members) employed by OFSC had an average of over 15 years of investment experience with strong institutional backgrounds.

***Significant Investment Capacity.*** The net proceeds of equity and debt offerings and borrowing capacity under our credit facilities, will provide us with a substantial amount of capital available for deployment into new investment opportunities in our targeted asset class.

***Scalable Infrastructure Supporting the Entire Investment Cycle.*** We believe that our loan acquisition, origination and sourcing, underwriting, administration and management platform is highly scalable (that is, it can be expanded on a cost efficient basis within a timeframe that meets the demands of business growth). Our platform extends beyond origination and sourcing and includes a regimented credit monitoring system. We believe that our careful approach, which involves ongoing review and analysis by an experienced team of professionals, should enable us to identify problems early and to assist borrowers before they face difficult liquidity constraints.

***Extensive Loan Sourcing Capabilities.*** OFS Advisor gives us access to the deal flow of OFS. We believe OFS's 20-year history as a middle-market lending platform and its market position make it a leading lender to many sponsors and other deal sources, especially in the currently under-served lending environment, and we have extensive relationships with potential borrowers and other lenders.

***Structuring with a High Level of Service and Operational Orientation.*** We provide client-specific and creative financing structures to our portfolio companies. Based on our experience in lending to and investing in middle-market companies, we believe that the middle-market companies we target, as well as sponsor groups we may pursue, require a higher level of service, creativity and knowledge than has historically been provided by other service providers more accustomed to participating in commodity-like loan transactions.

***Rigorous Credit Analysis and Approval Procedures.*** OFS Advisor utilizes the established, disciplined investment process of OFS for reviewing lending opportunities, structuring transactions and monitoring investments. Using OFS's disciplined approach to lending, OFS Advisor seeks to minimize credit losses through effective underwriting, comprehensive due diligence investigations, structuring and, where appropriate, the implementation of restrictive debt covenants.

## **Investments**

We pursue an investment strategy focused primarily on investments in middle-market companies in the United States.

We focus on investments in loans, in which OFS Advisor's investment professionals have expertise, including investments in first-lien, unitranche, second-lien, and mezzanine loans and, to a lesser extent, on warrants and other equity securities. We seek to create a diverse portfolio by making investments in the securities of middle-market companies that we expect to range generally from \$3.0 million to \$25.0 million each, although we expect this investment size will vary proportionately with the size of our capital base.

## **Competition**

Our primary competitors include public and private funds, other BDCs, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater

S-5

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## TABLE OF CONTENTS

financial, technical, and marketing resources than we do. Some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Further, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC, or to the distribution and other requirements we must satisfy to maintain our RIC status.

We expect to continue to use the expertise of the investment professionals of OFS and its affiliates to which we have access, to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we expect that the relationships of the senior members of OFS and its affiliates will enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see Risk Factors Risks Related to our Business and Structure We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses in this prospectus supplement and the accompanying prospectus.

## **Conflicts of Interests**

Subject to certain 1940 Act restrictions on co-investments with affiliates, OFS Advisor will offer us the right to participate in investment opportunities that it determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors. Such offers will be subject to the exception that, in accordance with OFS Advisor's allocation policy, we might not participate in each individual opportunity but will, on an overall basis, be entitled to participate fairly and equitably with other entities managed by OFS Advisor and its affiliates.

To the extent that we compete with entities managed by OFS Advisor or any of its affiliates for a particular investment opportunity, OFS Advisor will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) its internal allocation policy, (b) the requirements of the Advisers Act, and (c) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates. OFS Advisor's allocation policy is intended to ensure that we may generally share fairly and equitably with other investment funds or other investment vehicles managed by OFS Advisor or its affiliates in investment opportunities that OFS Advisor determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors, particularly those involving a security with limited supply or involving differing classes of securities of the same issuer that may be suitable for us and such other investment funds or other investment vehicles. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

suitability/priority of a particular investment for the investment vehicles;

if applicable, the targeted position size of the investment for the investment vehicles;

level of available cash for investment with respect to the investment vehicles;

total amount of funds committed to the investment vehicles; and

the age of the investment vehicles and the remaining term of their respective investment periods, if any.

In situations where co-investment with such other accounts is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, OFS Advisor will need to decide which account will

proceed with the investment. The decision by OFS Advisor to allocate an opportunity to

S-6

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TABLE OF CONTENTS

another entity could cause us to forego an investment opportunity that we otherwise would have made. See Related-Party Transactions and Certain Relationships in the accompanying prospectus.

## Summary of Risk Factors

The value of our assets, as well as the market price of our shares, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in our securities. Investing in our securities involves other risks, including the following:

### Risks Related to Our Business and Structure

Global capital markets could enter a period of severe disruption and instability. These conditions have historically affected and could again materially and adversely affect debt and equity capital markets in the United States and around the world and our business.

We may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our shareholders.

We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates.

Our business model depends to a significant extent upon strong referral relationships with financial institutions, sponsors and investment professionals. Any inability of OFS Advisor to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

Our financial condition and results of operation will depend on our ability to manage our business effectively. We have potential conflicts of interest related to obligations that OFS Advisor or its affiliates may have to other clients.

Our independent directors may face conflicts of interest related to their obligations to the affiliated BDC for which they also serve as independent directors.

Members of the Advisor Investment Committees, OFS Advisor or its affiliates may, from time to time, possess material non-public information, limiting our investment discretion.

To the extent PIK interest and PIK dividends constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

The valuation process for certain of our portfolio holdings may create a conflict of interest.

We may have additional conflicts related to other arrangements with OFS Advisor or its affiliates.

The Investment Advisory Agreement with OFS Advisor and the Administration Agreement with OFS Services were not negotiated on an arm's length basis and may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.

SBA regulations limit the outstanding dollar amount of SBA guaranteed debenture funding that may be received by an SBIC or group of SBICs under common control.

SBIC I LP is subject to SBA regulations.

We finance our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Changes in interest rates will affect our cost of capital and net investment income.

We may enter into reverse repurchase agreements, which are another form of leverage.

S-7





TABLE OF CONTENTS

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.

We may suffer credit losses.

We will be subject to corporate-level federal income tax if we are unable to maintain our qualification as a RIC. Our subsidiaries and portfolio companies may be unable to make distributions to us that will enable us to meet RIC requirements, which could result in the imposition of an entity-level tax.

We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.

We may in the future choose to pay dividends in our own stock, in which case shareholders may be required to pay tax in excess of the cash they receive.

Because we expect to distribute substantially all of our net investment income and net realized capital gains to our shareholders, we may need additional capital to finance our growth and such capital may not be available on favorable terms or at all.

The PWB Credit Facility contains various covenants and restrictions which, if not complied with, could accelerate our repayment obligations under the credit facility or limit its use, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

Adverse developments in the credit markets may impair our ability to secure debt financing.

Terrorist attacks, acts of war or natural disasters may impact the businesses in which we invest and harm our business, operating results and financial condition.

The failure in cybersecurity systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.

Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments.

We may experience fluctuations in our quarterly operating results.

Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could have a material adverse effect on our, and our portfolio companies', business, results of operations or financial condition.

The effect of global climate change may impact the operations of our portfolio companies.

Proposed legislation may allow us to incur additional leverage.

Loss of status as a RIC would reduce our net asset value and distributable income.

Our board of directors may change our investment objective, operating policies and strategies without prior notice or shareholder approval.

OFS Advisor can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

S-8

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## TABLE OF CONTENTS

OFS Services can resign from its role as our Administrator under the Administration Agreement, and we may not be able to find a suitable replacement, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

We incur significant costs as a result of being a publicly traded company.

Efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ) involve significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act may adversely affect us and the market price of our securities.

We have identified a material weakness in our internal control over financial reporting and our business and stock price may be adversely affected if we have not adequately addressed the weakness.

Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.

## **Risks Related to BDCs**

Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital. As a BDC, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage.

Our ability to invest in public companies may be limited in certain circumstances.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to continue to qualify as a BDC or be precluded from investing according to our current business strategy.

## **Risks Related to Our Investments**

Economic recessions or downturns could impair our portfolio companies and harm our operating results. Our investments in the debt instruments of leveraged portfolio companies may be risky and, due to the significant volatility of such companies, we could lose all or part of our investment in bankruptcy proceedings or otherwise.

Our investments in leveraged portfolio companies may be risky, and we could lose all or part of their investment. Our investments in lower credit quality obligations are risky and highly speculative, and we could lose all or part of our investment.

Our investments in private and middle-market portfolio companies are generally considered lower credit quality obligations, are risky, and we could lose all or part of our investment.

Investments in equity securities involve a substantial degree of risk.

Our equity ownership in a portfolio company may represent a control investment. Our ability to exit a control investment in a timely manner could result in a realized loss on the investment.

We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.

The lack of liquidity in our investments may adversely affect our business.

Price declines and illiquidity in the corporate debt markets may adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.

We are a non-diversified management investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

S-9

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TABLE OF CONTENTS

Our portfolio may be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio. Because we generally do not hold controlling equity interests in our portfolio companies, we may not be able to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.

Defaults by our portfolio companies will harm our operating results.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies. If we make subordinated investments, the obligors or the portfolio companies may not generate sufficient cash flow to service their debt obligations to us.

The disposition of our investments may result in contingent liabilities.

Our base management fee may induce OFS Advisor to cause us to incur leverage.

Our incentive fee may induce OFS Advisor to make certain investments, including speculative investments. Our Incentive fee structure may create incentives for OFS Advisor that are not fully aligned with the interests of our shareholders.

We may pay an incentive fee on income we do not receive in cash.

OFS Advisor's liability is limited under the Investment Advisory Agreement, and we have agreed to indemnify OFS Advisor against certain liabilities, which may lead OFS Advisor to act in a riskier manner on our behalf than it would when acting for its own account.

We may be subject to additional risks if we engage in hedging transactions and/or invest in foreign securities.

Our ability to enter into transactions involving derivatives and financial commitment transactions may be limited.

We may not realize gains from our equity investments.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of any portfolio of LIBOR-indexed, floating-rate debt securities.

## **Risks Related to Our Securities**

There is a risk that shareholders may not receive distributions or that our distributions may not grow over time and a portion of our distributions may be a return of capital.

The market price of our common stock may fluctuate significantly.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our common stock may trade below its net asset value per share, which limits our ability to raise additional equity capital.

S-10

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TABLE OF CONTENTS

**General Information**

Our principal executive offices are located at 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, and our telephone number is (847) 734-2000. Information contained in our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. This information is available at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, at [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

S-11

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TABLE OF CONTENTS

**THE OFFERING**

Nasdaq Global Select Market Symbol

OFS

Common stock offered by us

3,500,000 shares of our common stock. We have granted the underwriters the option to purchase up to an additional 525,000 shares on the same terms within 30 days of the date of this prospectus.

Common stock outstanding prior to this offering

9,700,297 shares

Common stock to be outstanding after this offering<sup>(1)</sup>

13,200,297 shares

Use of proceeds

The net proceeds from this offering (without exercise of the underwriters' option to purchase additional shares and before deducting estimated expenses payable by us of approximately \$350,000) will be \$ . Our Advisor has agreed to pay all of the sales load to the underwriters of approximately \$ million, or \$ per share (or approximately \$ million, or \$ per share if the option to purchase additional shares is fully exercised), which will not be subject to reimbursement by us. All other expenses of the offering will be borne by us.

We intend to use the net proceeds of this offering for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus supplement and for general working capital purposes, including to temporarily repay indebtedness (which will be subject to re-borrowing), and other working capital needs. We will also pay operating expenses, including advisory and administrative fees and expenses, and may pay other expenses such as due diligence expenses of potential new investments, from the net proceeds of this offering.

Investment advisory fee

We pay the Advisor a fee for its services under the Investment Advisory Agreement 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% of the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), adjusted for stock issuances and stock purchases, at the end of the two most recently completed calendar quarters. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of our Pre-Incentive Fee Adjusted Net Investment Income for the immediately preceding quarter, subject to a preferred return , or hurdle , and a catch-up feature each described in the Investment Advisory Agreement. The second part will be determined and payable) is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and our aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of

S-12

TABLE OF CONTENTS

Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year. See Management and Other Agreements in the accompanying prospectus.

Administration

OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities, and performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. Additionally, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our shareholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services also provides managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. We pay OFS Services based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent, information technology, and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary, and their respective staffs. For the year ended December 31, 2016, we paid OFS Services \$1.3 million under the Administration Agreement. See Management and Other Agreements in the accompanying prospectus.

Dividends and distributions

We pay quarterly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our board of directors. Our ability to declare distributions depends on our earnings, our overall financial condition (including our liquidity position), qualification for or maintenance of our RIC tax treatment, and such other factors as our board of directors may deem relevant from time to time.

When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings, recognized capital gains, or capital. To the extent there is a return of capital, investors will be required to reduce their basis in our stock for U.S. federal income tax purposes. In the future, our distributions may include a return of capital. See Price Range of Common Stock and Distributions in this prospectus supplement and the accompanying prospectus.

Lock-up agreements

We, along with OFSAM and certain of our executive officers and directors, have entered into lock-up agreements with the representatives of the underwriters. Under these agreements, subject to certain exceptions, we and each of these persons have agreed not to, without the prior consent of Morgan Stanley & Co. LLC and UBS Securities, sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of our common stock, enter into any swap or other arrangement that transfers to another, in whole or in part, any of the

S-13

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TABLE OF CONTENTS

economic consequences of ownership of common stock, or file any registration statement with the SEC relating to the offering of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock. These restrictions will be in effect for a period of 90 days after the date of this prospectus supplement. At any time and without public notice, Morgan Stanley & Co. LLC and UBS Securities may in its sole discretion release some or all of the securities from these lock-up agreements.

**Taxation**

We have elected to be treated as a RIC for U.S. federal income tax purposes. Accordingly, we generally will not pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders. To maintain our tax treatment as a RIC and the associated tax benefits, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our realized net ordinary income and realized net short-term capital gains, if any, in excess of our net long-term capital losses. See

Price Range of Common Stock and Distributions and Material Federal Income Tax Considerations in this prospectus supplement, and Price Range of Common Stock and Distributions and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

**Distribution reinvestment plan**

We have adopted an opt out dividend reinvestment plan. If your shares of common stock are registered in your own name, your distributions will automatically be reinvested under our dividend reinvestment plan in additional whole and fractional shares of common stock, unless you opt out of our dividend reinvestment plan so as to receive cash dividends by delivering a written notice to our dividend paying agent. If your shares are held in the name of a broker or other nominee, you should contact the broker or nominee for details regarding opting out of our dividend reinvestment plan. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See Distribution Reinvestment Plan in the accompanying prospectus.

**Trading at a discount**

Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. As of March 28, 2017, our common stock closed at \$15.22, a 2.69% premium to our net asset value of \$14.82 as of December 31, 2016. See Risk Factors in this prospectus supplement and the accompanying prospectus.

**Leverage**

As of March 28, 2017, we had an aggregate of \$154.4 million of debt outstanding, including \$4.5 million outstanding under our \$25.0 million PWB Facility and SBA debentures of \$149.5 million. We may seek additional forms of leverage and borrow funds to make investments, including before we have fully invested the proceeds of this offering. As a result, we will be exposed to the risks of leverage, which may be considered a speculative investment technique. The use of leverage magnifies the potential for loss on amounts invested and therefore increases the risks associated with investing in our

S-14

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TABLE OF CONTENTS

securities. The costs associated with our borrowings are borne by our common stockholders. See **Risk Factors** in this prospectus supplement and the accompanying prospectus.

**Certain anti-takeover provisions**

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See **Description of Our Capital Stock** in the accompanying prospectus.

**Risk Factors**

See **Risk Factors** in this prospectus supplement, and the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our common stock.

**Available Information**

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. This information is available at the SEC's public reference room at 100 F Street, NE, Washington, District of Columbia 20549 and on the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. The information also is available free of charge by contacting us at OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606, or by calling us at (847) 734-2000 or on our website at [www.ofscapital.com](http://www.ofscapital.com). Information contained on our website or on the SEC's website about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

(1) The number of shares of common stock to be outstanding after this offering excludes 525,000 shares of common stock that the underwriters have an option to purchase.

TABLE OF CONTENTS**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear, directly or indirectly, based on the assumptions set forth below. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by you, us, we, or the Company will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in OFS Capital Corporation. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

**Stockholder transaction expenses:**

Sales load borne by us (as a percentage of offering price)	% <sup>(1)</sup>
Offering expenses borne by us (as a percentage of offering price)	% <sup>(2)</sup>
Dividend reinvestment plan fees	% <sup>(3)</sup>
<b>Total Stockholder transaction expenses (as a percentage of offering price)</b>	%

**Annual expenses (as a percentage of net assets attributable to common stock):**

Base Management fees payable under the Investment Advisory Agreement	3.14 % <sup>(4)</sup>
Incentive fees payable under the Investment Advisory Agreement	2.41 % <sup>(5)</sup>
Interest payments on borrowed funds	3.99 % <sup>(6)</sup>
Other expenses	2.64 % <sup>(7)</sup>
Acquired fund fees and expenses	% <sup>(8)(9)</sup>
<b>Total annual expenses</b>	12.18 %

(1) Our Advisor has agreed to pay all of our underwriting discounts and commissions (sales load), which is not reflected in the above table. We are not obligated to repay the sales load paid by OFS Advisor.

(2) The offering expenses of this offering are estimated to be approximately \$350,000.

(3) The *de minimis* expenses of the dividend reinvestment plan are included in other expenses.

Our base management fee is 1.75% of the average value of our total assets (other than cash and cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisitions; but including assets purchased with borrowed amounts, and including assets owned by any consolidated entity). This item represents actual base management fees incurred for the year ended December 31, 2016. We may from time to time decide it is

(4) appropriate to change the terms of the agreement. Under the 1940 Act, any material change to our Investment Advisory Agreement must be submitted to shareholders for approval. See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus. The 3.14% fee reflected in the table is calculated by determining the ratio that the base management fee bears to our net assets attributable to common stock (rather than our total assets).

Assumes a Part One and Part Two incentive fee, as defined below, of \$3.4 million and \$0, respectively. The Part One incentive fee was calculated based on our statement of operations for the year ended December 31, 2016. The (5) actual Part Two incentive fee was \$(139,000) for the year ended December 31, 2016, which represented the reversal of the Part Two incentive fee accrued at December 31, 2015.

The incentive fee consists of two parts:

The first ( Part One ), payable quarterly in arrears, equals 20.0% of our pre-incentive fee net investment income for the immediately preceding calendar quarter, subject to a 2.0% quarterly (8.0% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor

receives no incentive fee until our pre-incentive fee net investment income equals the hurdle rate of 2.0% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. 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 our pre-incentive fee net investment income as if a hurdle rate did not apply.

S-16

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TABLE OF CONTENTS

The hurdle rate is fixed at 2.0% quarterly (8% annualized), which means that, if interest rates rise, it will be easier for our pre-incentive fee net investment income to surpass the hurdle rate, which could lead to the payment of fees to OFS Advisor in an amount greater than expected. There is no accumulation of amounts on the hurdle rate from quarter to quarter and accordingly there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle rate and there is no delay of payment if prior quarters are below the quarterly hurdle rate.

The second part ( Part Two ), payable annually in arrears, equals 20.0% of our realized capital gains on a cumulative basis, if any (or upon the termination of the Investment Advisory Agreement, as of the termination date), computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The incentive fee is determined on a consolidated basis. We accrue the Part Two incentive fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. See Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus.

Interest payments on borrowed funds represents an estimate of our annualized interest expenses on our SBA debentures and our expected interest expense under the PWB Credit Facility over the next twelve months. At December 31, 2016, we had \$149.9 million of SBA debentures outstanding with an effective interest rate of 3.42%, (6) which includes amortization of deferred debt issuance costs. At December 31, 2016, we had \$9.5 million outstanding the PWB Credit Facility with an effective interest rate of 6.14%, which includes amortization of deferred debt issuance costs and unused fees. For purposes of this calculation, we have assumed the December 31, 2016 amounts outstanding under the SBA debentures and PWB Credit Facility.

We may borrow additional funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. We do not expect to issue any preferred stock during the next twelve months and, therefore, have not included the cost of issuing and servicing preferred stock in the table. In January 2015, we filed an application with the SBA for a second SBIC license, which, if approved, would provide up to \$75.0 million in additional SBA debentures for the funding of our future investments upon our contribution of at least \$37.5 million in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and other customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA. Availability under the PWB Credit Facility as of December 31, 2016 was \$15.5 million based on the stated advance rate of 50% under the borrowing base. Our stockholders will bear directly or indirectly the costs of borrowings under any debt instruments we may enter into.

(7) Includes our overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by OFS Services. See Management and Other Agreements Administration Agreement in the accompanying prospectus. These expenses are based on estimated amounts for the current fiscal year.

(8) Our shareholders indirectly bear the expenses of underlying funds or other investment vehicles that would be investment companies under section 3(a) of the 1940 Act but for the exceptions to that definition provided for in sections 3(c)(1) and 3(c)(7) of the 1940 Act ( Acquired Funds ) in which we invest. We do not currently invest in underlying funds or other investment companies.

(9)

Estimated.

S-17

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TABLE OF CONTENTS

## Example

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our borrowings and annual operating expenses would remain at the levels set forth in the table above. See Note 6 above for additional information regarding certain assumptions regarding our level of leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return	\$ 93	\$ 265	\$ 420	\$ 744

While the example assumes, as required by the applicable rules of the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Management Agreement, which, assuming a 5.0% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the above example. The above illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and returns to our investors would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return	\$ 102	\$ 289	\$ 454	\$ 787

The example assumes a sales load borne by us of 0%. In addition, while the examples assume reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date. The market price per share of our common stock may be at, above or below net asset value. See Distribution Reinvestment Plan in the accompanying prospectus for additional information regarding the dividend reinvestment plan.

**The example should not be considered a representation of future expenses, and actual expenses may be greater or less than those shown.**

TABLE OF CONTENTS**SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The following selected financial and other data for the years ended December 31, 2016, 2015, and 2014 are derived from our consolidated financial statements that have been audited by BDO USA, LLP, our independent auditors.

Selected financial and other data for the year ended December 31, 2013, the period November 8, 2012 through December 31, 2012, and the period January 1, 2012 through November 7, 2012 are derived from our consolidated financial statements that have been audited by RSM US LLP, previously our independent auditors. The data should be read in conjunction with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in this prospectus supplement (amounts in thousands, except per share data):

	Post-IPO as a Business Development Company				Pre-IPO Prior to becoming a Business Development Company		
	For the Years Ended December 31,				For the Period November 8, 2012 through December 31, 2012	For the Period January 1, 2012 through November 7, 2012	For the Year Ended December 31, 2012 <sup>(1)</sup>
	2016	2015	2014	2013			
<b>Statement of Operations Data:</b>							
Total investment income	\$31,094	\$32,264	\$22,820	\$17,070	\$2,593	\$10,839	\$13,432
Total expenses	16,949	18,853	13,685	11,352	1,932	7,405	9,337
Net investment income	14,145	13,411	9,135	5,718	661	3,434	4,095
Net realized gain (loss) on non-control/non-affiliate investments	2,387	(3,033 )	199	87		(1,112 )	(1,112 )
Net realized gain on affiliate investment	17	1,471	28				
Net realized loss on control investment			(3,586 )				
Realized gain from SBIC Acquisitions				2,742			
Net change in unrealized appreciation/depreciation on non-control/ non-affiliate investments	(6,699 )	5,099	534	367	(222 )	161	(61 )
	3,341	1,283	1,880	511	(41 )		(41 )

Net change in unrealized appreciation/depreciation on affiliate investments							
Net change in unrealized depreciation on control investment	637		1,750	(1,750 )			
Other income prior to becoming a business development company						3,113	3,113
Cumulative effect of accounting change					(348 )	570	222
Extraordinary gain (loss)					873	(873 )	
Net increase in net assets resulting from operations	13,828	18,231	9,940	7,675	923	5,293	6,216
<b>Per share data:</b>							
Net asset value	\$ 14.82	\$ 14.76	\$ 14.24	\$ 14.58	\$ 14.80	N/A	N/A
Net investment income	1.46	1.39	0.95	0.59	0.07	N/A	N/A
Net realized gain (loss) on non-control/non-affiliate investments	0.25	(0.31 )	0.02	0.01		N/A	N/A
Net realized gain on affiliate investment		0.14				N/A	N/A
Net realized loss on control investment			(0.37 )			N/A	N/A
Realized gain from SBIC Acquisitions				0.29		N/A	N/A
Net change in unrealized appreciation/depreciation on non-control/ non-affiliate investments	(0.69 )	0.53	0.05	0.04	(0.02 )	N/A	N/A
Net change in unrealized appreciation/depreciation on affiliate investments	0.33	0.13	0.19	0.05		N/A	N/A
Net change in unrealized depreciation on control investment	0.07		0.18	(0.18 )		N/A	N/A
Net increase in net assets resulting from operations	1.43	1.89	1.03	0.80	0.10	N/A	N/A
Distributions declared <sup>(2)</sup>	1.36	1.36	1.36	1.02	0.17	N/A	N/A

S-19

TABLE OF CONTENTS

	Post-IPO as a Business Development Company					Pre-IPO Prior to becoming a Business Development Company	
	For the Years Ended December 31,					For the Period For the Year Ended	
	2016	2015	2014	2013	For the Period November 8, 2012 through December 31, 2012	For the Period January 1, 2012 through November 7, 2012	For the Year Ended December 31, 2012 <sup>(1)</sup>
<b>Balance sheet data at period end:</b>							
Investments, at fair value	\$281,627	\$257,296	\$312,234	\$237,919	\$232,199	N/A	\$232,199
Cash and cash equivalents	17,659	32,714	12,447	28,569	8,270	N/A	8,270
Restricted cash and cash equivalents				450	623	N/A	623
Other assets	5,744	4,666 <sup>(3)</sup>	11,823 <sup>(3)</sup>	9,106 <sup>(3)</sup>	1618 <sup>(3)</sup>	N/A	1618 <sup>(3)</sup>
Total assets	305,030	294,676 <sup>(3)</sup>	336,504 <sup>(3)</sup>	276,044 <sup>(3)</sup>	242,710 <sup>(3)</sup>	N/A	242,710 <sup>(3)</sup>
Debt	156,343	146,460 <sup>(3)</sup>	194,935 <sup>(3)</sup>	131,912 <sup>(3)</sup>	96,385 <sup>(3)</sup>	N/A	96,385 <sup>(3)</sup>
Total liabilities	161,252	151,664 <sup>(3)</sup>	199,033 <sup>(3)</sup>	135,666 <sup>(3)</sup>	100,911 <sup>(3)</sup>	N/A	100,911 <sup>(3)</sup>
Total net assets	143,778	143,012	137,471	140,378	141,799	N/A	141,799
<b>Other data (unaudited):</b>							
Weighted average annualized yield on income producing debt investments at cost	12.08 %	11.89 %	9.53 %	8.35 %	N/A	N/A	7.49 %
Weighted average annualized yield on income producing debt investments at fair value	12.30 %	12.10 %	9.56 %	8.53 %	N/A	N/A	7.64 %
Number of portfolio companies at period end	41	39	62	58	59	N/A	59

(1) The consolidated statement of operations for the year ended December 31, 2012 included the Company's Pre-IPO and Post-IPO operations during 2012.

The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. The return of capital portion of these distributions as of December 31, 2016, 2015, 2014, and 2013 (which includes the period December 8, 2012 to December 31, 2012), was \$0.09, \$0.23, \$0.72, and \$0.40.

On January 1, 2016, we adopted Accounting Standards Update (ASU) 2015-03 which requires that debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability rather than as an asset. Adoption of ASU 2015-03 requires the changes to be applied retrospectively.





TABLE OF CONTENTS

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

In addition to factors identified elsewhere in this prospectus supplement and the accompanying prospectus, including the **Risks Factors** section of this prospectus supplement and the accompanying prospectus, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our investment adviser;
  - the impact of increased competition;
  - the impact of future acquisitions and divestitures;
  - the unfavorable resolution of legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or OFS Advisor;
- the ability of OFS Advisor to identify suitable investments for us and to monitor and administer our investments;
  - our contractual arrangements and relationships with third parties;
  - any future financings by us, including a second SBIC license;
- the ability of OFS Advisor to attract and retain highly talented professionals;
  - fluctuations in foreign currency exchange rates; and
  - the impact of changes to tax legislation and, generally, our tax position.

This prospectus supplement and the accompanying prospectus, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations.

Forward-looking statements are typically identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, potential, outlook, maintain, sustain, seek, achieve and similar expressions, or future or conditional verbs such as will, would, could, may or similar expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act or Section 21E of the Exchange Act. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

S-21

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TABLE OF CONTENTS

## RISK FACTORS

*Investing in our common stock involves a number of significant risks. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.*

### **Risks Related to Our Business and Structure**

**Global capital markets could enter a period of severe disruption and instability. These conditions have historically affected and could again materially and adversely affect debt and equity capital markets in the United States and around the world and our business.**

The current worldwide financial market situation, as well as various social and political tensions in the U.S. and around the world, may contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause economic uncertainties or deterioration in the United States and worldwide. The U.S. and global capital markets experienced extreme volatility and disruption during the economic downturn that began in mid-2007, and the U.S. economy was in a recession for several consecutive calendar quarters during the same period. In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt, which created concerns about the ability of certain nations to continue to service their sovereign debt obligations. Risks resulting from such debt crisis, including any austerity measures taken in exchange for bailout of certain nations, and any future debt crisis in Europe or any similar crisis elsewhere could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in certain countries and the financial condition of financial institutions generally. In June 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union ( Brexit ), and, accordingly, on February 1, 2017, the U.K.

Parliament voted in favor of allowing the U.K. government to begin the formal process of Brexit. Brexit created political and economic uncertainty and instability in the global markets (including currency and credit markets), and especially in the United Kingdom and the European Union, and this uncertainty and instability may last indefinitely. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In addition, the fiscal and monetary policies of foreign nations, such as Russia and China, may have a severe impact on the worldwide and U.S. financial markets.

Additionally, as a result of the 2016 U.S. election, the Republican Party currently controls both the executive and legislative branches of government, which increases the likelihood that legislation may be adopted that could significantly affect the regulation of U.S. financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Act and the authority of the Federal Reserve and the Financial Stability Oversight Council. The United States may also potentially withdraw from or renegotiate various trade agreements and take other actions that would change current trade policies of the United States. We cannot predict which, if any, of these actions will be taken or, if taken, their effect on the financial stability of the United States. Such actions could have a significant adverse effect on our business, financial condition and results of operations. We cannot predict the effects of these or

similar events in the future on the U.S. economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

S-22

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TABLE OF CONTENTS

**We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates.**

We do not have any internal management capacity or employees. We will depend on the diligence, skill and network of business contacts of the OFS senior professionals to achieve our investment objective. Our future success will depend, to a significant extent, on the continued service and coordination of the OFS senior management team, particularly Bilal Rashid, Senior Managing Director and President of OFSC, Jeffrey Cerny, Senior Managing Director and Treasurer of OFSC and Mark Hauser, Senior Managing Director of OFSC. Each of these individuals is an employee at will of OFSC and, with the exception of Mr. Hauser, is not subject to an employment contract. In addition, we rely on the services of Richard Ressler, Chairman of the executive committee of OFSAM and Chairman of OFS Advisor's Pre-Allocation Investment Committee, CLO Investment Committee and Middle-Market Investment Committee (the Middle-Market Investment Committee, and collectively, the Advisor Investment Committees), pursuant to a consulting agreement with Orchard Capital Corporation. The departure of Mr. Ressler or any of the senior managers of OFSC, or of a significant number of its other investment professionals, could have a material adverse effect on our ability to achieve our investment objective.

We expect that OFS Advisor will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the Investment Advisory Agreement. We can offer no assurance, however, that OFS senior professionals will continue to provide investment advice to us. If these individuals do not maintain their existing relationships with OFS and its affiliates and do not develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio or achieve our investment objective. In addition, individuals with whom the OFS senior professionals have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that such relationships will generate investment opportunities for us.

OFS Advisor is a subsidiary of OFSAM that has no employees and depends upon access to the investment professionals and other resources of OFS and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. OFS Advisor also depends upon OFS to obtain access to deal flow generated by the professionals of OFS and its affiliates. Under a Staffing Agreement between OFSC, a subsidiary of OFSAM that employs OFS's personnel, and OFS Advisor, OFSC has agreed to provide OFS Advisor with the resources necessary to fulfill these obligations.

The Staffing Agreement provides that OFSC will make available to OFS Advisor experienced investment professionals and access to the senior investment personnel of OFSC for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. We are not a party to this Staffing Agreement and cannot assure shareholders that OFSC will fulfill its obligations under the agreement. If OFSC fails to perform, we cannot assure shareholders that OFS Advisor will enforce the Staffing Agreement or that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of OFSC and its affiliates or their information and deal flow.

The investment committees that oversee our investment activities are provided by OFS Advisor under the Investment Advisory Agreement. The loss of any member of the Advisor Investment Committees or of other OFS senior professionals could limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition and results of operation.

**Our business model depends to a significant extent upon strong referral relationships with financial institutions, sponsors and investment professionals. Any inability of OFS Advisor to maintain or develop these**

We are dependent upon the OFS senior professionals for our future success and upon their access to the investment

**relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.**

We depend upon OFS Advisor to maintain relationships with financial institutions, sponsors and investment professionals, and we will continue to rely to a significant extent upon these relationships to provide us with potential investment opportunities. If OFS Advisor fails to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the principals of OFS Advisor have relationships are not obligated to provide us with investment opportunities, and, therefore, we can offer no assurance that these relationships will generate investment opportunities for us in the future.

S-23

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TABLE OF CONTENTS

**Our financial condition and results of operation will depend on our ability to manage our business effectively.**

Our ability to achieve our investment objective and grow will depend on our ability to manage our business. This will depend, in turn, on the ability of the Advisor Investment Committees to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon the execution by the Advisor Investment Committees to execute our investment process, their ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms.

OFS Advisor will have substantial responsibilities under the Investment Advisory Agreement. The OFS Advisor's senior professionals and other personnel of OFS Advisor's affiliates, including OFSC, may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment.

Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

**We have potential conflicts of interest related to obligations that OFS Advisor or its affiliates may have to other clients.**

OFS Advisor and its affiliates manage other assets, including those of other BDCs and CLO funds, and may manage other entities in the future, and these other funds and entities may have similar or overlapping investment strategies. Our executive officers, directors and members of the Advisor Investment Committees serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds or other investment vehicles managed by OFS Advisor or its affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our or our shareholders' best interests or may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. For example, OFS Advisor currently serves as the investment adviser to Hancock Park Corporate Income, Inc. ( HPCI ), a non-traded BDC, that invests in senior secured loans of middle-market companies in the United States, similar to those we target for investment, including first-lien, second-lien and unitranche loans as well as subordinated loans and, to a lesser extent, warrants and other equity securities. Therefore, many investment opportunities will satisfy the investment criteria for both HPCI and us. HPCI operates as a distinct and separate entity and any investment in our common stock will not be an investment in HPCI. In addition, our executive officers and certain of our independent directors serve in substantially similar capacities for HPCI. Similarly, OFS Advisor and/or its affiliates may have other clients with, similar, different or competing investment objectives. In serving in these multiple capacities, our executive officers and directors, OFS Advisor and/or its affiliates, and members of the Advisor Investment Committee may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our shareholders.

OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy. Under this allocation policy, if OFS Advisor is actively seeking investments for two or more investment vehicles with similar or overlapping investment strategies, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities under law or in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, under law or set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

Our financial condition and results of operation will depend on our ability to manage our business effectively.

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suitability/priority of a particular investment for the investment vehicles;  
if applicable, the targeted position size of the investment for the investment vehicles;  
level of available cash for investment with respect to the investment vehicles;

S-24

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TABLE OF CONTENTS

total amount of funds committed to the investment vehicles; and  
the age of the investment vehicles and the remaining term of their respective investment periods, if any.  
Application of one or more of the factors listed above may result in the allocation of an investment opportunity to HPCI or any other investment vehicle advised by OFS Advisor over us.

OFS Advisor and OFSAM have both subjective and objective procedures and policies in place designed to manage the potential conflicts of interest between OFS Advisor's fiduciary obligations to us and its fiduciary obligations to other clients. For example, such policies and procedures are designed to ensure that investment opportunities are allocated in a fair and equitable manner among us and other clients of OFS Advisor. An investment opportunity that is suitable for clients of OFS Advisor may not be capable of being shared among some or all of such clients due to the limited scale of the opportunity or other factors, including regulatory restrictions imposed by the 1940 Act.

There can be no assurance that we will be able to participate in all investment opportunities that are suitable to us.

**Our independent directors may face conflicts of interest related to their obligations to the affiliated BDC for which they also serve as independent directors.**

The independent directors of our board of directors also comprise the independent directors of the board of directors of HPCI, an affiliated BDC that is also managed by OFS Advisor. In their capacities as directors for a BDC board, the independent directors have a duty to make decisions on behalf of that BDC that are in the best interests of that BDC and its shareholders. Accordingly, our independent directors may face conflicts of interest when making a decision on behalf of one BDC that may not be in the best interest of the other BDC. For example, the SEC has granted exemptive relief to us, OFS Advisor, HPCI, and certain other of our affiliates to co-invest in certain transactions that would otherwise be prohibited by the 1940 Act. In accordance with that relief, the independent directors must make certain findings on behalf of each BDC with respect to initial co-investment transactions, including that the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to the BDC and its shareholders and do not involve overreaching in respect of the BDC or its shareholders on the part of any of the other participants in the proposed transaction. Under such circumstances, the independent directors may face conflicts of interest when making these determinations on behalf of us and HPCI.

**Members of the Advisor Investment Committees, OFS Advisor or its affiliates may, from time to time, possess material non-public information, limiting our investment discretion.**

OFS senior professionals and members of the Advisor Investment Committees may serve as directors of, or in a similar capacity with, companies in which we invest, the securities of which are purchased or sold on our behalf. In the event that material nonpublic information is obtained with respect to such companies, or we become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or selling the securities of such companies, and this prohibition may have an adverse effect on us and our shareholders.

**To the extent PIK interest and PIK dividends constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to**

Our independent directors may face conflicts of interest related to their obligations to the affiliated BDC for which they

**receipt of cash representing such income.**

Our investments may include contractual PIK interest or PIK dividends, which represents contractual interest or dividends added to a loan balance or equity security and due at the end of such loan's or equity security's term. To the extent PIK interest and PIK dividends constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash.

Such risks include:

The higher interest or dividend rates of PIK instruments reflect the payment deferral and increased risk associated with these instruments, and PIK instruments often represent a significantly higher risk than non-PIK instruments.

S-25

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TABLE OF CONTENTS

Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.

PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK income may also create uncertainty about the source of our cash distributions.

For accounting purposes, any cash distributions to shareholders representing PIK income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. As a result, despite the fact that a distribution representing PIK income could be paid out of amounts invested by our shareholders, the 1940 Act does not require that shareholders be given notice of this fact by reporting it as a return of capital.

PIK interest or dividends have the effect of generating investment income at a compounding rate, thereby further increasing the incentive fees payable to OFS Advisor. Similarly, all things being equal, the deferral associated with PIK interest or dividends also decreases the investment principal-to-value ratio at a compounding rate.

**The valuation process for certain of our portfolio holdings may create a conflict of interest.**

Many of our portfolio investments are made in the form of securities that are not publicly traded. As a result, our board of directors will determine the fair value of these securities in good faith as described below in Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments. In connection with that determination, investment professionals from OFS Advisor may provide our board of directors with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. In addition, the members of our board of directors who are not independent directors have a substantial indirect pecuniary interest in OFS Advisor. The participation of the OFS Advisor's investment professionals in our valuation process, and the indirect pecuniary interest in OFS Advisor by those members of our board of directors, could result in a conflict of interest since OFS Advisor's management fee is based, in part, on our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity).

**We may have additional conflicts related to other arrangements with OFS Advisor or its affiliates.**

We have entered into a license agreement with OFSAM under which OFSAM has granted us a non-exclusive, royalty-free license to use the name OFS. See Management and Other Agreements License Agreement, in the accompanying prospectus. In addition, we rent office space from a subsidiary of OFSAM and pay to that subsidiary our allocable portion of overhead and other expenses incurred in performing its obligations under the Administration Agreement, such as rent and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer and chief accounting officer. This will create conflicts of interest that our board of directors must monitor.

**The Investment Advisory Agreement with the OFS Advisor and the Administration Agreement with OFS Services were not negotiated on an arm's length basis and may not be as favorable to us as if they had been negotiated with an unaffiliated third party.**

The Investment Advisory Agreement and the Administration Agreement were negotiated between related parties. Consequently, their terms, including fees payable to OFS Advisor, may not be as favorable to us as if they had been

negotiated with an unaffiliated third party. In addition, we could choose not to enforce, or to enforce less vigorously, our rights and remedies under these agreements because of our desire to maintain our ongoing relationship with OFS Advisor, OFS Services and their respective affiliates. Any such decision, however, would breach our fiduciary obligations to our shareholders.

S-26

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TABLE OF CONTENTS

**Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.**

BDCs generally are prohibited under the 1940 Act from knowingly participating in certain transactions with their affiliates without the prior approval of their independent directors and, in some cases, of the SEC. Those transactions include purchases and sales, and so-called joint transactions, in which a BDC and one or more of its affiliates engage in certain types of profit-making activities. Any person that owns, directly or indirectly, five percent or more of a BDC's outstanding voting securities will be considered an affiliate of the BDC for purposes of the 1940 Act, and a BDC generally is prohibited from engaging in purchases or sales of assets or joint transactions with such affiliates, absent the prior approval of the BDC's independent directors. Additionally, without the approval of the SEC, a BDC is prohibited from engaging in purchases or sales of assets or joint transactions with the BDC's officers, directors, and employees, and advisor (and its affiliates).

BDCs may, however, invest alongside certain related parties or their respective other clients in certain circumstances where doing so is consistent with current law and SEC staff interpretations. For example, a BDC may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that the BDC's advisor, acting on the BDC's behalf and on behalf of other clients, negotiates no term other than price.

Co-investment with such other accounts is not permitted or appropriate under this guidance when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between the BDC's interests and those of other accounts. Moreover, except in certain circumstances, this guidance does not permit a BDC to invest in any issuer in which the advisor or other affiliates has previously invested.

On October 12, 2016, we received exemptive relief from the SEC to permit us to co-invest in portfolio companies with certain other funds managed by OFS Advisor ( Affiliated Funds ) provided we comply with the Order. Pursuant to the Order, we are generally permitted to co-invest with Affiliated Funds if a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our shareholders and do not involve overreaching by us or our shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies.

When we invest alongside OFSAM and its affiliates or their respective other clients, OFS Advisor will, to the extent consistent with applicable law, regulatory guidance, or the Order, allocate investment opportunities in accordance with its allocation policy. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

suitability/priority of a particular investment for the investment vehicles;

if applicable, the targeted position size of the investment for the investment vehicles;

level of available cash for investment with respect to the investment vehicles;

Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.

total amount of funds committed to the investment vehicles; and  
the age of the investment vehicles and the remaining term of their respective investment periods, if any.

S-27

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TABLE OF CONTENTS

In situations where co-investment with other accounts is not permitted or appropriate, OFS Advisor will need to decide which account will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. These restrictions, and similar restrictions that limit our ability to transact business with our officers or directors or their affiliates, may limit the scope of investment opportunities that would otherwise be available to us.

**SBA regulations limit the outstanding dollar amount of SBA guaranteed debenture funding that may be received by an SBIC or group of SBICs under common control.**

SBA regulations currently limit the amount that an SBIC may borrow to 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 debentures cannot exceed \$350 million.

We cannot presently predict whether or not we will borrow the maximum permitted amount; if we reach the maximum dollar amount of SBA guaranteed debentures permitted, and thereafter require additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, SBIC I LP's status as an SBIC does not automatically assure that it will receive SBA guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon whether SBIC I LP is and continues to be in compliance with SBA regulations and policies and whether funding is available. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by SBIC I LP. As of December 31, 2016, we had fully funded our \$75.0 million commitment to SBIC I LP. As of December 31, 2016, SBIC I LP had leverage commitments of approximately \$149.9 million from the SBA, and \$149.9 million of outstanding SBA-guaranteed debentures, leaving no incremental borrowing capacity under present SBA regulations. In January 2015, we filed an application with the SBA for a second SBIC license, which, if approved, would provide up to \$75.0 million in additional SBA debentures for the funding of our future investments upon our contribution of at least \$37.5 million in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and other customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA.

**SBIC I LP is subject to SBA regulations.**

Our investment strategy includes SBIC I LP, which is regulated by the SBA. On December 4, 2013, we acquired the remaining limited and general partnership interests of SBIC I LP that we did not already own, which resulted in SBIC I LP becoming our wholly-owned subsidiary.

The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of leverage commitments by the SBA and other customary procedures. Prior to becoming our wholly-owned subsidiary, SBIC I LP had received \$67.3 million in SBA leverage commitments. In July 2014, we funded the remaining \$13.6 million of our \$75 million commitment to SBIC I LP. As of December 31, 2016, SBIC I LP had leverage commitments of approximately \$149.9 million from the SBA, and \$149.9 million of outstanding SBA-guaranteed debentures, leaving no incremental borrowing capacity under present SBA regulations.

SBA regulations limit the outstanding dollar amount of SBA guaranteed debenture funding that may be received by

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant 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 its use of debentures, declare outstanding debentures immediately due and payable, and/or limit its ability to make new investments. The SBA, as a creditor, will have a superior claim to SBIC I LP's assets over SBIC I LP's limited partners and our shareholders in the event SBIC I LP is liquidated or the SBA exercises its remedies under the SBA debentures issued by SBIC I LP in the event of a default. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision

S-28

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TABLE OF CONTENTS

of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because of our ownership interest in SBIC I LP.

The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits an SBIC from providing funds to small businesses for certain purposes, such as relending, real estate or investing in companies outside of the United States, and providing funds to businesses engaged in a few prohibited industries and to certain passive (i.e., non-operating) companies. In addition, without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC's regulatory capital in any one company and its affiliates. Compliance with SBIC requirements may cause SBIC I LP to forego attractive investment opportunities that are not permitted under SBA regulations.

SBIC I LP is subject to ongoing regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. In addition, SBIC I LP may also be limited in its ability to make distributions to us if it does not have sufficient accumulated net profit, in accordance with SBA regulations. These requirements may make it more difficult for us to achieve our investment objective.

**We finance our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.**

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. We may pledge up to 100% of our assets and may grant a security interest in all of our assets, other than assets held in SBIC I LP and our ownership interest in SBIC I LP and SBIC I GP, under the terms of any debt instruments we may enter into with lenders. In addition, under the terms of any credit facility or other debt instrument we enter into, we are likely to be required by its terms to use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged, thereby magnifying losses or eliminating our equity stake in a leveraged investment. Similarly, any decrease in our revenue or income will cause our net income to decline more sharply than it would have had we not borrowed. Such a decline would also negatively affect our ability to make dividend payments on our common stock or preferred stock. Our ability to service our debt will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, because the management fee payable to OFS Advisor is payable based on our total assets (other than cash and cash equivalents and goodwill and intangible assets related to the SBIC Acquisitions but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), OFS Advisor will have a financial incentive to incur leverage which may not be consistent with our shareholders' interests. In addition, our common shareholders will bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the management fee payable to OFS Advisor.

As a BDC, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage ratio for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of December

**We finance our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested**

31, 2016, our asset coverage ratio was greater than 1,000%, excluding the debt held by SBIC I LP.

S-29

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TABLE OF CONTENTS

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to common stockholder <sup>(1)</sup>	(24)%	(14)%	(4)%	6%	16%

Assumes \$281.6 million in investments at fair value, \$159.4 million in debt outstanding, \$142.0 million in net (1) assets and an average cost of funds of 3.6%. Assumptions are based on our financial condition and our average cost of funds at December 31, 2016.

Based on our outstanding indebtedness of \$159.4 million as of December 31, 2016 and the average cost of funds of 3.6% as of that date, our investment portfolio must experience an annual return of at least 2.0% to cover interest payments on the outstanding debt.

This example is for illustrative purposes only, and actual interest rates on our borrowings are likely to fluctuate. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Borrowings for additional information.

### **Changes in interest rates will affect our cost of capital and net investment income.**

To the extent we borrow money or issue preferred stock to make investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds or pay dividends on preferred stock and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

A rise in the general level of interest rates typically leads to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates may result in an increase of the amount of incentive fees payable to OFS Advisor.

### **We may enter into reverse repurchase agreements, which are another form of leverage.**

We may enter into reverse repurchase agreements as part of our management of our temporary investment portfolio. Under a reverse repurchase agreement, we will effectively pledge our assets as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the fair value of the pledged collateral. At the maturity of the reverse repurchase agreement, we will be required to repay the loan and correspondingly receive back our collateral. While used as collateral, the assets continue to pay principal and interest which are for the benefit of us.

Our use of reverse repurchase agreements, if any, involves many of the same risks involved in our use of leverage, as the proceeds from reverse repurchase agreements generally will be invested in additional securities. There is a risk that the market value of the securities acquired in the reverse repurchase agreement may decline below the price of the securities that we have sold but remain obligated to purchase. In addition, there is a risk that the market value of the securities retained by us may decline. If a buyer of securities under a reverse repurchase agreement were to file for bankruptcy or experience insolvency, we may be adversely affected. Also, in entering into reverse repurchase agreements, we would bear the risk of loss to the extent that the proceeds of such agreements at settlement are less than the fair value of the underlying securities being pledged. In addition, due to the interest costs associated with reverse repurchase agreements transactions, our net asset value would decline, and, in some cases, we may be worse off than if we had not used such instruments.

S-30

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TABLE OF CONTENTS

**We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.**

Preferred stock, which is another form of leverage, has the same risks to our common shareholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common shareholders, and preferred shareholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

**We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.**

A number of entities compete with us to make the types of investments that we plan to make. We will compete with public and private funds, other BDCs, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some of our competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or the source of income, asset diversification and distribution requirements we must satisfy to maintain our RIC tax treatment. These characteristics could allow our competitors to consider a wider variety of instruments, establish more relationships and offer better pricing and more flexible structuring than we are able to. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objective.

With respect to the investments we make, we will not seek to compete based primarily on the interest rates we will offer, and we believe that some of our competitors may make loans with interest rates that will be lower than the rates we offer. In the secondary market for acquiring existing loans, we expect to compete generally on the basis of pricing terms. With respect to all investments, we may lose some investment opportunities if we do not match our competitors pricing, terms and structure. However, if we match our competitors pricing, terms and structure, we may experience decreased net interest income, lower yields and increased risk of credit loss. We may also compete for investment opportunities with OFSAM and its other affiliates or accounts managed by OFSAM or one of its other affiliates. Although OFS Advisor will allocate opportunities in accordance with its policies and procedures, allocations to such other accounts will reduce the amount and frequency of opportunities available to us and may not be in the best interests of us and our shareholders. Moreover, the performance of investments will not be known at the time of allocation.

**We may suffer credit losses.**

Investment in middle-market companies is highly speculative and involves a high degree of risk of credit loss, and therefore our securities may not be suitable for someone with a low tolerance for risk. These risks are likely to increase during volatile economic periods, such as the U.S. and many other economies have recently been experiencing.

**We will be subject to corporate-level federal income tax if we are unable to maintain our qualification as a RIC.**

We have elected to be treated as a RIC under Subchapter M of the Code, but no assurance can be given that we will be able to maintain RIC status. As a RIC, we are not required to pay corporate-level federal income taxes on our income and capital gains distributed (or deemed distributed) to our shareholders. To continue to qualify for tax treatment as a RIC under the Code and to be relieved of federal taxes on income and gains distributed to our shareholders, we must meet certain source-of-income, asset diversification and distribution requirements. The distribution requirement for a RIC is satisfied if we distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to

S-31

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TABLE OF CONTENTS

our shareholders on an annual basis. We will be subject, to the extent we use debt financing or preferred stock, to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements or preferred stock that could, under certain circumstances, restrict us from making distributions necessary to qualify for tax treatment as a RIC. If we are unable to obtain cash from other sources, we may fail to maintain our qualification for the tax benefits available to RICs and, thus, may be subject to corporate-level federal income tax. To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private or thinly traded public companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to continue to qualify for tax treatment as a RIC for any reason and become subject to corporate-level federal income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distributions to shareholders and the amount of our distributions and the amount of funds available for new investments. Such a failure would have a material adverse effect on us and our shareholders. See **Material Federal Income Tax Considerations** **Taxation as a RIC** in this prospectus supplement.

**Our subsidiaries and portfolio companies may be unable to make distributions to us that will enable us to meet RIC requirements, which could result in the imposition of an entity-level tax.**

In order for us to maintain our tax treatment as a RIC and to minimize corporate-level taxes, we are required to distribute on an annual basis substantially all of our taxable income, which includes income from our subsidiaries and portfolio companies. As a substantial portion of our investments are made through SBIC I LP, we are significantly dependent on that entity for cash distributions to enable us to meet the RIC distribution requirements. SBIC I LP may be limited by the Small Business Investment Act of 1958 and SBA regulations governing SBICs from making certain distributions to us that may be necessary to enable us to continue to qualify as a RIC. We may have to request a waiver of the SBA's restrictions for SBIC I LP to make certain distributions to maintain our tax treatment as a RIC and we cannot assure shareholders that the SBA will grant such waiver. If our subsidiaries and portfolio companies are unable to make distributions to us, this may result in loss of RIC tax treatment and a consequent imposition of a corporate-level federal income tax on us.

**We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.**

For U.S. federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as the accretion of OID. This may arise if we purchase assets at a discount, receive warrants in connection with the making of a loan or in other circumstances, or through contracted PIK interest or dividends (meaning interest or dividends paid in the form of additional principal amount of the loan or equity security instead of in cash), which represents contractual interest or dividends added to the loan balance or equity security and due at the end of the investment term. Such OID, which could be significant relative to our overall investment activities, or increases in loan or equity investment balances as a result of contracted PIK arrangements, will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to maintain the tax benefits available to RICs. In such a

Our subsidiaries and portfolio companies may be unable to make distributions to us that will enable us to meet RIC

case, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations and sourcings to meet these distribution requirements. If we sell built-in-gain assets, we may be required to recognize taxable income in respect of the built-in-gain on such assets. In such a case, we would have to distribute all of our taxable gain (including the built-in-gain) in respect of such sale to avoid the imposition of entity-level tax on such gain. If we are not able to obtain such cash from other sources, we may fail to maintain the tax benefits available to RICs and thus be subject to corporate-level income tax. See **Material Federal Income Tax Considerations – Taxation as a RIC** in this prospectus supplement.

S-32

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TABLE OF CONTENTS

**We may in the future choose to pay dividends in our own stock, in which case shareholders may be required to pay tax in excess of the cash they receive.**

We distribute taxable dividends that are payable in cash or shares of our common stock at the election of each shareholder. Under certain applicable provisions of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of shareholders are treated as taxable dividends. The Internal Revenue Service has issued private rulings indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 20% of the total distribution. Under these rulings, if too many shareholders elect to receive their distributions in cash, each such shareholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If we decide to make any distributions consistent with these rulings that are payable in part in our stock, taxable shareholders receiving such dividends will be required to include the full amount of the dividend (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. shareholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. shareholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. shareholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our shareholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

**Because we expect to distribute substantially all of our net investment income and net realized capital gains to our shareholders, we may need additional capital to finance our growth and such capital may not be available on favorable terms or at all.**

We have elected to be taxed for federal income tax purposes as a RIC under Subchapter M of the Code. If we meet certain requirements, including source of income, asset diversification and distribution requirements, and if we continue to qualify as a BDC, we will continue to qualify for tax treatment as RIC under the Code and will not have to pay corporate-level taxes on income we distribute to our shareholders as dividends, allowing us to substantially reduce or eliminate our corporate-level tax liability. As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200% at the time we issue any debt or preferred stock. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt or preferred stock and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure investors that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue common stock priced below net asset value without shareholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

**The PWB Credit Facility contains various covenants and restrictions which, if not complied with, could accelerate our repayment obligations under the credit facility or limit its use, thereby materially and adversely affecting our**

We may in the future choose to pay dividends in our own stock, in which case shareholders may be required to pay

**liquidity, financial condition, results of operations and ability to pay distributions.**

The PWB Credit Facility provides us with a senior secured revolving line of credit of up to \$25.0 million, with maximum availability equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base and otherwise specified in the credit agreement. The PWB Credit Facility is guaranteed by our subsidiary OFS Capital WM, LLC ( OFS Capital WM ) and secured by all of our current and future assets excluding assets held by SBIC I LP and our SBIC I LP and SBIC I GP partnership interests. The PWB Credit Facility 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

S-33

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TABLE OF CONTENTS

coverage test. The PWB Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in any 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. The PWB Credit Facility permits us to fund additional investments as long as we are within the conditions set out in the credit agreement. Our continued compliance with these covenants depends on many factors, some of which are beyond our control, and there are no assurances that we will continue to comply with these covenants. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders. We had \$9.5 million outstanding under the PWB Credit Facility as of December 31, 2016. Availability under the PWB Credit Facility as of December 31, 2016 was \$15.5 million based on the stated advance rate of 50% under the borrowing base.

**Adverse developments in the credit markets may impair our ability to secure debt financing.**

During the economic downturn in the United States that began in mid-2007, many commercial banks and other financial institutions stopped lending or significantly curtailed their lending activity. In addition, in an effort to stem losses and reduce their exposure to segments of the economy deemed to be high risk, some financial institutions limited routine refinancing and loan modification transactions and even reviewed the terms of existing facilities to identify bases for accelerating the maturity of existing lending facilities. As a result, it may be difficult for us to obtain desired financing to finance the growth of our investments on acceptable economic terms, or at all.

If we are unable to consummate credit facilities on commercially reasonable terms, our liquidity may be reduced significantly. If we are unable to repay amounts outstanding under any facility we may enter into and are declared in default or are unable to renew or refinance any such facility, it would limit our ability to initiate significant originations or to operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as inaccessibility of the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we are unable to predict when economic and market conditions may become more favorable. Even if such conditions improve broadly and significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

**Terrorist attacks, acts of war or natural disasters may impact the businesses in which we invest and harm our business, operating results and financial condition.**

Terrorist acts, acts of war or natural disasters may disrupt our operations, as well as the operations of the businesses in which we invest. Such acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

**The failure in cybersecurity systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.**

The occurrence of a disaster such as a cyberattack, a natural catastrophe, an industrial accident, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyberattacks and

S-34

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TABLE OF CONTENTS

unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

Third parties with whom we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as customer, counterparty, employee and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss, exposure or destruction of data, or other cybersecurity incidents, with increased costs and other consequences, including those described above.

**Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments.**

Many of our portfolio investments take the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these securities at fair value as determined in good faith by our board of directors, including to reflect significant events affecting the value of our securities. All of our investments (other than cash and cash equivalents) are classified as Level 3 under Accounting Standards Codification Topic 820, Fair Value Measurement and Disclosures (ASC Topic 820). This means that our portfolio valuations are based on unobservable inputs and our own assumptions about how market participants would price the asset or liability in question. Inputs into the determination of fair value of our portfolio investments require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimers materially reduces the reliability of such information. We presently retain the services of two independent service providers to review the valuation of these securities at least annually.

The types of factors that the board of directors takes into account in determining the fair value of our investments generally include, as appropriate, comparison to third-party yield benchmarks and comparison to publicly traded securities including such factors as yield, maturity and measures of credit quality, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flow, the markets in which the portfolio company does business and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

We adjust quarterly the valuation of our portfolio to reflect our board of directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of income as net change in unrealized appreciation or depreciation.

**We may experience fluctuations in our quarterly operating results.**

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, distributions from our subsidiaries and portfolio companies, the degree to which we encounter competition in our markets and general economic conditions. In light of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

S-35

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TABLE OF CONTENTS

**Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could have a material adverse effect on our, and our portfolio companies , business, results of operations or financial condition.**

We and our portfolio companies are subject to regulation by laws at the U.S. federal, state and local levels, including those that govern BDCs, SBICs, RICs, or non-depository commercial lenders. These laws and regulations, including applicable accounting standards, as well as their interpretation, may change from time to time, and new laws, regulations, accounting standards and interpretations may also come into effect. Any such new or changed laws or regulations could have a material adverse effect on our business.

We are also subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. If we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and may be subject to civil fines and criminal penalties.

In addition, changes to the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy, including making investments in entities such as OFS Capital WM and SBIC I LP, in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this prospectus supplement and our accounting practices described in this prospectus supplement, and may shift our investment focus from the areas of expertise of OFS Advisor to other types of investments in which OFS Advisor may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of a shareholder s investment.

Over the last several years, there has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new or different regulation. While it cannot be known at this time whether these regulations will be implemented or what form they will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

**The effect of global climate change may impact the operations of our portfolio companies.**

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions. In December 2015, the United Nations, of which the U.S. is a member, adopted a climate accord

(the Paris Agreement ) with the long-term goal of limiting global warming and the short-term goal of significantly reducing greenhouse gas emissions. The U.S. subsequently ratified the Paris Agreement, and it entered into force on November 4, 2016. As a result, some of our portfolio companies may become subject to new or strengthened regulations or legislation which could increase their operating costs and/or decrease their revenues.

### **Proposed legislation may allow us to incur additional leverage.**

In prior Congresses, legislation was introduced in the U.S. House of Representatives that was intended to revise certain regulations applicable to BDCs. The legislation provided for (i) increasing the amount of funds BDCs may borrow by reducing asset to debt limitations from 2:1 to 3:2, (ii) permitting BDCs to file

S-36

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TABLE OF CONTENTS

registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment advisor subsidiaries. There are no assurances as to when the legislation will be introduced or enacted by current Congress, if at all, or, if enacted, what final form the legislation would take. To the extent this or similar legislation was enacted, it might permit us to incur additional leveraging which would subject us to additional risks.

**Loss of status as a RIC would reduce our net asset value and distributable income.**

We have qualified as a RIC under the Code. As a RIC we do not have to pay federal income taxes on our income (including realized gains) that we distribute to our shareholders, provided that we satisfy certain distribution and other requirements. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. If we fail to qualify for RIC status in any year, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value and the amount potentially available for distribution. In addition, if we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, we would have to establish appropriate reserves for taxes that we would have to pay on behalf of shareholders. It is possible that establishing reserves for taxes could have a material adverse effect on the value of our common stock. See **Material Federal Income Tax Considerations Taxation as a RIC** in this prospectus supplement.

**Our board of directors may change our investment objective, operating policies and strategies without prior notice or shareholder approval.**

Our board of directors has the authority, except as otherwise provided in the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without shareholder approval. However, absent shareholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. Under Delaware law, we also cannot be dissolved without prior shareholder approval except by judicial action. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the price value of our common stock. Nevertheless, any such changes could adversely affect our business and impair our ability to make distributions.

**OFS Advisor can resign on 60 days notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.**

OFS Advisor has the right, under the Investment Advisory Agreement, to resign at any time upon not less than 60 days written notice, whether we have found a replacement or not. If OFS Advisor resigns, we may not be able to find a new investment advisor or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the value of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the OFS Advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of

such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

**OFS Services can resign from its role as our Administrator under the Administration Agreement, and we may not be able to find a suitable replacement, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.**

OFS Services has the right to resign under the Administration Agreement, whether we have found a replacement or not. If OFS Services resigns, we may not be able to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial

S-37

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TABLE OF CONTENTS

condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the value of our shares may decline. In addition, the coordination of our internal management and administrative activities is likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by OFS Services. Even if we are able to retain a comparable service provider or individuals to perform such services, whether internal or external, their integration into our business and lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

**We incur significant costs as a result of being a publicly traded company.**

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act and other rules implemented by the SEC.

**Efforts to comply with Section 404 of the Sarbanes-Oxley Act involve significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act may adversely affect us and the market price of our securities.**

Under current SEC rules, beginning with our fiscal year ended December 31, 2013, we have been required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and related rules and regulations of the SEC. We are required to review our internal control over financial reporting on an annual basis, and evaluate and disclose changes in our internal control over financial reporting on a quarterly and annual basis.

As a result, we expect to continue to incur additional expenses that may negatively impact our financial performance and our ability to make distributions. This process also results in a diversion of management's time and attention. In the event that we are unable to maintain compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and the market price of our securities may be adversely affected.

**We have identified a material weakness in our internal control over financial reporting and our business and stock price may be adversely affected if we have not adequately addressed the weakness.**

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations.

As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2016, management identified a material weakness related to design and effectiveness of controls over certain key assumptions and underlying data used in our investment valuations.

The identification of this material weakness did not require a material fourth quarter 2016 adjustment or impact any of our consolidated financial statements for any prior annual or interim periods.

We believe that the audited consolidated financial statements included in this prospectus supplement are accurate. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

**Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.**

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. While the capital markets have improved, these conditions could

S-38

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## TABLE OF CONTENTS

deteriorate again in the future. During such market disruptions, we may have difficulty raising debt or equity capital, especially as a result of regulatory constraints.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

Various social and political tensions in the United States and around the world, including in the Middle East, Eastern Europe and Russia, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Several European Union ( EU ) countries, including Greece, Ireland, Italy, Spain, and Portugal, continue to face budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is also continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. The recent United States and global economic downturn, or a return to the recessionary period in the United States, could adversely impact our investments. We cannot predict the duration of the effects related to these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

## **Risks Related to BDCs**

**Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital. As a BDC, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage.**

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted as a BDC to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. If the value of our assets decline, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common shareholders. If we issue senior securities, we will be exposed to typical risks associated with leverage, including an increased risk of loss.

As of December 31, 2016, we had debt outstanding in the amount of \$159.4 million. Our ability to incur additional debt and remain in compliance with the asset coverage test will be limited. We may seek an additional credit facility to finance investments or for working capital requirements. There can be no assurance that we will be able to obtain

Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will

such financing on favorable terms or at all. We have received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from our definition of senior securities in our statutory 200% asset coverage ratio under the 1940 Act.

If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred shareholders would have separate voting rights on certain matters and might have other rights, preferences or privileges more favorable than those of our common shareholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in our shareholders' best interest. Holders of our common stock will directly or indirectly bear all of the costs associated with offering and servicing any preferred stock that we issue. In addition, any interests of preferred shareholders may not necessarily align with the interests of holders of our common stock and the rights of holders of shares of

S-39

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TABLE OF CONTENTS

preferred stock to receive dividends would be senior to those of holders of shares of our common stock. We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in the best interests of us and our shareholders, and if our shareholders approve any such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our shareholders at that time will decrease, and our shareholders might experience dilution.

**Our ability to invest in public companies may be limited in certain circumstances.**

To maintain our status as a BDC, we are not permitted to acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our assets, as defined by the 1940 Act, are qualifying assets (with certain limited exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as a qualifying asset only if such issuer has a common equity market capitalization that is less than \$250 million at the time of such investment and meets the other specified requirements.

**If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to continue to qualify as a BDC or be precluded from investing according to our current business strategy.**

As a BDC, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our assets, as defined by the 1940 Act, are qualifying assets. See Regulation in the accompanying prospectus.

We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If a sufficient portion of our assets are not qualifying assets, we could violate the 1940 Act provisions applicable to BDCs. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition and results of operations.

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end fund, we would be subject to substantially more regulatory restrictions under the 1940 Act which would significantly decrease our operating flexibility.

## **Risks Related to Our Investments**

### **Economic recessions or downturns could impair our portfolio companies and harm our operating results.**

Many of our portfolio companies are susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets, which could

S-40

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TABLE OF CONTENTS

trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, lenders in certain cases can be subject to lender liability claims for actions taken by them when they become too involved in the borrower's business or exercise control over a borrower. It is possible that we could become subject to a lender liability claim, including as a result of actions taken if we render significant managerial assistance to the borrower. Furthermore, if one of our portfolio companies were to file for bankruptcy protection, even though we may have structured our investment as senior secured debt, depending on the facts and circumstances, including the extent to which we provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to claims of other creditors.

**Our investments in the debt instruments of leveraged portfolio companies may be risky and, due to the significant volatility of such companies, we could lose all or part of our investment in bankruptcy proceedings or otherwise.**

Investment in leveraged companies involves a number of significant risks. Leveraged companies in which we invest may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold due to the significant volatility of such companies. Negative developments may be accompanied by deterioration of the value of any collateral and a reduction in the likelihood of our realizing any guarantees that we may have obtained in connection with our investment. Such developments may ultimately result in the leveraged companies in which we invest entering into bankruptcy proceedings, which have a number of inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial. In addition, since our mezzanine loans are generally subordinated to senior loans and are generally unsecured, other creditors may rank senior to us in the event of a bankruptcy proceeding.

**Our investments in private and middle-market portfolio companies are generally considered lower credit quality obligations, are risky, and we could lose all or part of our investment.**

Investment in private and middle-market companies involves a number of significant risks. Generally, little public information exists about these companies, and we rely on the ability of OFS Advisor's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Middle-market companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees we may have obtained in

connection with our investment. Such companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns.

Middle-market companies are more likely to be considered lower grade investments, commonly called junk bonds, which are either rated below investment grade by one or more nationally-recognized statistical rating agencies at the time of investment, or may be unrated but determined by the OFS Advisor to be of

S-41

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TABLE OF CONTENTS

comparable quality. Lower grade securities or comparable unrated securities are considered predominantly speculative regarding the issuer's ability to pay interest and principal, and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for lower grade debt tend to be very volatile and are less liquid than investment grade securities. For these reasons, an investment in our company is subject to the following specific risks: increased price sensitivity to a deteriorating economic environment; greater risk of loss due to default or declining credit quality; adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and if a negative perception of the lower grade debt market develops, the price and liquidity of lower grade securities may be depressed. This negative perception could last for a significant period of time.

Additionally, middle-market companies are more likely to depend on the management talents and efforts of a small group of persons. Therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us. Middle-market companies also may be parties to litigation and may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence. In addition, our executive officers, directors and OFS Advisor may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

**Investments in equity securities involve a substantial degree of risk.**

We have purchased, and may purchase in the future, common stock and other equity securities, including warrants, in various portfolio companies. Although equity securities historically have generated higher average total returns than debt securities over the long term, equity securities may experience more volatility in those returns than debt securities. The equity securities we acquire may fail to appreciate, decline in value or lose all value, and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including the risk of further dilution in the event the portfolio company issues additional securities. Investments in preferred securities involve special risks, such as the risk of deferred distributions, illiquidity and limited voting rights.

**Our equity ownership in a portfolio company may represent a control investment. Our ability to exit a control investment in a timely manner could result in a realized loss on the investment.**

If we obtain a control investment in a portfolio company, our ability to divest ourselves from a debt or equity investment could be restricted due to illiquidity in a private stock, limited trading volume on a public company's stock, inside information on a company's performance, insider blackout periods, or other factors that could prohibit us from disposing of the investment as we would if it were not a control investment. Additionally, we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

**We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.**

We will at times take a security interest in the available assets of our portfolio companies, including the equity interests of their subsidiaries and, in some cases, the equity interests of our portfolio companies held by their shareholders. In the event of a default by a portfolio company on a secured loan, we will only have recourse to the

assets collateralizing the loan. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success or deterioration of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. Additionally, in the case of certain of our investments, we do not have a first lien position on the collateral and may not receive the full value of the collateral upon liquidation. If the underlying collateral value is less than the loan amount, we will suffer a loss.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt

S-42

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TABLE OF CONTENTS

senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of inter-creditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through standstill periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company's ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer a loss which may adversely impact our financial performance.

**The lack of liquidity in our investments may adversely affect our business.**

All of our assets are presently invested in illiquid securities, and a substantial portion of our investments in leveraged companies is subject to legal and other restrictions on resale or is otherwise less liquid than more broadly traded public securities. The illiquidity of these investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded these investments. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, OFS Advisor, OFSAM or any of its other affiliates have material nonpublic information regarding such portfolio company.

**Price declines and illiquidity in the corporate debt markets may adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.**

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

- a comparison of the portfolio company's securities to publicly traded securities;
- the enterprise value of a portfolio company;
- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments and its earnings and discounted cash flow;
- the markets in which the portfolio company does business; and

changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we will use the pricing indicated by the external event to corroborate our valuation. We will record decreases in the market values or fair values of our investments as unrealized depreciation. Declines in prices and liquidity in the corporate debt markets may result in significant net unrealized depreciation in our portfolio. The effect of all of these factors on our portfolio may reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse effect on our business, financial condition and results of operations.



TABLE OF CONTENTS

**We are a non-diversified management investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.**

We are classified as a non-diversified management investment company within the meaning of the 1940 Act, which means that we will not be limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our asset diversification requirements as a RIC under the Code, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

**Our portfolio may be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.**

Although we believe our portfolio is well-diversified across companies and industries, our portfolio is and may in the future be concentrated in a limited number of portfolio companies and industries. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code, we do not have fixed guidelines for diversification. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, while we are not targeting any specific industries, our investments may be concentrated in relatively few industries. As a result, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

**Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.**

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in seeking to:

increase or maintain in whole or in part our position as a creditor or equity ownership percentage in a portfolio company;

exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or  
preserve or enhance the value of our investment.

We have discretion to make follow-on investments, subject to the availability of capital resources. Failure on our part to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our level of risk, because we prefer other opportunities or because we are inhibited by compliance with BDC requirements or the desire to maintain our RIC status. Our ability to make follow-on investments may also be limited by OFS Advisor's allocation policy.

**Because we generally do not hold controlling equity interests in our portfolio companies, we may not be able to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.**

We generally do not hold controlling equity positions in our portfolio companies. For portfolio companies in which we do not hold a controlling equity interest, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or shareholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to

S-44

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TABLE OF CONTENTS

dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

**Defaults by our portfolio companies will harm our operating results.**

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize such portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

**Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.**

We have invested a substantial portion of our capital in senior secured, unitranche, second-lien and mezzanine loans issued by our portfolio companies. The portfolio companies may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Additionally, certain loans that we make to portfolio companies may be secured on a second-priority basis by the same collateral securing first-priority debt of such companies. The senior-secured liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the portfolio company under the agreements governing the loans. The holders of obligations secured by first-priority liens on the collateral will generally control the liquidation of, and be entitled to receive proceeds from, any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second-priority liens after payment in full of all obligations secured by the first-priority liens on the collateral. If such proceeds were not sufficient to repay amounts outstanding under the loan obligations secured by the second-priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, would only have an unsecured claim against the portfolio company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with more senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of such senior debt. Under a typical intercreditor agreement, at any time that obligations that have the benefit of the first-priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first-priority liens:

the ability to cause the commencement of enforcement proceedings against the collateral;

the ability to control the conduct of such proceedings;  
the approval of amendments to collateral documents;  
releases of liens on the collateral; and  
waivers of past defaults under collateral documents.

S-45

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TABLE OF CONTENTS

We may not have the ability to control or direct such actions, even if our rights are adversely affected.

We may also make unsecured loans to portfolio companies, meaning that such loans will not benefit from any interest in collateral of such companies. Liens on such portfolio companies' collateral, if any, will secure the portfolio company's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the portfolio company under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before us. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy our unsecured loan obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then our unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the portfolio company's remaining assets, if any.

**If we make subordinated investments, the obligors or the portfolio companies may not generate sufficient cash flow to service their debt obligations to us.**

We make subordinated investments that rank below other obligations of the obligor in right of payment. Subordinated investments are subject to greater risk of default than senior obligations as a result of adverse changes in the financial condition of the obligor or in general economic conditions. If we make a subordinated investment in a portfolio company, the portfolio company may be highly leveraged, and its relatively high debt-to-equity ratio may create increased risks that its operations might not generate sufficient cash flow to service all of its debt obligations.

**The disposition of our investments may result in contingent liabilities.**

A significant portion of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate, or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

**Our base management fee may induce OFS Advisor to cause us to incur leverage.**

Our base management fee is payable based upon our total assets, other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity. This fee structure may encourage OFS Advisor to cause us to borrow money to finance additional investments. Under certain circumstances, the use of borrowed money may increase the likelihood of default, which would disfavor holders of our common stock. Given the subjective nature of the investment decisions made by OFS Advisor on our behalf, our board of directors may not be able to monitor this potential conflict of interest effectively.

**Our incentive fee may induce OFS Advisor to make certain investments, including speculative investments.**

If we make subordinated investments, the obligors or the portfolio companies may not generate sufficient cash flow

The incentive fee payable by us to OFS Advisor may create an incentive for OFS Advisor to make investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement.

The way in which the incentive fee payable to OFS Advisor is determined may encourage OFS Advisor to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor our shareholders.

OFS Advisor receives an incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, OFS Advisor may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities.

S-46

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TABLE OF CONTENTS

Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to OFS Advisor with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each of our shareholders will bear his or her share of the management and incentive fee of OFS Advisor as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interests associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate.

**Our incentive fee structure may create incentives for OFS Advisor that are not fully aligned with the interests of our shareholders.**

In the course of our investing activities, we will pay management and incentive fees to OFS Advisor. The base management fee is based on our total assets (other than cash and cash equivalents and the intangible asset and goodwill resulting from the SBIC Acquisitions but including assets purchased with borrowed amounts and including assets owned by any consolidated entity). As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than one might achieve through direct investments. Because these fees are based on our total assets, other than cash and cash equivalents but including assets purchased with borrowed amounts and including any assets owned by any consolidated entity, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interests associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate. As a result of this arrangement, OFS Advisor or its affiliates may from time to time have interests that differ from those of our shareholders, giving rise to a conflict.

**We may pay an incentive fee on income we do not receive in cash.**

The part of the incentive fee payable to OFS Advisor that relates to our pre-incentive fee net investment income is computed and paid on income that may include interest income that has been accrued but not yet received in cash.

This fee structure may be considered to involve a conflict of interest for OFS Advisor to the extent that it may encourage OFS Advisor to favor debt financings that provide for deferred interest, rather than current cash payments of interest. OFS Advisor may have an incentive to invest in deferred interest securities in circumstances where it would not have done so but for the opportunity to continue to earn the incentive fee even when the issuers of the deferred interest securities would not be able to make actual cash payments to us on such securities. This risk could be increased because OFS Advisor is not obligated to reimburse us for any incentive fees received even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued.

Our incentive fee structure may create incentives for OFS Advisor that are not fully aligned with the interests of our

**OFS Advisor's liability is limited under the Investment Advisory Agreement, and we have agreed to indemnify OFS Advisor against certain liabilities, which may lead OFS Advisor to act in a riskier manner on our behalf than it would when acting for its own account.**

Under the Investment Advisory Agreement, OFS Advisor will not assume any responsibility to us other than to render the services called for under that agreement, and it will not be responsible for any action of our

S-47

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TABLE OF CONTENTS

board of directors in following or declining to follow OFS Advisor's advice or recommendations. Under the terms of the Investment Advisory Agreement, OFS Advisor and its affiliates' respective officers, directors, members, managers, shareholders and employees will not be liable to us, any subsidiary of ours, our directors, our shareholders or any subsidiary's shareholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Advisory Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Advisory Agreement. In addition, we have agreed to indemnify OFS Advisor and its affiliates' respective officers, directors, members, managers, shareholders and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Advisory Agreement. These protections may lead OFS Advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

**We may be subject to additional risks if we engage in hedging transactions and/or invest in foreign securities.**

The 1940 Act generally requires that 70% of our investments be in issuers each of whom is organized under the laws of, and has its principal place of business in, any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands or any other possession of the United States. Our investment strategy does not presently contemplate investments in securities of non-U.S. companies. We expect that these investments would focus on the same debt investments that we make in U.S. middle-market companies and accordingly would be complementary to our overall strategy and enhance the diversity of our holdings. Investing in securities of emerging market issuers involves many risks, including economic, social, political, financial, tax and security conditions in the emerging market, potential inflationary economic environments, regulation by foreign governments, different accounting standards and political uncertainties. Economic, social, political, financial, tax and security conditions also could negatively affect the value of emerging market companies. These factors could include changes in the emerging market government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to the emerging market companies or investments in their securities and the possibility of fluctuations in the rate of exchange between currencies.

Engaging in either hedging transactions or investing in foreign securities would entail additional risks to our shareholders. We could, for example, use instruments such as interest rate swaps, caps, collars and floors and, if we were to invest in foreign securities, we could use instruments such as forward contracts or currency options and borrow under a credit facility in currencies selected to minimize our foreign currency exposure. In each such case, we generally would seek to hedge against fluctuations of the relative values of our portfolio positions from changes in market interest rates or currency exchange rates. Hedging against a decline in the values of our portfolio positions would not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of the positions declined. However, such hedging could establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions could also limit the opportunity for gain if the values of the underlying portfolio positions increased. Moreover, it might not be possible to hedge against an exchange rate or interest rate fluctuation that was so generally anticipated that we would not be able to enter into a hedging transaction at an acceptable price.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates could result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation

between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged could vary. Moreover, for a variety of reasons, we might not seek to establish a perfect correlation between the hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation could prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it might not be possible to hedge fully or perfectly against currency fluctuations affecting the

S-48

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TABLE OF CONTENTS

value of securities denominated in non-U.S. currencies because the value of those securities would likely fluctuate as a result of factors not related to currency fluctuations.

**Our ability to enter into transactions involving derivatives and financial commitment transactions may be limited.**

The SEC has proposed a new rule under the 1940 Act that would govern the use of derivatives (defined to include any swap, security-based swap, futures contract, forward contract, option or any similar instrument) as well as financial commitment transactions (defined to include reverse repurchase agreements, short sale borrowings and any firm or standby commitment agreement or similar agreement) by BDCs. Under the proposed rule, a BDC would be required to comply with one of two alternative portfolio limitations and manage the risks associated with derivatives transactions and financial commitment transactions by segregating certain assets. Furthermore, a BDC that engages in more than a limited amount of derivatives transactions or that uses complex derivatives would be required to establish a formalized derivatives risk management program. If the SEC adopts this rule in the form proposed, our ability to enter into transactions involving such instruments may be hindered, which could have an adverse effect on our business, financial condition and results of operations.

**We may not realize gains from our equity investments.**

When we invest in senior secured, unitranche, second-lien and mezzanine loans, we may acquire warrants or other equity securities of portfolio companies as well. We may also invest in equity securities directly. To the extent we hold equity investments, except as described below, we will attempt to dispose of them and realize gains upon our disposition of them. However, the equity interests we receive may not appreciate in value and may decline in value.

As a result, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. In the case of SBIC I LP, our wholly-owned subsidiary, we will not receive direct benefits from the sale of assets in their portfolios. Rather, our return on our investment in such assets will depend on the ability of SBIC I LP's portfolio to generate cash flow in excess of payments required, as appropriate, to be made to other parties under the terms of the SBA debentures, and distribution, subject to SBA regulation, of the excess to us.

**Uncertainty relating to the LIBOR calculation process may adversely affect the value of any portfolio of LIBOR-indexed, floating-rate debt securities.**

Concerns have been publicized that some of the member banks surveyed by the British Bankers Association ( BBA ) in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including our potential portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or

Our ability to enter into transactions involving derivatives and financial commitment transactions may be limited.

decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our potential portfolio of LIBOR-indexed, floating-rate debt securities.

S-49

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TABLE OF CONTENTS

## **Risks Related to Our Securities**

**There is a risk that shareholders may not receive distributions or that our distributions may not grow over time and a portion of our distributions may be a return of capital.**

We have made distributions on a quarterly basis to our shareholders out of assets legally available for distribution. We cannot assure shareholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by the impact of one or more of the risk factors described in this prospectus supplement and the accompanying prospectus. Due to the asset coverage test applicable to us under the 1940 Act as a BDC, we may be limited in our ability to make distributions. Our ability to make distributions may also be affected by our ability to receive distributions from SBIC I LP which is governed by SBA regulations.

When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor's basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain. A return of capital is a return to shareholders of a portion of their original investment in us rather than income or capital gains. See "Material Federal Income Tax Considerations – Taxation as a RIC" in this prospectus supplement.

### **The market price of our common stock may fluctuate significantly.**

As with any stock, the market price of our common stock will fluctuate with market conditions and other factors. Our common stock is intended for long-term investors and should not be treated as a trading vehicle. Shares of BDCs frequently trade at a discount from their net asset value. The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;  
exclusion of our common stock from certain market indices, such as the Russell 2000 Financial Services Index, which could reduce the ability of certain investment funds to own our common stock and put short-term selling pressure on our common stock;

changes in regulatory policies or tax guidelines, particularly with respect to RICs, SBICs or BDCs;

loss of RIC or BDC status;

failure of SBIC I LP to maintain its status as an SBIC;

inability to obtain a second SBA license;

our origination activity, including the pace of, and competition for, new investment opportunities;

changes or perceived changes in earnings or variations in operating results;

changes or perceived changes in the value of our portfolio of investments;

changes in accounting guidelines governing valuation of our investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

potential future sales of common stock or debt securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities;

departure of OFS Advisors, OFSCs or any of their affiliates' key personnel;  
operating performance of companies comparable to us;

S-50

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TABLE OF CONTENTS

general economic trends and other external factors; and  
loss of a major funding source.

**Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.**

The shares of our common stock beneficially owned by our principal shareholders are generally available for resale, subject to the provisions of Rule 144 promulgated under the Securities Act. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

**Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.**

The Delaware General Corporation Law, our certificate of incorporation and our bylaws contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation dividing our board of directors into three classes with the term of one class expiring at each annual meeting of shareholders. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock.

**Our common stock may trade below its net asset value per share, which limits our ability to raise additional equity capital.**

If our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our shareholders and our independent directors. Shares of BDCs, including shares of our common stock, have traded at discounts to their net asset values. As of December 31, 2016, our net asset value per share was \$14.82. The daily average closing price of our shares on the Nasdaq Global Select Market for the year ended December 31, 2016 was \$12.85. If our common stock trades below net asset value, the higher the cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

TABLE OF CONTENTS

## **USE OF PROCEEDS**

We estimate that our net proceeds from the sale of 3,500,000 shares of common stock we are offering will be approximately \$ million, and approximately \$ million if the underwriters' option to purchase additional shares is exercised in full, excluding \$350,000 of offering expenses. Our Advisor has agreed to pay all of the sales load to the underwriters of approximately \$ million, or \$ per share (or approximately \$ million, or \$ per share if the option to purchase additional shares is fully exercised), which will not be subject to reimbursement by us. All other expenses of the offering will be borne by us. We may change the size of this offering based on demand and market conditions.

We intend to use the net proceeds of this offering for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus supplement and for general working capital purposes, including to temporarily repay indebtedness (which will be subject to re-borrowing), and other working capital needs.

We also will pay operating expenses, including advisory and administrative fees and expenses, and may pay other expenses such as due diligence expenses of potential new investments, from the net proceeds of this offering.

Pending such uses and investments, we will invest the remaining net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. The management fee payable by us to our investment adviser will not be reduced while our assets are invested in such securities. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of any offering, pending full investment, are held in lower yielding short-term instruments.

S-52

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TABLE OF CONTENTS**CAPITALIZATION**

The following table sets forth our capitalization as of December 31, 2016:

on an actual basis; and

on an as adjusted basis to give effect to the sale of 3,500,000 shares of our common stock at a price of \$ per share less offering expenses of \$350,000 payable by us. Our Advisor has agreed to pay all of the sales load to the underwriters of approximately \$ million, or \$ per share (or approximately \$ million or \$ per share if the option to purchase additional shares is fully exercised), which will not be subject to reimbursement by us.

You should read this table together with Use of Proceeds Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated statement of assets and liabilities in this prospectus supplement.

	As of December 31, 2016	
	Actual	As Adjusted
	(amounts in thousands)	
<b>Assets:</b>		
Investments, at fair value	\$281,627	\$281,627
Cash and cash equivalents	17,659	
Other assets	5,744	5,744
<b>Total assets</b>	305,030	
<b>Liabilities:</b>		
SBA-guaranteed debentures payable, net	146,843	146,843
Revolving line of credit	9,500	
Other liabilities	4,909	4,909
<b>Total liabilities</b>	\$161,252	\$
Net assets	\$143,778	\$
Shareholders' equity:		
Preferred stock, par value \$0.01 per share; 20,000,000 shares authorized, 0 shares issued and outstanding	\$	\$
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 9,700,297 shares issued and outstanding <sup>(1)</sup>	97	
Capital in excess of par value <sup>(2)</sup>	134,300	
Total shareholders' equity	\$134,397	\$

(1) Excludes up to 525,000 shares of our common stock issuable upon exercise of the underwriters' option to purchase additional shares.

(2) Pro forma additional paid-in capital has been reduced by the estimated costs of the offering payable by us.

S-53

TABLE OF CONTENTS

## OUR BUSINESS

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. Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. Our investment strategy focuses primarily on investments in middle-market companies in the United States. We use the term middle-market to refer to companies that may exhibit one or more of the following characteristics: number of employees between 150 and 2,000; revenues between \$15 million and \$300 million; EBITDA between \$3 million and \$50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between \$10 million and \$500 million. For additional information about how we define the middle-market, see General Investment Criteria/Guidelines.

As of December 31, 2016, we had debt and equity investments in 41 portfolio companies with an aggregate fair value of \$281.6 million. As of December 31, 2016, 64% of our investment portfolio was comprised of senior secured loans, 23% of subordinated loans and 13% of equity investments, at fair value.

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

Our investment strategy includes SBIC I LP, a licensee under the U.S. Small Business Administration ( SBA ) 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 Regulation Small Business Investment Company Regulation .

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

On a stand-alone basis, SBIC I LP held approximately \$247.5 million and \$245.1 million in assets at December 31, 2016 and 2015, respectively, which accounted for approximately 81% and 83% of our total consolidated assets at December 31, 2016 and 2015, respectively.

Our investment activities are managed by OFS Capital Management, LLC and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the Investment Advisory Agreement we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. We have elected



to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013. OFS Advisor also serves as the investment adviser to CLO funds and other assets, including Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to the Company's. OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy.

S-54

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## TABLE OF CONTENTS

We have also entered into an Administration Agreement with OFS Capital Services, LLC. Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement. See Management and Other Agreements Administration Agreement in the accompanying prospectus.

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

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

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

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 exemptive relief from the SEC to permit us to co-invest in portfolio companies with certain other funds managed by OFS Advisor ( Affiliated Funds ) 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 (the Order ). Pursuant to the Order, we are generally permitted to co-invest with Affiliated Funds if a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our shareholders and do not involve overreaching by us or our shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies.

## **About OFS and Our Advisor**

OFS (which refers to the collective activities and operations of OFSAM and its subsidiaries and certain affiliates) is an established investment platform focused on meeting the capital needs of middle-market companies.

As of December 31, 2016, OFS had 44 full-time employees. OFS is headquartered in Chicago, Illinois and also has offices in New York, New York and Los Angeles, California.

Our investment activities are managed by OFS Advisor, our investment adviser. OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio

companies on an ongoing basis. OFS Advisor is a registered investment adviser under the Investment Advisers Act of 1940 (the Advisers Act ) and a subsidiary of OFSAM., our parent company prior to the completion of our initial public offering ( IPO ).

Our relationship with OFS Advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. OFS Advisor provides us with advisory services in exchange for a base management fee and incentive fee; see Management and Other Agreements Investment Advisory Agreement in the accompanying prospectus. The base management fee is based on our total assets (other

S-55

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## TABLE OF CONTENTS

than cash and cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisitions; but including assets purchased with borrowed amounts, and including assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance.

OFS Advisor has entered into the Staffing Agreement with OFSC, a wholly-owned subsidiary of OFSAM. Under the Staffing Agreement, OFSC makes experienced investment professionals available to OFS Advisor and provides access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment adviser, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

OFS Advisor capitalizes on the deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFS's professionals. The senior management team of OFS, including Bilal Rashid, Jeff Cerny and Mark Hauser, provides services to OFS Advisor. These managers have developed a broad network of contacts within the investment community, averaging over 20 years of experience investing in debt and equity securities of middle-market companies. In addition, these managers have gained extensive experience investing in assets that will constitute our primary focus and have expertise in investing across all levels of the capital structure of middle-market companies.

## **Our Administrator**

OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and recordkeeping services at such facilities. OFS Services oversees our financial reporting as well as prepares our reports to shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. OFS Services also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services may retain third parties to assist in providing administrative services to us. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions on a direct basis without incremental profit to OFS Services.

## **Market Opportunity**

**Large Target Market.** According to the U.S. Census Bureau in its 2012 economic census, there were approximately 197,000 companies in the United States with annual revenues between \$10 million and \$2.5 billion, compared with approximately 1,300 companies with revenues greater than \$2.5 billion. 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 vast bulk of OFS's portfolio companies since its inception, and constituted the vast bulk of our portfolio as of December 31, 2016. We believe that this market segment will continue to produce significant investment opportunities for us.

***Specialized Lending Requirements with High Barriers to Entry.*** We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to private middle-market companies in the United States (a) is generally more labor-intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (b) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market and (c) may also require more extensive ongoing monitoring by the lender. As a result, middle-market companies historically have been

S-56

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## TABLE OF CONTENTS

served by a limited segment of the lending community. As a result of the unique challenges facing lenders to middle-market companies, there are high barriers to entry that a new lender must overcome.

***Robust Demand for Debt Capital.*** We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. Subject to market conditions, we expect the large amount of unfunded buyout commitments will drive demand for leveraged buyouts over the next several years, which should, in turn, create leveraged lending opportunities for us.

## **Competitive Strengths and Core Competencies**

***Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure.*** We are managed by OFS Advisor, which has access through the Staffing Agreement with OFSC to the resources and expertise of OFS's investment professionals. As of December 31, 2016, OFS's credit and investment professionals (including all investment committee members) employed by OFSC had an average of over 15 years of investment experience with strong institutional backgrounds.

***Significant Investment Capacity.*** The net proceeds of equity and debt offerings and borrowing capacity under our credit facilities, will provide us with a substantial amount of capital available for deployment into new investment opportunities in our targeted asset class.

***Scalable Infrastructure Supporting the Entire Investment Cycle.*** We believe that our loan acquisition, origination and sourcing, underwriting, administration and management platform is highly scalable (that is, it can be expanded on a cost efficient basis within a timeframe that meets the demands of business growth). Our platform extends beyond origination and sourcing and includes a regimented credit monitoring system. We believe that our careful approach, which involves ongoing review and analysis by an experienced team of professionals, should enable us to identify problems early and to assist borrowers before they face difficult liquidity constraints.

***Extensive Loan Sourcing Capabilities.*** OFS Advisor gives us access to the deal flow of OFS. We believe OFS's 20-year history as a middle-market lending platform and its market position make it a leading lender to many sponsors and other deal sources, especially in the currently under-served lending environment, and we have extensive relationships with potential borrowers and other lenders.

***Structuring with a High Level of Service and Operational Orientation.*** We provide client-specific and creative financing structures to our portfolio companies. Based on our experience in lending to and investing in middle-market companies, we believe that the middle-market companies we target, as well as sponsor groups we may pursue, require a higher level of service, creativity and knowledge than has historically been provided by other service providers more accustomed to participating in commodity-like loan transactions.

***Rigorous Credit Analysis and Approval Procedures.*** OFS Advisor utilizes the established, disciplined investment process of OFS for reviewing lending opportunities, structuring transactions and monitoring investments. Using OFS's disciplined approach to lending, OFS Advisor seeks to minimize credit losses through effective underwriting, comprehensive due diligence investigations, structuring and, where appropriate, the implementation of restrictive debt covenants.

## Investment Criteria/Guidelines

Our investment objective is to generate current income and capital appreciation by investing primarily in middle-market companies in the United States. We focus on investments in senior secured loans, including first lien, second lien, and unitranche loans, as well as subordinated loans and, to a lesser extent, warrants and other equity securities. In particular, we believe that structured equity debt investments (i.e., typically senior secured unitranche loans, often with warrant coverage, and often in companies with no financial sponsor) represent a strong relative value opportunity offering the borrower the convenience of dealing with one lender, which may result in a higher blended rate of interest to us than we might expect to receive under a traditional multi-tranche structure. We expect that our investments in the equity securities of portfolio companies, such as warrants, preferred stock, common stock and other equity interests, will principally be made in conjunction with our debt investments. Generally, we do not expect to make investments in companies or securities that OFS Advisor determines to be distressed investments (such as discounted debt instruments that have either

S-57

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## TABLE OF CONTENTS

experienced a default or have a significant potential for default), other than follow-on investments in portfolio companies of ours. We intend to continue to generate strong risk-adjusted net returns by assembling a diversified portfolio of investments across a broad range of industries.

We target U.S. middle-market companies through OFS's access to a network of financial institutions, private equity sponsors, investment banks, consultants and attorneys, and our proprietary database of borrowers developed over OFS's more than 20 years in lending to middle-market companies. A typical targeted borrower will exhibit certain of the following characteristics:

number of employees between 150 and 2,000;  
revenues between \$15 million and \$300 million;  
annual EBITDA between \$3 million and \$50 million;  
generally, private companies owned by private equity firms or owners/operators;  
enterprise value between \$10 million and \$500 million;  
effective and experienced management teams;  
defensible market share;  
solid historical financial performance, including a steady stream of cash flow;  
high degree of recurring revenue;  
diversity of customers, markets, products and geography; and  
differentiated products or services.

While we believe that the characteristics listed above are important in identifying and investing in prospective portfolio companies, not all of these criteria will be met by each prospective portfolio company.

## **Due Diligence and Investment Process Overview**

We employ a thorough and disciplined underwriting and due diligence process that is conducted in accordance with established credit policies and procedures, and that is focused on investment recovery. Our process involves a comprehensive analysis of a prospective portfolio company's market, operational, financial, and legal position, as well as its future prospects. In addition to our own analysis, we may use the services of third parties for environmental reviews, quality of earnings reports, industry surveys, background checks on key managers, and insurance reviews.

We seek to invest in companies that have experienced and incentivized management teams, that have stable and predictable cash flows, and that have defensible market positions. We underwrite our investments with the expectation that we will hold them for a number of years, and we structure and document our investments accordingly.

Our due diligence and underwriting process typically addresses the following elements (although certain elements may not be included in every due diligence undertaking):

***Prospective Portfolio Company Characteristics:*** focusing on primary drivers of the company's revenues and cash flows, including its key products and services; customer and supplier concentrations, and contractual relationships; depth, breadth, and quality of company management, as well as the extent to which the management team is appropriately compensated with equity incentives; and any regulatory, labor, or litigation matters impacting the company.

***Industry and Competitive Overview:*** including industry size and the company's position within it; growth potential and barriers to entry; governmental, regulatory, or technological issues potentially affecting the industry; and cyclicity or seasonality risks associated with the industry.

S-58





TABLE OF CONTENTS

**Financial Analysis:** involving an understanding of the company's historical financial results, focusing on actual operating trends experienced over time, in order to forecast future performance, including in various sensitized performance scenarios; attention to projected cash flows, debt service coverage, and leverage multiples under such scenarios; and an assessment of enterprise valuations and debt repayment/investment recovery prospects given such sensitized performance scenarios.

**Investment Documentation:** focusing on obtaining the best legal protections available to us given our position within the capital structure, including, as appropriate, financial covenants; collateral liens and stock pledges; review of loan documents of other of the prospective portfolio company's creditors; and negotiation of inter-creditor agreements.

## **Portfolio Review/Risk Monitoring**

As of December 31, 2016, we had debt investments in 39 portfolio companies, totaling \$244.4 million at fair value, of which \$3.8 million, \$192.1 million, \$43.1 million, and \$5.4 million were rated 2, 3, 4, and 5, respectively. We had no investments rated 6 or 7 as of December 31, 2016.

We view active portfolio monitoring as a vital part of our investment process, and we benefit from a portfolio management system developed by OFS that includes daily, weekly, monthly, and quarterly components, and that involves comprehensive review of the performance of each of our portfolio companies. As part of the portfolio management process, OFS Advisor performs ongoing risk assessment on each of our investments and assigns each debt investment a credit rating based on OFS's internal ratings scale.

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

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

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

(Average) The debt investment has acceptable asset quality, somewhat strained liquidity, and minimal leverage capacity. It is at times characterized by acceptable cash flows from operations. Under adverse market conditions, the debt service could pose difficulties for the borrower. The trends and conditions of the portfolio company's operations and balance sheet are neutral to slightly negative.

(Special Mention) The debt investment has not lost, and is not expected to lose, principal or interest but it possesses credit deficiencies or potential weaknesses which deserve management's close and continued attention. The portfolio company's operations and/or balance sheet have demonstrated an adverse trend or deterioration which, while serious, has not reached the point where the liquidation of debt is jeopardized. These weaknesses are generally considered correctable by the borrower in the normal course of business but may weaken the asset or inadequately protect our credit position if not checked or corrected.

S-59

## TABLE OF CONTENTS

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

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

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

## **Investment Committees**

The Advisor Investment Committees are responsible for the overall asset allocation decisions and the evaluation and approval of investments of OFS Advisor's advisory clients.

The Middle-Market Investment Committee, which is comprised of Richard Ressler (Chairman), Jeffrey Cerny, Mark Hauser and Bilal Rashid, along with the investment committee for SBIC I LP (the SBIC Investment Committee), which is comprised of Mark Hauser and Bilal Rashid, is responsible for the evaluation and approval of all the investments made by us directly or through our wholly-owned subsidiaries, as appropriate.

The process employed by the Advisor Investment Committees, including the Middle-Market Investment Committee, and the SBIC Investment Committee is intended to bring the diverse experience and perspectives of the committees members to the investment process. The Middle-Market Investment Committee and SBIC Investment Committee serve to provide investment consistency and adherence to our core investment philosophy and policies. The Middle-Market Investment Committee and SBIC Investment Committee also determine appropriate investment sizing and implement ongoing monitoring requirements of our investments.

In certain instances, management may seek the approval of our board of directors prior to the making of an investment. In addition to reviewing investments, the meetings of the Middle-Market Investment Committee and SBIC Investment Committee, where applicable, serve as a forum to discuss credit views and outlooks. Potential transactions and deal flow are reviewed on a regular basis. Members of the investment team are encouraged to share information and views on credits with members of the Middle-Market Investment Committee and SBIC Investment Committee, where applicable, early in their analysis. We believe this process improves the quality of the analysis and assists the deal team members in working efficiently.

## **Structure of Investments**

We anticipate that our loan portfolio will continue to contain investments of the following types with the following typical characteristics:

**Senior Secured First-Lien Loans.** First-lien senior secured loans comprise, and will continue to comprise, a significant portion of our investment portfolio. First-lien senior secured loans obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans (in certain cases, subject to a

payment waterfall). The collateral takes the form of first-priority liens on specified assets of the portfolio company borrower and, typically, first-priority pledges of the ownership interests in the borrower. Our first lien loans may provide for moderate loan amortization in the early years of the loan, with the majority of the amortization deferred until loan maturity. These loans are categorized as Senior Secured Loans in our consolidated schedule of investments included in this prospectus supplement and accompanying prospectus.

S-60

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TABLE OF CONTENTS

**Senior Secured Unitranche Loans.** Unitranche loans are loans that combine both senior and subordinated debt into one loan under which the borrower pays a single blended interest rate that is intended to reflect the relative risk of the secured and unsecured components. We typically structure our unitranche loans as senior secured loans. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans. This collateral takes the form of first-priority liens on the assets of a portfolio company and, typically, first-priority pledges of the ownership interests in the company. We believe that unitranche lending represents a significant growth opportunity for us, offering the borrower the convenience of dealing with one lender, which may result in a higher blended rate of interest to us than we might realize in a traditional multi-tranche structure. Unitranche loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases, we will be the sole lender, or we, together with our affiliates, will be the sole lender, of unitranche loans, which can afford us additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of underperformance. These loans are categorized as Senior Secured Loans in our consolidated schedule of investments included in this prospectus supplement and accompanying prospectus.

**Senior Secured Second-lien Loans.** Second-lien senior secured loans obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of such loans. This collateral typically takes the form of second-priority liens on the assets of a portfolio company, and we may enter into an inter-creditor agreement with the holders of the portfolio company's first-lien senior secured debt. These loans typically provide for no contractual loan amortization in the initial years of the facility, with all amortization deferred until loan maturity. These loans are categorized as Senior Secured Loans in our consolidated schedule of investments included in this prospectus supplement and accompanying prospectus.

**Subordinated ( Mezzanine ) Loans.** These investments are typically structured as unsecured, subordinated loans that typically provide for relatively high, fixed interest rates that provide us with significant current interest income. These loans typically will have interest-only payments (often representing a combination of cash pay and payment-in-kind ( PIK ) interest) in the early years, with amortization of principal deferred to maturity. Mezzanine loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. Mezzanine investments are generally more volatile than secured loans and may involve a greater risk of loss of principal. Mezzanine loans often include a PIK feature (meaning a feature allowing for the payment of interest in the form of additional principal amount of the loan instead of in cash), which effectively operates as negative amortization of loan principal, thereby increasing credit risk exposure over the life of the loan. These loans are categorized as Subordinated Loans in our consolidated schedule of investments included in this prospectus supplement and accompanying prospectus.

**Equity Securities.** Equity securities typically consist of either a direct minority equity investment in common or membership/partnership interests or preferred stock of a portfolio company, and are typically not control-oriented investments. Our preferred equity investments typically contain a fix dividend yield based on the par value of the equity security. Preferred equity dividends may be paid in cash at a stipulated date, usually quarterly and are participating and/or cumulative. We may structure such equity investments to include provisions protecting our rights as a minority-interest holder, as well as a put, or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights. Our equity investments typically are made in connection with debt investments to the same portfolio companies. These securities are categorized as a Preferred Equity or Common Equity in our consolidated schedule of investments included in this prospectus supplement and accompanying prospectus.

**Warrants.** In some cases, we may receive nominally priced warrants to buy a minority equity interest in the portfolio company in connection with a loan. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure such warrants to include provisions protecting our rights as a minority-interest holder, as well as a put to sell such securities back to

S-61

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## TABLE OF CONTENTS

the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights. These securities are categorized as a Warrant in our consolidated schedule of investments included in this prospectus supplement and accompanying prospectus.

**General Structuring Considerations.** We tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its operating results.

We seek to limit the downside potential of our investments by:

selecting investments that we believe have a very low probability of loss; requiring a total return on our investments (including both interest and potential equity appreciation) that we believe will compensate us appropriately for credit risk; and negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or rights to a seat on the board of directors under some circumstances. We expect to hold most of our investments to maturity or repayment, but we may sell some of our investments earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

## **Investments**

We pursue an investment strategy focused primarily on investments in middle-market companies in the United States.

We focus on investments in loans, in which OFS Advisor's investment professionals have expertise, including investments in first-lien, unitranche, second-lien, and mezzanine loans and, to a lesser extent, on warrants and other equity securities. We seek to create a diverse portfolio by making investments in the securities of middle-market companies that we expect to range generally from \$3.0 million to \$25.0 million each, although we expect this investment size will vary proportionately with the size of our capital base.

## **Competition**

Our primary competitors include public and private funds, other BDCs, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical, and marketing resources than we do. Some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Further, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC, or to the distribution and other requirements we must satisfy to maintain our RIC status.

We expect to continue to use the expertise of the investment professionals of OFS and its affiliates to which we have access, to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we expect that the relationships of the senior members of OFS and its affiliates will enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see Risk Factors Risks Related to our Business and Structure We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses in this prospectus supplement and the accompanying prospectus.

## **Administration**

We do not have any direct employees, and our day-to-day investment operations are managed by OFS Advisor. We have a chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary and, to the extent necessary, our board of directors may elect to

S-62

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TABLE OF CONTENTS

appoint additional officers going forward. Our officers are employees of OFSC, an affiliate of OFS Advisor, and a portion of the compensation paid to our officers are paid by us pursuant to the Administration Agreement. All of our executive officers are also officers of OFS Advisor.

## **Management and Other Agreements**

### **Investment Advisory Agreement**

OFS Advisor is registered as an investment adviser under the Advisers Act. OFS Advisor is a wholly owned subsidiary of OFSAM. Pursuant to the Investment Advisory Agreement with and subject to the overall supervision of our board of directors and in accordance with the 1940 Act, OFS Advisor provides investment advisory services to us.

Under the terms of the Investment Advisory Agreement, OFS Advisor:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

assists us in determining what securities we purchase, retain or sell;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and

executes, closes, services and monitors the investments we make.

### **Management and Incentive Fee**

For providing these services, OFS Advisor receives a fee from us, 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% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), adjusted for stock issuances and stock purchases, at the end of the two most recently completed calendar quarters. We have excluded from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013. The base management fee is payable quarterly in arrears. Base management fees for any partial quarter are prorated based on the number of days in the quarter.

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

Pre-incentive fee net investment income does not include any realized gains, realized losses, unrealized capital appreciation or unrealized capital depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment

income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized capital losses and unrealized capital depreciation.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed hurdle rate of 2.0% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for OFS Advisor to surpass the fixed hurdle rate and receive an incentive fee based on such net

S-63

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## TABLE OF CONTENTS

investment income. There is no accumulation of amounts on the hurdle rate from quarter to quarter and, accordingly, there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle rate, and there is no delay of payment if prior quarters are below the quarterly hurdle rate. Pre-incentive fee net investment income fees are prorated for any partial quarter based on the number of days in such quarter.

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

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

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

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

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

## **Quarterly Incentive Fee Based on Net Investment Income**

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

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

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

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investments. Unrealized capital appreciation is accrued, but not paid until said appreciation is realized. We accrue the Capital Gains Fee if, on a cumulative basis, the sum of the net realized capital gains (and losses) plus net unrealized appreciation (and depreciation) is positive. OFS Advisor has excluded from the



TABLE OF CONTENTS

with respect to the step acquisitions resulting from the SBIC Acquisition. The Capital Gains Fee for any partial year is prorated based on the number of days in such year.

The base management fee is payable quarterly in arrears and was \$4.5 million, \$4.9 million, and \$2.2 million, for the years ended December 31, 2016, 2015, and 2014, respectively.

## Examples of Incentive Fee Calculation

### Example 1 Income Related Portion of Incentive Fee:

#### Assumptions

Hurdle rate<sup>(1)</sup> = 2.0%

Management fee<sup>(2)</sup> = 0.44%

Other estimated expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

(1) Represents a quarter of the 8.0% annualized hurdle rate.

(2) Represents a quarter of the 1.75% annualized management fee, which became effective October 31, 2013.

(3) Excludes estimated offering expenses.

### Alternative 1

#### Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Pre-incentive fee net investment income (investment income (management fee + other expenses)) = 0.61%

Pre-incentive fee net investment income does not exceed the hurdle rate, therefore there is no incentive fee.

### Alternative 2

#### Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.80%

Pre-incentive fee net investment income (investment income (management fee + other expenses)) = 2.16%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

$$\begin{aligned}
 &= \\
 \text{Incentive Fee} &= 100\% \times \text{Catch-Up} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment} \\
 & \text{income } 2.5\%)) \\
 &= \\
 &= (100\% \times (2.16\% - 2.0\%)) + 0\% \\
 &= \\
 &= 100\% \times 0.16\%
 \end{aligned}$$

=

0.16%

S-65

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TABLE OF CONTENTS

**Alternative 3**

**Additional Assumptions**

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income (investment income (management fee + other expenses)) = 2.86%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

$$\begin{aligned}
 &= \\
 \text{Incentive Fee} &= 100\% \times \text{Catch-Up} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment} \\
 &\text{income} - 2.5\%)) \\
 &= \\
 &= (100\% \times (2.5\% - 2.0\%)) + (20\% \times (2.86\% - 2.5\%)) \\
 &= \\
 &= 0.5\% + (20\% \times 0.36\%) \\
 &= \\
 &= 0.5\% + 0.07\% \\
 &= \\
 &= 0.57\%
 \end{aligned}$$

**Example 2 Capital Gains Portion of Incentive Fee:**

**Alternative 1**

**Assumptions**

Year 1: \$20 million investment made in Company A ( Investment A ), and \$30 million investment made in Company B ( Investment B )

Year 2: Investment A is sold for \$50 million and fair market value ( FMV ) of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (no sales transactions)

Year 2: \$6 million (20% multiplied by \$30 million realized capital gains on sale of Investment A)

Year 3: None; \$5 million (20% multiplied by \$30 million cumulative realized capital gains less \$5 million cumulative unrealized capital depreciation) less \$6 million (Capital Gains Fee paid in Year 2)

Year 4: \$200,000; \$6.2 million (20% multiplied by \$31 million cumulative realized capital gains) less \$6 million (Capital Gains Fee paid in Year 2)

## Alternative 2

### Assumptions

Year 1: \$20 million investment made in Company A ( Investment A ), \$30 million investment made in Company B ( Investment B ) and \$25 million investment made in Company C ( Investment C )

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FMV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

S-66

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## TABLE OF CONTENTS

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (no sales transactions)

Year 2: \$5 million (20% multiplied by \$30 million realized capital gains on Investment A less \$5 million unrealized capital depreciation on Investment B)

Year 3: \$1.4 million; \$6.4 million (20% multiplied by \$32 million (\$35 million cumulative realized capital gains on Investment A and Investment C less \$3 million cumulative unrealized capital depreciation on Investment B)) less \$5 million (Capital Gains Fee paid in Year 2)

Year 4: \$0.6 million; \$7 million (20% multiplied by \$35 million (cumulative realized capital gains on Investment A and Investment C)) less \$6.4 million (cumulative Capital Gains Fee paid in all prior years)

Year 5: None; \$5 million (20% multiplied by \$25 million (\$35 million cumulative realized capital gains on Investments A and C less \$10 million realized capital losses on Investment B)) less \$7 million (cumulative Capital Gains Fee paid in all prior years))

## **Payment of Our Expenses**

Our primary operating expenses include interest expense due under SBA debentures, the payment of fees to OFS Advisor under the Investment Advisory Agreement, professional fees, and 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 bear all other out-of-pocket costs and expenses of our operations and transactions, whether incurred by us directly or on our behalf by a third party, including:

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

## **Duration and Termination**

Unless terminated earlier as described below, the Investment Advisory Agreement will remain in effect from year to year if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, and, in either case, if also approved by a majority of our directors who are not interested persons as defined in the 1940 Act. The Investment Advisory Agreement



## TABLE OF CONTENTS

automatically terminates in the event of its assignment, as defined in the 1940 Act, by OFS Advisor and may be terminated by either party without penalty upon not less than 60 days' written notice to the other. The holders of a majority of our outstanding voting securities may also terminate the Investment Advisory Agreement without penalty upon not less than 60 days' written notice. See Risk Factors Risks Related to our Business and Structure We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates in this prospectus supplement and the accompanying prospectus.

## **Administration Agreement**

Pursuant to the Administration Agreement, OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, and bookkeeping and record keeping services at such facilities. Under the Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our shareholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, OFS Services would provide managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent, information technology, and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and their respective staffs. The Administration Agreement may be renewed annually with the approval of our board of directors, including a majority of our directors who are not interested persons. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that OFS Services outsources any of its functions we pay the fees associated with such functions at cost without incremental profit to OFS Services.

Administration fee expense was \$1.3 million, \$1.6 million, and \$1.2 million, for the years ended December 31, 2016, 2015, and 2014, respectively.

## **Indemnification**

The Investment Advisory Agreement and the Administration Agreement both provide that OFS Advisor, OFS Services and their affiliates' respective officers, directors, members, managers, shareholders and employees are entitled to indemnification from us from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement or the Administration Agreement, except where attributable to willful misfeasance, bad faith or gross negligence in the performance of such person's duties or reckless disregard of such person's obligations and duties under the Investment Advisory Agreement or the Administration Agreement.

## **Board Approval of the Investment Advisory and Administrative Agreements**

Our board, including our independent directors, approved the Investment Advisory Agreement at a meeting held on April 7, 2016. In reaching a decision to approve the investment advisory agreement, the board of directors reviewed a significant amount of information and considered, among other things:

the nature, quality and extent of the advisory and other services to be provided to us by OFS Advisor;  
the fee structures of comparable externally managed BDCs that engage in similar investing activities;  
our projected operating expenses and expense ratio compared to business development companies with similar investment objectives;

S-68

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## TABLE OF CONTENTS

any existing and potential sources of indirect income to OFS Advisor from its relationship with us and the profitability of that relationship, including through the Investment Advisory Agreement; information about the services to be performed and the personnel performing such services under the Investment Advisory Agreement; and

the organizational capability and financial condition of OFS Advisor and its affiliates.

Based on the information reviewed and the discussion thereof, the board of directors, including a majority of the non-interested directors, concluded that the investment advisory fee rates are reasonable in relation to the services to be provided and approved the Investment Advisory Agreement as being in the best interests of our shareholders.

Our board also reviewed services provided under the Administrative Agreement, and approved its renewal at the April 7, 2016 meeting.

## **Staffing Agreement**

We do not have any internal management capacity or employees. We depend on the diligence, skill and network of business contacts of the OFS senior professionals to achieve our investment objective. OFS Advisor is a subsidiary of OFSAM and depends upon access to the investment professionals and other resources of OFSAM and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. OFS Advisor also depends upon OFSAM to obtain access to deal flow generated by the professionals of OFSAM and its affiliates. Under the Staffing Agreement between OFSC and OFS Advisor, OFSC provides OFS Advisor with the resources necessary to fulfill these obligations. The Staffing Agreement provides that OFSC make available to OFS Advisor experienced investment professionals and access to the senior investment personnel of OFSC for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. The Staffing Agreement also includes a commitment that the members of the Advisor Investment Committees serve in such capacity (including Mr. Ressler, who is currently the Chairman of the Middle-Market Investment Committee).

The Staffing Agreement is renewable by the parties thereto on an annual basis. Services under the Staffing Agreement are provided to OFS Advisor on a direct cost reimbursement basis, and such fees are not our obligation.

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

## **License Agreement**

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

## **Regulation**

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be

persons other than interested persons, as that term is defined in the 1940 Act.

In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities as defined in the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67% or more of such company's voting securities present at a meeting if more than 50% of the outstanding voting securities of such company are present or represented by proxy, or (b) more than 50% of the outstanding voting securities of such company. We do not anticipate any substantial change in the nature of our business.

S-69

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TABLE OF CONTENTS

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, issue and sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value of our common stock if (1) our board of directors determines that such sale is in our best interests and the best interests of our shareholders, and (2) our shareholders have approved our policy and practice of making such sales within the preceding 12 months. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities.

As a BDC, we are required to meet a coverage ratio of the value of total assets to senior securities, which include all of our borrowings and any preferred stock we may issue in the future, of at least 200%. The Company 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 200% asset coverage ratio under the 1940 Act.

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 exemptive relief from the SEC to permit us to co-invest in Affiliated Funds 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 the Order. Pursuant to the Order, we are generally permitted to co-invest with Affiliated Funds if a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our shareholders and do not involve overreaching by us or our shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies.

Legislation has been introduced in the U.S. House of Representatives intended to revise certain regulations applicable to BDCs. The legislation provides for (i) modifying the asset coverage ratio from 200% to 150%, (ii) permitting BDCs to file registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment adviser subsidiaries. There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an underwriter as that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations. However, we may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except for registered money market funds, we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company, or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our shareholders to additional expenses as they will be indirectly responsible for the costs and expenses of such companies. None of our investment policies are fundamental and may be changed without shareholder approval.





TABLE OF CONTENTS

## Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's assets, as defined by the 1940 Act. The principal categories of qualifying assets relevant to our business are the following:

Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has (a) been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer that:

is organized under the laws of, and has its principal place of business in, the United States; is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

satisfies either of the following:

does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a \$250 million market capitalization maximum; or is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result, the BDC has an affiliated person who is a director of the eligible portfolio company.

(b) Securities of any eligible portfolio company which we control.

Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident to such a private transaction, if the issuer is in bankruptcy (c) and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(d) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(e) Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.

(f) Cash, cash equivalents, U.S. government securities or high-quality debt securities that mature in one year or less from the date of investment.

Control, as defined by the 1940 Act, is presumed to exist where a BDC beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

The regulations defining qualifying assets may change over time. We may adjust our investment focus as needed to comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area.

## Managerial Assistance to Portfolio Companies

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (a), (b) or (c) above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance. Where the BDC



## TABLE OF CONTENTS

purchases such securities in conjunction with one or more other persons acting together, the BDC will satisfy this test if one of the other persons in the group makes available such managerial assistance, although this may not be the sole method by which the BDC satisfies the requirement to make available managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

## **Temporary Investments**

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt investments that mature in one year or less from the date of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets, as defined by the 1940 Act, are qualifying assets or temporary investments. Typically, we invest in highly rated commercial paper, U.S. Government agency notes, and U.S. Treasury bills or repurchase agreements relating to such securities that are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. Consequently, repurchase agreements are functionally similar to loans. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, the 1940 Act and certain diversification tests in order to qualify as a RIC for federal income tax purposes typically require us to limit the amount we invest with any one counterparty. Accordingly, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. OFS Advisor monitors the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

## **Warrants and Options**

Under the 1940 Act, a BDC is subject to restrictions on the amount of warrants, options, restricted stock or rights to purchase shares of capital stock that it may have outstanding at any time. Under the 1940 Act, we may generally only offer warrants provided that (i) the warrants expire by their terms within ten years, (ii) the exercise or conversion price is not less than the current market value at the date of issuance, (iii) our shareholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of OFS Capital and its shareholders and (iv) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or rights to purchase capital stock cannot exceed 25% of the BDC's total outstanding shares of capital stock.

## **Senior Securities**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our shareholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of

our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Related to our Business and Structure Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital. As a BDC, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage.

S-72

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TABLE OF CONTENTS

## **Codes of Ethics**

We and OFS Advisor have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is available, free of charge, on our website at [www.ofscapital.com](http://www.ofscapital.com). You may also read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. In addition, the code of ethics is attached as an exhibit to pre-effective amendment no. 3 to the registration statement on Form N-2 filed on March 17, 2011 and is available on the EDGAR Database on the SEC's website at <http://www.sec.gov>. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

## **Proxy Voting Policies and Procedures**

We have delegated our proxy voting responsibility to OFS Advisor. The proxy voting policies and procedures of OFS Advisor are set out below. The guidelines are reviewed periodically by OFS Advisor and our directors who are not interested persons, and, accordingly, are subject to change. For purposes of these proxy voting policies and procedures described below, we, our and us refer to OFS Advisor.

### **Introduction**

As an investment adviser registered under the Advisers Act, we have a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

### **Proxy Policies**

We vote proxies relating to our portfolio securities in what we perceive to be the best interest of our clients. We review on a case-by-case basis each proposal submitted to a shareholder vote to determine its effect on the portfolio securities held by our clients. In most cases we will vote in favor of proposals that we believe are likely to increase the economic value of the underlying portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative effect on our clients' portfolio securities, we may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions are made by those senior officers who are responsible for monitoring each of our clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that (1) anyone involved in the decision-making process disclose to our chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision-making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, we will disclose such conflicts to our client, including with respect to OFS Capital, those directors who are not interested

persons and we may request guidance from such persons on how to vote such proxies for their account.

## **Proxy Voting Records**

You may obtain information about how we voted proxies for OFS Capital, free of charge, by making a written request for proxy voting information to: OFS Capital Corporation, 10 S. Wacker Drive, Suite 2500, Chicago, Illinois 60606, Attention: Investor Relations, or by calling OFS Capital Corporation at (847) 734-2000. The SEC also maintains a website at <http://www.sec.gov> that contains such information.

S-73

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TABLE OF CONTENTS

## **Privacy Principles**

We are committed to maintaining the privacy of our shareholders and to safeguarding their nonpublic personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any nonpublic personal information relating to our shareholders, although certain nonpublic personal information of our shareholders may become available to us. We do not disclose any nonpublic personal information about our shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third-party administrator).

We restrict access to nonpublic personal information about our shareholders to employees of OFS Advisor and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our shareholders.

## **Compliance with the Sarbanes-Oxley Act of 2002 and the Nasdaq Global Select Market Corporate Governance Regulations**

The Sarbanes-Oxley Act imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

In addition, The Nasdaq Global Select Market has adopted various corporate governance requirements as part of its listing standards. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

## **Small Business Investment Company Regulations**

Our wholly-owned subsidiary, SBIC I LP is an SBIC and must maintain compliance with SBA regulations.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. 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-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid without penalty twice each year on certain dates. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that an SBIC may borrow to 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 debentures cannot exceed \$350 million.

The investments of an SBIC are limited to loans to and equity securities of eligible small businesses. Under present SBA regulations, eligible small businesses generally include businesses that (together with their affiliates) have a tangible net worth not exceeding \$19.5 million and have average annual net income after U.S. federal income taxes not exceeding \$6.5 million (average net income to be computed without benefit of any carryover loss) for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to smaller concerns, as defined by the SBA. A smaller concern generally includes businesses that have a tangible net worth not exceeding \$6 million and have average annual net income after

S-74

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## TABLE OF CONTENTS

U.S. federal income taxes not exceeding \$2 million (average net income to be computed without benefit of any net carryover loss) for the two most recent fiscal years. SBA regulations also provide alternative criteria to determine eligibility, which may include, among other things, the industry in which the business is engaged, the number of employees of the business, its gross sales, and the extent to which the SBIC is proposing to participate in a change of ownership of the business. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

The SBA prohibits an SBIC from providing funds to small businesses for certain purposes, such as relending, real estate or investing in companies outside of the United States, and providing funds to businesses engaged in a few prohibited industries and to certain passive (i.e., non-operating) companies. In addition, without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC's regulatory capital in any one company and its affiliates.

The SBA requires that SBICs invest idle funds in accordance with SBA regulations. SBA regulations also include restrictions on a change of control or other transfers of limited partnership interests in an SBIC. In addition, SBIC I LP may also be limited in its ability to make distributions to us if it does not have sufficient accumulated net profit, in accordance with SBA regulations.

SBIC I LP is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of the SBIC license and an SBA leverage commitment does not assure that SBIC I LP will receive SBA guaranteed debenture funding, and such funding is dependent upon SBIC I LP's continuing to be in compliance with SBA regulations and policies.

The SBA, as a creditor, will have a superior claim to the SBIC I LP's assets over our shareholders in the event that SBIC I LP is liquidated or the SBA exercises its remedies under the SBA debentures issued by SBIC I LP in the event of a default.

## **Other**

We are subject to periodic examination by the SEC for compliance with the Exchange Act and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to OFS Capital or our shareholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and OFS Advisor each have adopted and implemented written policies and procedures reasonably designed to prevent violation of relevant federal securities laws, will review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and have designated a chief compliance officer to be responsible for administering the policies and procedures.

We are generally prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. The SEC has interpreted the BDC prohibition on transactions with affiliates to prohibit all joint transactions between entities that share a common investment adviser. Further, 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 exemptive relief from the SEC to permit us to co-invest in portfolio

companies with certain Affiliated Funds 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 the Order. Pursuant to the Order, we are generally permitted to co-invest with Affiliated Funds if a required majority (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our shareholders and do not involve overreaching by us or our shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies.

S-75

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TABLE OF CONTENTS

The staff of the SEC has granted no-action relief permitting purchases of a single class of privately placed securities provided that the adviser negotiates no term other than price and certain other conditions are met. As a result, unless under the Order, we only expect to co-invest on a concurrent basis with certain funds advised by OFS Advisor when each of us will own the same securities of the issuer and when no term is negotiated other than price. Any such investment would be made, subject to compliance with existing regulatory guidance, applicable regulations and OFS Advisor's allocation policy. If opportunities arise that would otherwise be appropriate for us and for another fund advised by OFS Advisor to invest in different securities of the same issuer, OFS Advisor will need to decide which fund will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which another fund advised by OFS Advisor has previously invested.

Our internet address is *www.ofscapital.com*. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statement and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

S-76

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TABLE OF CONTENTS

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock began trading on November 8, 2012 on The Nasdaq Global Market under the symbol OFS . Effective January 2, 2014, our common stock was included in the Nasdaq Global Select Market. The following table lists the high and low closing sale price for our common stock, net asset value per share, and the cash distributions per share that we have declared on our common stock for each fiscal quarter during the last two most recently completed fiscal years.

Period	NAV Per Share <sup>(1)</sup>	Price Range		Premium (Discount) of High Sales Price to NAV	Premium (Discount) of Low Sales Price to NAV	Cash Distribution per Share
		High	Low			
<b>Fiscal 2017</b>						
First Quarter <sup>(2)</sup>	*	\$ 15.22	\$ 13.55	*	*	\$ 0.34
<b>Fiscal 2016</b>						
Fourth Quarter	\$ 14.82	\$ 14.09	\$ 12.25	(4.9 )%	(17.3 )%	\$ 0.34
Third Quarter	\$ 14.67	\$ 14.25	\$ 12.78	(2.9 )%	(12.9 )%	\$ 0.34
Second Quarter	\$ 14.76	\$ 13.75	\$ 11.83	(6.8 )%	(19.9 )%	\$ 0.34
First Quarter	\$ 14.65	\$ 13.07	\$ 9.98	(10.8 )%	(31.9 )%	\$ 0.34
<b>Fiscal 2015</b>						
Fourth Quarter	\$ 14.76	\$ 11.72	\$ 10.11	(20.6 )%	(31.5 )%	\$ 0.34
Third Quarter	\$ 14.46	\$ 12.17	\$ 10.00	(15.8 )%	(30.8 )%	\$ 0.34
Second Quarter	\$ 14.66	\$ 12.50	\$ 11.75	(14.7 )%	(19.8 )%	\$ 0.34
First Quarter	\$ 14.24	\$ 12.44	\$ 11.20	(12.6 )%	(21.3 )%	\$ 0.34

Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the (1) net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

(2) Period from January 1, 2017 through March 28, 2017. The cash distribution is payable March 31, 2017 to shareholders of record on March 17, 2017.

\*

Not determinable at the time of filing.

S-77

TABLE OF CONTENTS

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The information contained in this section should be read in conjunction with the Selected Consolidated Financial Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Special Note Regarding Forward-Looking Statements appearing elsewhere herein.*

## Critical Accounting Policies and Significant Estimates

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. Critical accounting policies are those that require management to make subjective or complex judgments about the effect of matters that are inherently uncertain and may change in subsequent periods. Changes that may be required in the underlying assumptions or estimates in these areas could have a material impact on our current and future financial condition and results of operations.

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 of directors. For a descriptions of our revenue recognition and fair value policies, see Note 2 to the consolidated financial statements included in this prospectus supplement.

**Revenue recognition.** Our investment activities frequently involve the acquisition of multiple financial instruments or rights either in an initial transaction, or in subsequent or follow-on transactions, including amendments to existing securities. These financial instruments can include loans, preferred and common stock, warrants, or membership interests in limited liability companies. Acquired rights can include fixed or variable fees that can be either guaranteed or contingent upon operating performance of the underlying portfolio companies. Moreover, these fees may be payable in cash or additional securities. (Acquired rights and financial instruments together, Instruments .)

The revenue recognized on these Instruments is a function of the fee or other consideration allocated to them, including amounts allocated to capital structuring fees, at the time of acquisition. Additionally, subsequent amendments to these Instruments can involve both

a determination as to whether the amendment is of such significance to deem it the consummation of the initial investment transaction and the acquisition of new Instruments (i.e., a significant modification ), or a modification of those Instruments to be recognized over their remaining lives, and an additional allocation of consideration among newly acquired Instruments.



TABLE OF CONTENTS

These allocations are generally based on the relative fair value of the Instruments at the time of the transaction, a process involving fair value estimates which is also a critical accounting policy and significant estimate. Moreover, these allocations and determinations can differ between GAAP and federal income tax bases. Once determined, these allocations directly effect the discount/premium and yield on debt securities, the cost and net gains/losses on equity securities, and capital structuring fees recognized in the statements of operations; and ICTI. These allocations require an understanding of the terms and conditions of the underlying agreements and requires significant management judgment. The table below presents the impact to the initial cost bases of allocated consideration to acquired Instruments for the years ended December 31, 2016, 2015, and 2014 (in thousands):

	2016	2015	2014
Loans:			
Net Loan Fees <sup>(1)</sup> (excluding equity securities and cash amendment fees)	\$(983 )	\$(922 )	\$(974 )
Equity securities (including performance-contingent fees)	(822 )		(1,101 )
Equity securities (including performance-contingent fees)	822		1,101
Capital structuring fees	369	653	775

(1) Loan origination fees, OID, market discount or premium, and loan amendment fees.

**Fair value estimates.** As of December 31, 2016, approximately 92% of our total assets were carried on the consolidated balance sheets at fair value. As discussed more fully in Note 2 to the consolidated financial statements included in this prospectus supplement. GAAP requires us to categorize financial assets and liabilities carried at fair value according to a three-level valuation hierarchy. The hierarchy gives the highest priority to quoted, active market prices for identical assets and liabilities (Level 1) and the lowest priority to valuation techniques that require significant management judgment because one or more of the significant inputs are unobservable in the market place (Level 3). All of our assets carried at fair value are classified as Level 3; we typically do not hold equity securities or other instruments that are actively traded on an exchange.

As described in Note 6 to the consolidated financial statements included in this prospectus supplement, we follow a process, under the supervision and review of the board, to determine these unobservable inputs used to calculate the fair values of our investments. The most significant unobservable inputs in these fair value measurements are the discount rates, EBITDA multiples and projected cash flows contractually due from the investment.

We consider a variety of factors in our determination of the discount rate to be applied to an investment including, among other things, investment type, LIBOR swap rate, indicative yields from independent third-party sources and the yield on our investment relative to indicative yields at the time of our investment (initial and subsequent investments) in the portfolio company.

We also consider a variety of factors in our determination of the EBITDA multiple to be applied to an investment including, among other things, the actual EBITDA multiple for the last arms-length transaction, and the ratio of the portfolio company's EBITDA multiple to the average of EBITDA multiples on comparable public companies.

For both the discount rate and the EBITDA multiple we also consider developments at the portfolio company since our investment including, but not limited to, trends in the portfolio company's earnings and leverage multiple, and input from our independent third-party valuation firms. This process typically results in a single selected discount rate and/or EBITDA multiple for each investment.





TABLE OF CONTENTS

The following table illustrates the sensitivity of our fair value measures to reasonably likely changes to the estimated discount rate inputs used in our debt investment valuations at December 31, 2016 (dollar amounts in thousands):

	Fair Value at December 31, 2016	Weighted average discount rate at December 31, 2016	Discount rate sensitivity	
			-10% Weighted average	+10% Weighted average
Debt investments:				
Senior Secured	\$ 149,128	12.07 %	\$ 151,809	\$ 145,721
Subordinated	\$ 45,635	14.19 %	\$ 46,703	\$ 44,118

The table above presents the impact to our debt-investment fair value accounting measures by uniformly modifying our discount rate valuation input. This table does not present the estimated effect of hypothetical changes in actual, observed interest rates, which would affect the cash flows from many of the underlying investments as they are indexed to LIBOR or the Prime Rate of interest, the operating environment of many of our portfolio companies, and other factors, as well as our estimates of the discount rate valuation input. The effect of hypothetical changes in actual, observed interest rates on our fair value measures is not subject to reasonable estimation.

## Related Party Transactions

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

We entered into 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 and cash equivalents 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 *Management and Other Agreements* included in the accompanying prospectus, and Note 4 to the Consolidated Financial Statements included in this prospectus supplement.

We entered into the Administration Agreement with OFS Capital Services, an affiliate of OFS Advisor, to provide us with the office facilities and administrative services necessary to conduct our operations. See *Management and Other Agreements* included in the accompanying prospectus, and Note 4 to the Consolidated Financial Statements included in this prospectus supplement.

We have entered into 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 BDCs 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 Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to ours.

## Portfolio Composition and Investment Activity

### Portfolio Composition

As of December 31, 2016, the fair value of our debt investment portfolio totaled \$244.4 million in 39 portfolio companies, of which 74% and 26% were senior secured loans and subordinated loans, respectively, and approximately \$37.3 million in equity investments, at fair value, in 17 portfolio companies in which we also held debt investments and two portfolio companies in which we solely held an equity investment. We had

S-80

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TABLE OF CONTENTS

unfunded commitments of \$2.6 million to three portfolio companies at December 31, 2016. Set forth in the tables and charts below is selected information with respect to our portfolio as of December 31, 2016 and 2015.

The following table summarizes the composition of our investment portfolio as of December 31, 2016 and 2015 (dollar amounts in thousands):

	December 31, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Senior secured debt investments <sup>(1)</sup>	\$ 182,315	\$ 180,955	\$ 161,944	\$ 160,437
Subordinated debt investments	66,591	63,410	65,227	64,240
Preferred equity	23,293	23,721	19,120	22,133
Common equity and warrants	7,108	13,541	5,964	10,486
	\$ 279,307	\$ 281,627	\$ 252,255	\$ 257,296
Total number of portfolio companies	41	41	38	38

Includes debt investments in which we have entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of certain (1) co-lenders pursuant to a payment waterfall. The aggregate amortized cost and fair value of these investments was \$28,945 and \$29,276 at December 31, 2016, respectively, and \$26,024 and \$25,567, at December 31, 2015, respectively.

The following table shows the portfolio composition by geographic region at amortized cost and fair value and as a percentage of total investments; the geographic composition is determined by the location of the portfolio companies corporate headquarters (dollar amounts in thousands):

	Amortized Cost				Fair Value			
	December 31, 2016		December 31, 2015		December 31, 2016		December 31, 2015	
South US	\$120,005	42.9 %	\$102,995	40.8 %	\$122,511	43.5 %	\$104,325	40.5 %
Northeast US	85,693	30.7	81,657	32.4	78,186	27.8	80,730	31.4
West US	59,120	21.2	53,243	21.1	61,219	21.7	56,549	22.0
Midwest US	10,566	3.8	14,360	5.7	15,788	5.6	15,692	6.1
Canada	3,923	1.4			3,923	1.4		
Total	\$279,307	100.0%	\$252,255	100.0%	\$281,627	100.0%	\$257,296	100.0%

As of December 31, 2016, our investment portfolio's three largest industries by fair value, were (1) Administrative and Support and Waste Management Remediation Services, (2) Manufacturing, and (3) Professional, Scientific, and Technical Services, totaling approximately 52.6% of the investment portfolio. For a full summary of our investment portfolio by industry, see Note 5, Investments to the consolidated financial statements included in this prospectus supplement.

The following table presents our debt investment portfolio by investment size as of December 31, 2016 and 2015 (dollar amounts in thousands):

	Amortized Cost				Fair Value			
	December 31, 2016		December 31, 2015		December 31, 2016		December 31, 2015	
Up to \$4,000	\$34,547	13.9 %	\$39,946	16.2 %	\$41,419	16.9 %	\$39,964	17.8 %

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\$4,001 to \$7,000	57,996	23.3	61,931	27.3	55,342	22.6	57,641	25.7
\$7,001 to \$10,000	78,446	31.5	44,679	19.7	80,735	33.0	54,597	24.3
\$10,001 to \$13,000	34,549	13.9	54,963	24.2	37,593	15.4	44,288	19.7
Greater than \$13,000	43,368	17.4	28,652	12.6	29,276	12.0	28,187	12.5
Total	\$248,906	100.0%	\$230,171	100.0%	\$244,365	100.0%	\$224,677	100.0%

S-81

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TABLE OF CONTENTS

The following table displays the composition of our performing debt investment portfolio by weighted average yield as of December 31, 2016 and 2015:

Weighted Average Yield	December 31, 2016			2015		
	Senior Secured Debt	Subordinated Debt	Total Debt	Senior Secured Debt	Subordinated Debt	Total Debt
Less than 8%	8.7 %	11.4 %	9.5 %	12.5 %		
8% - 10%	7.7		5.6	17.9		8.9
10% - 12%	32.6	11.9	27.0	22.7		
12% - 14%	30.9	58.1	38.2	43.2	76.8	19.4
Greater than 14%	20.1	18.6	19.7	3.7	23.2	71.7
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Weighted average yield	11.95 %	12.44 %	12.08 %	11.28 %	13.39 %	11.89 %

The weighted average yield on our performing debt investments is computed as (a) the annual stated accruing interest plus the annualized accretion of Net Loan Fees divided by (b) amortized cost excluding assets on non-accrual basis as of the balance sheet date. Substituting total debt investments at amortize cost for total debt investments at fair value in (b), in the above computation, results in a weighted average yield to fair value of 12.30% and 12.01% as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, floating rate loans at fair value were 66% and 59% of our debt investment portfolio, respectively, and fixed rate loans at fair value were 34% and 41% of our debt investment portfolio, respectively.

**Non-Accrual Assets**

At December 31, 2016, we had one loan designated non-accrual with respect to PIK interest and Net Loan Fees with an amortized cost and fair value of \$7.6 million and \$5.4 million, respectively. This loan was initially placed on non-accrual status at September 30, 2016, at which time, we ceased recognizing cash and PIK interest income, and Net Loan Fees. During the fourth quarter of 2016, through execution of an amendment, the loan became current with respect to all cash and PIK interest, and we resumed accruing cash interest. However, at December 31, 2016, management determined that the principal balance of the loan may not be fully collectible, and therefore we placed the loan on non-accrual with respect to the PIK interest and Net Loan Fee amortization. At December 31, 2015, one investment with aggregate cost and fair value of \$0.9 million and \$0.8 million, respectively, was carried as a non-accrual loan.

**Investment Activity**

The following is a summary of our investment activity for the years ended December 31, 2016 and 2015 (dollar amounts in millions):

Year Ended December 31, 2016		Year Ended December 31, 2015	
Debt	Equity	Debt	Equity
Investments	Investments	Investments	Investments

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Investments in new portfolio companies	\$48.7	\$ 0.7	\$66.6	\$ 12.1
Investments in existing portfolio companies:				
Follow-on investments	13.9	0.8	7.2	
Refinanced investments	3.2		37.9	
Delayed draw funding	0.9		0.2	
Total investments in existing portfolio companies	18.0	0.8	45.3	
Total investments in new and existing portfolio companies	\$66.7	\$ 1.5	\$111.9	\$ 12.1
Number of new portfolio company investments	8	1	12	2
Number of existing portfolio company investments	10	1	6	

S-82

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TABLE OF CONTENTS

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Proceeds/distributions from principal payments/equity investments	\$41.4	\$	\$96.1	\$ 0.2
Proceeds from investments sold or redeemed <sup>(1)</sup>	2.8	2.5	93.3	5.6
Total proceeds from principal payments, equity distributions and investments sold	\$44.2	\$ 2.5	\$189.4	\$ 5.8

(1) The year ended December 31, 2015 includes \$7.2 million of proceeds pertaining to a debt investment we sold in December 2014 and \$67.3 million of proceeds pertaining to the WM Asset Sale.

During the year ended December 31, 2016, we converted \$1.8 million in principal of a subordinated debt investment into preferred equity units and warrants valued at \$1.8 million, converted \$0.3 million in principal of a senior secured debt investment into preferred equity units valued at \$0.3 million, and converted \$0.8 million in principal of a subordinated debt investment into a senior secured debt investment in the same portfolio company. In addition, we amended a senior secured debt investment for which it received preferred equity units in the same portfolio company valued at \$0.2 million and received additional preferred equity units with nominal value in connection with a \$1.3 million follow on investment in the same portfolio company.

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.

We categorize debt investments 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 Business Portfolio Review/Risk Monitoring. The following table shows the classification of our debt investments portfolio by risk category as of December 31, 2016 and 2015 (dollar amounts in thousands):

Risk Category	As of December 31, 2016		2015	
	Debt Investments, at Fair Value	% of Debt Investments	Debt Investments, at Fair Value	% of Debt Investments
1 (Low Risk)	\$	%	\$	%
2 (Below Average Risk)	3,810	1.6	15,755	7.0
3 (Average)	192,078	78.6	187,276	83.4
4 (Special Mention)	43,084	17.6	17,171	7.6
5 (Substandard)	5,393	2.2	4,475	2.0
6 (Doubtful)				
7 (Loss)				
	\$ 244,365	100.0 %	\$ 224,677	100.0 %

During the year ended December 31, 2016, we reclassified four debt investments from category 3 to category 4 and one debt investment from category 2 to category 4, with an aggregate fair value at December 31, 2016 of \$29.9

million and \$3.7 million, respectively due to a degradation in the underlying businesses of the portfolio companies and as a result of various covenant defaults. In addition, we reclassified one debt investment from category 3 to category 5 (our non-accrual debt investment with respect to PIK interest and Net Loan Fees described above) and one debt investment from category 5 to category 4, with an aggregate fair value at December 31, 2016 of \$5.4 million and \$4.0 million respectively. All other year over year changes in the fair value of our debt investments within each category, were a result of new debt

S-83

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TABLE OF CONTENTS

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 within the categories, and other investment activity.

## 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 debt investments, capital gains, and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of December 31, 2016, floating rate and fixed rate loans comprised 66% and 34%, respectively, of our current debt investment portfolio 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 investments provide for deferred interest or dividend payments, 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). In addition, we may generate total investment income in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Loan origination fees, OID, market discount or premium, and loan amendment fees are capitalized, and 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

S-84

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TABLE OF CONTENTS

(b) changes in net unrealized appreciation/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 previously recognized unrealized appreciation or depreciation, and the net gain recognized in that period will generally be smaller. The 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 on 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 in interest income and any prepayment fees on the debt security 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 LP is subject to regulation and oversight by the SBA. For the reasons described above, the results of operations described below may not necessarily be indicative of the results we expect to report in future periods.

Net increase 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 in net assets resulting from operations may not be meaningful.

We changed the primary method used to value certain of our investments as of December 31, 2016, from the income approach to the market approach ( Valuation Methodology Change ), primarily due to the nature of evidence available under the discounted cash flow method, and to better align with industry practice. The methodology change resulted in a fourth quarter 2016 net increase to the carrying value of the investments and corresponding net increase in unrealized appreciation/depreciation on investments in the consolidated statement of operations of approximately \$1.6 million.

## Comparison of years ended December 31, 2016, 2015, and 2014.

Consolidated operating results for the years ended December 31, 2016, 2015, and 2014 are as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Total investment income	\$ 31,094	\$ 32,264	\$ 22,820
Total expenses	16,949	18,853	13,685
Net investment income	14,145	13,411	9,135
Net gain (loss) on investments	(317 )	4,820	805
Net increase in net assets resulting from operations	\$ 13,828	\$ 18,231	\$ 9,940

### Total Investment Income

	2016	2015	2014
Interest income:	(Amounts in thousands)		

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Senior secured debt investments	\$ 19,485	\$ 20,038	\$ 18,410
Subordinated debt investments	8,109	8,932	2,926
Total interest income	27,594	28,970	21,336
Dividend income:			
Preferred equity	1,601	1,276	570
Common equity	307	85	
Total dividend income	1,908	1,361	570

S-85

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TABLE OF CONTENTS

	2016	2015	2014
	(Amounts in thousands)		
Fee income	1,592	1,933	914
Total investment income	\$ 31,094	\$ 32,264	\$ 22,820

**Comparison of Investment Income for the Years Ended December 31, 2016 and 2015:**

Interest income decreased \$1.4 million primarily due to a \$1.0 million decrease in interest income and a \$0.4 million decrease in accelerated Net Loan Fees. The \$1.0 million decrease in interest income was primarily due to a \$3.6 million decrease caused by a 13% decrease in the average outstanding loan balance during 2016, offset by an increase of \$2.6 million caused by a 19 basis point increase in the weighted average yield in our portfolio during the year ended December 31, 2016. The 13% decrease in the weighted average principal balance of investments and increase in our average portfolio yield was primarily a result of the WM Asset Sale which occurred on May 28, 2015, the proceeds of which had only been partially reinvested in higher yielding assets subsequent to the WM Asset Sale. Acceleration of Net Loan Fees of \$0.6 million and \$1.0 million were included in interest income for the year ended December 31, 2016 and 2015, respectively. Acceleration of Net Loan Fees occur and are recognized on certain loans that are repaid prior to their scheduled due date.

Preferred equity cash and PIK dividend income increased approximately \$0.3 million primarily as a result of additional preferred equity securities purchased during 2015. Common equity dividend income increased by \$0.2 million primarily due to an additional common equity security purchased during the fourth quarter of 2015.

Fee income decreased \$0.3 million primarily due to a decrease in prepayment fees, capital structuring fees. We recorded prepayment fees of \$0.9 million resulting from \$25.0 million of unscheduled principal payments during the year ended December 31, 2016, compared to \$1.1 million from \$47.5 million of unscheduled principal payments during 2015. We recognized capital structuring fees of \$0.4 million and \$0.7 million for the years ended December 31, 2016 and 2015, respectively, upon the closing of \$37.3 million and \$89.0 million of debt and equity investments, respectively.

**Comparison of Investment Income for the Years Ended December 31, 2015 and 2014:**

Interest income increased by \$7.6 million primarily due to the increase in our average portfolio yield, offset by a decrease of \$0.4 million in accelerated Net Loan Fees. Our average portfolio yield increased due to the reallocation of capital into debt investments of lower middle market portfolio companies. Acceleration of Net Loan Fees occur and are recognized on certain loans that are repaid prior to their scheduled due date.

Dividend income increased by \$0.8 million, primarily due to a full year recognition of PIK dividends in 2015 from equity investments purchased in 2014.

Fee income increased by \$1.0 million, primarily due to an increase in prepayment fees received which are earned when a portfolio company repays its debt obligation prior to maturity. We did not recognize any prepayment fees during the year ended December 31, 2014.

**Expenses**

2016	2015	2014
(Amounts in thousands)		

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Interest expense	\$ 5,302	\$ 6,959	\$ 5,578
Management fees	4,516	5,225	2,916
Incentive fee	3,333	2,627	1,253
Professional fees	1,200	1,114	1,517
Administration fee	1,304	1,637	1,245
General and administrative expenses	1,294	1,291	1,176
Total expenses	\$ 16,949	\$ 18,853	\$ 13,685

S-86

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TABLE OF CONTENTS

Comparison of Expenses for the Years Ended December 31, 2016 and 2015:

Interest expense decreased by \$1.7 million, primarily due to a year-over-year decrease of \$0.8 million in cash interest expense on our secured revolving line of credit with Wells Fargo Bank, N.A. ( WM Credit Facility ) and a \$1.6 million write-off of deferred debt issuance costs, both related to our permanent reduction of the WM Credit Facility and the termination of the WM Credit Facility on May 28, 2015, offset by an increase of \$0.7 million in cash interest expense incurred on our SBA debentures. Interest expense on our SBA debentures increased due to an increase in the weighted average interest rate and the weighted average debentures outstanding during the year ended December 31, 2016, as a result of additional debenture draws of \$22.6 million during the nine months ended September 30, 2015, which pooled on September 23, 2015.

Management fee expense decreased by \$0.7 million, due to a decrease in the average total assets subject to the base management fee.

Incentive fee expense increased by \$0.7 million, due to a 11% increase in pre-incentive fee net investment income compared to the prior year, which resulted in a \$0.8 million increase in the incentive fee catch-up provision (the amount of pre-incentive fee income that exceeds the hurdle rate but is less than 2.5%) and a \$0.1 million increase in the incentive fee due to the amount of pre-incentive fee income that exceeded 2.5%, partially offset by a \$0.1 million decrease in the Capital Gains Fee, which represents the reversal of the accrued Capital Gains Fee at December 31, 2015.

Administrative fee expense decreased by \$0.3 million, primarily due to a decrease in the allocable amount of incentives of our officers and their respective staffs, which OFS Services passed along to us under our administration agreement.

Comparison of Expenses for the Years Ended December 31, 2015 and 2014:

Interest expense increased by \$1.4 million due to an increase of \$2.7 million in interest expense incurred on our SBA debentures, which was due to an increase of \$99.5 million in the weighted average SBA debentures outstanding during 2015 compared to 2014. The increase in interest on our SBA debentures was offset by a decrease of approximately \$2.1 million in interest expense on the WM Credit Facility, due to a decrease of approximately \$66.9 million in weighted average borrowings on the facility in 2015 compared to 2014 driven by repayments throughout 2015, including termination of the facility on May 28, 2015. In addition, amortization and write-off of deferred financing closing costs, which is included in interest expense, increased by \$0.8 million for the year ended December 31, 2015, compared to the year ended December 31, 2014. The increase was due to increased write-offs of \$1.0 million in deferred financing closing costs in connection with permanent reductions of the WM Credit Facility, an increase of \$0.2 million in amortization on the deferred financing closing costs incurred upon the draw of SBA debentures, offset by a decrease of \$0.4 million in amortization of deferred financing closing costs on the WM Credit Facility due to a lower average balance of deferred financing closing costs in 2015 as a result of the permanent reductions made to the WM Credit Facility in 2015.

Management fee expense of \$5.2 million for the year ended December 31, 2015, consisted of \$4.9 million of base management fee expense we incurred to OFS Advisor and \$0.3 million of loan management fee charged by MCF Capital Management, LLC, the loan manager for OFS Capital WM (see OFS Capital WM Credit Facility section below for more details). Management fee expense totaled \$2.9 million for the year ended December 31, 2014, consisting of \$2.2 million of base management fee expense we incurred to OFS Advisor and \$0.7 million of loan management fee charged by MCF Capital Management, LLC. The base management fee to OFS Advisor increased by approximately \$2.7 million, of which approximately \$0.5 million was due to an increase in our average total assets

during the year ended December 31, 2015 as compared to our average total assets during the year ended December 31, 2014 and approximately \$2.2 million was due to the reset of our base management fee to 0.4375% per quarter effective January 1, 2015 as compared with 0.145833% effective April 1, 2014. The decrease of approximately \$0.4 million of loan management fee charged by MCF Capital Management, LLC was due to a decreased amount of portfolio investments subject to the loan management fee during 2015 and the termination of the WM Credit Facility on May 28, 2015.

S-87

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TABLE OF CONTENTS

Incentive fee expense increased \$1.4 million, primarily as result of an increase in our pre-incentive fee net investment income.

Administrative fee expense increased by \$0.4 million, primarily due to an increase in the allocable amount of the salary and incentives of our officers and their respective staffs, which OFS Services passed along to us under our administration agreement.

**Net Gain on Investments**

	2016	2015	2014
	(Amounts in thousands)		
Senior secured debt	\$ 411	\$ (1,276 )	\$ (1,783 )
Subordinated debt	(2,368 )	(1,106 )	117
Preferred equity	(2,584 )	3,351	1,334
Common equity and warrants	4,224	3,851	1,137
<b>Net gain (loss) on investments</b>	<b>\$ (317 )</b>	<b>\$ 4,820</b>	<b>\$ 805</b>

**Year ended December 31, 2016**

We recognized net gains of \$0.4 million on senior secured debt during the year ended December 31, 2016, primarily as a result of the net positive impact of market based transactions on our fair values, offset by the net impact of portfolio company-specific performance factors, the pay-off of certain senior secured debt investments, and \$0.4 million as a result of the Valuation Methodology Change.

We recognized net losses of \$2.4 million on subordinated debt during the year ended December 31, 2016, principally due to the net impact of portfolio company-specific performance factors and \$0.5 million as a result of the Valuation Methodology Change.

We recognized net losses of \$2.6 million on preferred equity investments for the year ended December 31, 2016, primarily due to the net impact of portfolio company-specific performance factors offset by \$2.1 million as a result of the Valuation Methodology Change.

We recognized net gains of \$4.2 million on common equity and warrant investments for the year ended December 31, 2016, primarily due to the net impact of portfolio company-specific performance factors and \$0.4 million as a result of the Valuation Methodology Change. In addition, we realized gains of \$2.1 million from the redemption of an equity investment. We held this investment from the first quarter of 2014 and recognized unrealized gains of \$2.1 million and \$0.5 during the years ended December 31, 2015 and 2014, respectively. The net impact of this transaction was a recognized net loss of \$0.5 during the year ended December 31, 2016 due to the reversal of the accumulated unrealized gains in excess of the recognized realized gain.

**Year ended December 31, 2015**

We recognized net losses of \$1.3 million on senior secured debt during the year ended December 31, 2015, primarily as a result of the net impact of changes to certain market loan indices, the impact of portfolio company-specific performance factors, and the settlement of a senior secured debt investment with one of our portfolio companies (Strata Pathology Services, Inc.) ( Strata Settlement ) in the fourth quarter of 2015, partially offset by the pay-off of certain senior secured debt investments, including the WM Asset Sale. In connection with the Strata Settlement, we recognized a realized loss of \$3.9 million and reversed \$3.2 million of previously recognized cumulative unrealized

depreciation.

We recognized net losses of \$1.1 million on subordinated debt during the year ended December 31, 2015, principally due to the net impact of portfolio company-specific performance factors, and the impact of changes to certain market loan indices.

We recognized net gains of \$3.4 million on preferred equity investments for the year ended December 31, 2015, primarily due to the impact of portfolio company-specific performance factors, the impact of certain investments moving closer to their expected exit events, and a net gain of \$0.7 million from the sale of an investment. We realized a \$1.4 million gain on the sale of the equity investment, offset by the reversal

S-88

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TABLE OF CONTENTS

of previously recognized unrealized gains from the date we held this investment, which included recognized unrealized gains of \$0.5 million at December 31, 2014.

We recognized net gains of \$3.9 million on common equity and warrant investments for the year ended December 31, 2015, primarily due to the impact of exit-event assumptions on our valuations, the net impact of portfolio company-specific performance factors, and a gain of \$0.7 million from the redemption of a warrant investment.

**Year ended December 31, 2014**

We recognized net losses of \$1.8 million on senior secured debt during the year ended December 31, 2014, primarily as a result of the impact of portfolio company-specific performance factors, and a \$1.8 million net loss related to the restructuring of our debt investment in Tangible Software, Inc. in the fourth quarter of 2014 ( Tangible Restructuring ). In connection with the Tangible Restructuring, we recorded a \$2.9 million realized loss. The \$2.9 million realized loss reflected a reversal of (1) approximately \$1.1 million of unrealized losses recorded on this investment during the year ended December 31, 2013, (2) approximately \$1.7 million of additional unrealized losses recorded from January 1, 2014 through December 17, 2014, the Tangible Restructuring date, and (3) approximately \$0.1 million of additional losses we recognized on the Tangible Restructuring date, which represented the difference between the fair value of consideration we received in connection with the Tangible Restructuring and the fair value of the pre-restructured investments on the restructuring date.

We recognized net gains of \$1.3 million on preferred equity investments for the year ended December 31, 2014, primarily due to the net impact of portfolio company-specific performance factors.

We recognized net gains of \$1.1 million on common equity and warrant investments for the year ended December 31, 2014, primarily due to the net impact of portfolio company-specific performance factors. In addition we realized a loss of \$0.7 million related to the Tangible Restructuring in the fourth quarter of 2014. We recognized accumulated unrealized losses on this investment of \$0.7 million prior to 2014. There was no net loss for the year ended December 31, 2014, on this transaction.

**Liquidity and Capital Resources****Sources and Uses of Cash and Cash Equivalents**

We generate cash through operations from net investment income and the net liquidation of portfolio investments, and uses cash in its operations in the net purchase of portfolio investments. We must distribute substantially all its taxable income, which approximates, but will not always equal, the cash it generates from net investment income to maintain its RIC tax treatment. Our distributions for the years ended December 31, 2016, 2015 and 2014, resulted in a distribution in excess of taxable income. We have no history of net taxable gains. The Company also obtains and uses cash in the net borrowing of funds from the SBA and commercial sources of debt. These principal sources and uses of cash and liquidity are presented below (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Cash from net investment income	\$ 10,051	\$ 12,541	\$ 8,522
Net sales and repayments (purchases) of portfolio investments	(21,367 )	71,197	(73,731 )
Net cash provided by (used in) operating activities	(11,316 )	83,738	(65,209 )

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Cash distributions paid	(13,062 )	(12,690 )	(12,847 )
Net borrowings (repayments)	9,500	(50,027 )	64,952

**Comparison of the Years Ended December 31, 2016 and 2015:**

At December 31, 2016, we held cash and cash equivalents of \$17.7 million, a decrease of \$15.1 million from December 31, 2015. During the year ended December 31, 2016, net purchases of portfolio investments were primarily due to \$68.2 million of cash we used to purchase portfolio investment offset by \$41.4 million of cash we received from principal payments on our portfolio investments and \$2.8 million and \$2.5 million of cash collected from the redemption and sale of a common equity securities and partial sale of a debt investment, respectively.

S-89

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TABLE OF CONTENTS

Net cash from net investment income decreased \$2.5 million for the year ended December 31, 2016, compared to the year ended December 31, 2015. The decline in cash collected from net investment income was principally due to higher management and incentive fees paid. Cash used to pay incentive fees during the year ended December 31, 2016 were \$1.6 million greater than the year ended December 31, 2015, due to an increase in our pre-incentive fee net investment income in the fourth quarter of 2015 and the first, second and third quarter of 2016, which were paid during the year ended December 31, 2016. Cash used to pay base management fees during the year ended December 31, 2016 were \$0.2 million greater than the year ended December 31, 2015 primarily due to adjustments in the base management fee rate on January 1, 2015, which lead to a \$0.9 million increase in cash paid for management fees during the year ended December 31, 2016, that was offset by a reduction of \$0.7 million in management fees paid during the year ended December 31, 2016, due to a decrease in the average fair value of our investment portfolio, primarily as a result of the WM Asset Sale in the second quarter of 2015 and subsequent increase in cash and cash equivalents which are not subject to the management fee.

Cash paid for interest increased \$0.2 million for the year ended December 31, 2016, compared to the year ended December 31, 2015, due to higher payments on SBA debentures, partially offset by lower payments on the WM Credit Facility. We are required to make interest payments on our SBA debentures semi-annually in March and September through maturity. The weighted average outstanding balance on our SBA debentures, excluding debt issuance costs, increased from \$143.7 million for the year ended December 31, 2015, to \$149.9 million for the year ended December 31, 2016. Additionally, during the first and second quarter of 2015, \$65.9 million and \$22.6 million, respectively, of the weighted average outstanding balance for the year ended December 31, 2015, carried interest at a lower pre-pooling, short-term rate. Consequently, we paid cash interest of \$4.7 million on our SBA debentures for the year ended December 31, 2016 compared to \$3.2 million for the year ended December 31, 2015. This increase was partially offset by a decline in cash paid for interest on our WM Credit Facility from \$1.4 million in the year ended December 31, 2015 to \$0 in the year ended December 31, 2016, due to the retirement of that facility.

Net borrowings of \$9.5 million for the year ended December 31, 2016, were attributable to advances received under the PWB Credit Facility which was used to fund an investment purchases and general corporate activities.

**Comparison of the Years Ended December 31, 2015 and 2014:**

At December 31, 2015, we held cash and cash equivalents of \$32.7 million. During the year ended December 31, 2015, net sales and repayments of portfolio investments were primarily due to \$96.1 million of cash we received from principal payments on our portfolio investments, cash collections of \$98.9 million from the sale of our portfolio investments, including \$7.2 million of cash collection from an investment we sold in December 2014, \$67.3 million from the WM Asset Sale, and \$5.6 million from the sale (including partial-sale) or redemption of our equity interests in six portfolio companies. These cash receipts were offset by \$124.0 million of cash we used to purchase portfolio investments and the repayment of debt.

Net cash from net investment income increased \$4.0 million for the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase was primarily due to a \$6.3 million increase in cash interest income primarily as a result of an increase in the average yield of our portfolio, and a \$0.8 net increase in fees caused by a \$1.1 million increase in prepayment fees, offset by a decrease of \$0.3 million in cash collected for capital structuring services, loan amendment and other fees. The increase in cash interest income and prepayment fees were offset by an increase of \$1.3 million of cash paid for incentive fees due to an increase in our pre-incentive net investment income during the year ended December 31, 2015, and an increase of \$1.7 million of cash paid for base management fees, of which approximately \$0.6 million was due to an increase in our average total assets during the year ended December 31, 2015 as compared to our average total assets during the year ended December 31, 2014, and approximately \$1.1 million was due to the reset of our base management fee to 0.4375% per quarter effective January 1, 2015 as

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compared with 0.145833% effective April 1, 2014, respectively.

Net repayment of borrowings of \$50.0 million for the year ended December 31, 2015, was primarily attributable to \$22.0 million of draws from our SBA debentures (net of the fees), offset by \$72.6 million of net repayments on the WM Credit Facility.

S-90

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TABLE OF CONTENTS

**SBA Debentures**

As a result of the SBIC Acquisitions, SBIC I LP became our wholly-owned subsidiary effective December 4, 2013.

SBIC I LP has 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 OFS Capital, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate is fixed at the first pooling date after issuance, which is 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 to 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 December 31, 2016 and 2015, SBIC I LP had fully drawn the \$149.9 million of leverage commitments from the SBA.

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

On a stand-alone basis, SBIC I LP held \$247.5 million and \$245.1 million in assets at December 31, 2016 and 2015, respectively, which accounted for approximately 81% and 83% 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. In addition, SBIC I LP may also be limited in its ability to make distributions to OFS Capital if it does not have sufficient capital in accordance with SBA regulations.

Such actions by the SBA would in turn, negatively affect OFS Capital.

**PWB Credit Facility**

On November 5, 2015, we entered into a Business Loan Agreement ( BLA ) with Pacific Western Bank, as lender, to provide us with a \$15.0 million senior secured revolving credit facility ( PWB Credit Facility ). The PWB Credit Facility is available for general corporate purposes including investment funding and was scheduled to mature on November 6, 2017. 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 and otherwise specified in the BLA.

The PWB Credit Facility is guaranteed by OFS Capital WM and secured by all of our current and future assets excluding assets held by SBIC I LP and the Company's SBIC I LP and SBIC I GP partnership interests.

On October 31, 2016, the BLA was amended to, among other things (i) increase the maximum amount available under the PWB Credit Facility from \$15 million to \$25 million, (ii) extend the maturity date from November 6, 2017 to October 31, 2018, (iii) increase the fixed interest rate from 4.75% to 5.00% per annum, and (iv) exclude subordinated loan investments (as defined in the BLA) from the borrowing base. In addition, as of the amendment date, we will incur an unused commitment fee, payable monthly in arrears, equal to 0.50% per annum on any unused portion of the PWB Credit Facility in excess of \$15.0 million. There were no advances under the facility prior to the October 31,

2016 amendment.

As of December 31, 2016, availability under the PWB Credit Facility was \$15.5 million, based on the stated advance rate of 50% under the borrowing base.

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,

S-91

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TABLE OF CONTENTS

bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition. As of December 31, 2016, the Company was in compliance with the applicable covenants.

## **WM Asset Sale and Related Transactions**

On May 28, 2015, OFS Capital and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison, a Delaware limited liability company, pursuant to which OFS Capital WM sold a portfolio of 20 senior secured debt investments with an aggregate principal balance of approximately \$67.8 million as of May 28, 2015 to Madison. Madison is an affiliated entity of MCF Capital Management, LLC ( MCF ), which was the loan manager for OFS Capital WM prior to the WM Asset Sale under a Loan and Security Agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, each of the Lenders from time to time party thereto, and Wells Fargo Delaware Trust Company, N.A. (the Loan and Security Agreement ).

As a result of the WM Asset Sale, we received cash proceeds of approximately \$67.3 million. On May 28, 2015, the total fair value of the debt investments sold, applying the March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was approximately \$66.7 million. The determination of the fair value of our investments is subject to the good faith determination by our board of directors, which is conducted no less frequently than quarterly, pursuant to our valuation policies and accounting principles generally accepted in the United States.

On May 28, 2015, pursuant to the Loan and Security Agreement, we applied approximately \$52.4 million from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM 's secured revolving credit facility with the WM Credit Facility. As a result of the termination of the WM Credit Facility, we wrote-off the remaining related unamortized deferred financing closing costs of \$1.2 million on the revolving line of credit.

In connection with the WM Asset Sale, on May 28, 2015, OFS Capital WM and the Company entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to the remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter.

## **Other Liquidity Matters**

We expect to fund the growth of our investment portfolio utilizing borrowings under SBA debentures, future equity offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act. We cannot assure shareholders that our plans to raise capital will be successful. In addition, we intend to distribute to our shareholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments or make additional investments in our portfolio companies. 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 December 31, 2016), of at least 200%. We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the

statutory 200% asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

S-92

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TABLE OF CONTENTS**Contractual Obligations and Off-Balance Sheet Arrangements**

The following table shows our contractual obligations as of December 31, 2016 (in thousands):

Contractual Obligations <sup>(1)</sup>	Payments due by period					After 5 years <sup>(2)</sup>
	Total	Less than 1 year	1 3 year <sup>(2)</sup>	3 5 years		
PWB Credit Facility	\$ 9,500	\$	\$ 9,500	\$	\$	
SBA Debentures	149,880					149,880
Total	\$ 159,380	\$	\$ 9,500	\$	\$	\$ 149,880

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

(2) The PWB Credit Facility is scheduled to mature on October 31, 2018. The SBA debentures are scheduled to mature between September 2022 and 2025.

We have entered into contracts with affiliates 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 \$2.6 million of total unfunded commitments to three portfolio companies at December 31, 2016.

**Distributions**

We are taxed as a RIC under the Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine taxable income. Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income 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 our shareholders. For the year ended December 31,

2016, approximately \$1.25 per share, \$0.02 per share, and \$0.09 per share of our distributions represented ordinary income, long-term capital gain, and a return of capital to its shareholders, respectively.

## **Quantitative and Qualitative Disclosures about Market Risk**

We are subject to financial market risks, including changes in interest rates. As of December 31, 2016, 66% of our debt investments bore interest at floating interest rates and 34% of our debt investments bore fixed interest rates, at fair value. The interest rates on our debt investments bearing floating interest rates are usually

S-93

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TABLE OF CONTENTS

based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current rates on a periodic basis. A significant portion of the debt investments bearing floating interest rates in our portfolio as of December 31, 2016, had interest rate floors, which have effectively converted those debt investments to fixed rate debt investments in the current interest rate environment.

Our outstanding SBA debentures and PWB Credit Facility bear interest at a fixed rate. We expect that other credit facilities into which we may enter in the future may have floating interest rate provisions.

Assuming that the consolidated balance sheet as of December 31, 2016, were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates (in thousands):

Basis point increase <sup>(1)</sup>	Interest income	Interest expense	Net increase (decrease)
50	\$ 557	\$	\$ 557
100	1,318		1,318
150	2,119		2,119
200	2,955		2,955
250	3,790		3,790

(1) A decline in interest rates would not have a material impact on our net investment income. Although we believe that the foregoing analysis is indicative of our sensitivity to interest rate changes as of December 31, 2016, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets in our portfolio, and other business developments, including borrowings under our credit facility, that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

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

TABLE OF CONTENTS**SENIOR SECURITIES**

Information about our senior securities (including preferred stock, debt securities and other indebtedness) is shown in the following tables as of December 31, 2016, 2015, 2014, 2013 and 2012. The report of our independent registered public accounting firm, BDO USA, LLP, on the senior securities table as of December 31, 2016, 2015, and 2014 is attached as an exhibit to the registration statement of which this prospectus supplement is a part. The indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

(dollar amounts in thousands, except per unit data)	Total Amount Outstanding Exclusive of Treasury Securities <sup>(1)</sup>	Asset Coverage Per Unit <sup>(2)</sup>	Involuntary Liquidating Preference Per Unit <sup>(3)</sup>	Average Market Value Per Unit <sup>(4)</sup>
Class and Year				
<b>PWB Credit Facility</b>				
December 31, 2016	\$ 9,500	\$ 15,821		N/A
December 31, 2015	\$	\$		N/A
<b>WM Credit Facility</b>				
December 31, 2014	\$ 72,612	\$ 2,847		N/A
December 31, 2013	\$ 108,955	\$ 2,256		N/A
December 31, 2012	\$ 99,224	\$ 2,429		N/A
<b>Small Business Administration Debentures (SBIC I LP)<sup>(5)</sup></b>				
December 31, 2016	\$ 149,880	\$		N/A
December 31, 2015	\$ 149,880	\$		N/A
December 31, 2014	\$ 127,295	\$		N/A
December 31, 2013	\$ 26,000	\$		N/A
December 31, 2012	\$	\$		N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) 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. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The indicates information which the Securities and Exchange Commission expressly does not require to be disclosed for certain types of senior securities.

(4) Not applicable because senior securities are not registered for public trading.

(5) 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.

S-95

TABLE OF CONTENTS

## **MATERIAL FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of certain material United States federal income tax considerations relating to our qualification and taxation as a RIC and the acquisition, ownership, and disposition of our common stock, but does not purport to be a complete description of the income tax considerations relating thereto. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, including investors subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for securities holdings, United States expatriates, United States persons with a functional currency other than the U.S. dollar, persons that hold notes as part of an integrated investment (including a straddle ), controlled foreign corporations, passive foreign investment companies, or corporations that accumulate earnings to avoid United States federal income tax. This summary is limited to beneficial owners of our common stock that will hold such stock as a capital asset (within the meaning of the Code). The discussion is based upon the Code, temporary and final U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date hereof and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the IRS ) regarding our common stock. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state, or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

This summary does not discuss the consequences of an investment in our subscription rights, debt securities, or warrants representing rights to purchase shares of our preferred stock, common stock, or debt securities or as units in combination with such securities. The U.S. federal income tax consequences of such an investment will be discussed in the relevant prospectus supplement.

A U.S. shareholder generally is a beneficial owner of shares of our common stock who is for United States federal income tax purposes:

A citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence test under Section 7701(b) of the Code;

A corporation or other entity taxable as a corporation, for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;

A trust if: (i) a court in the United States has primary supervision over its administration and one or more U.S. persons have authority to control all substantial decisions of such trust, or (ii) such trust validly elects to be treated as a U.S. person for federal income tax purposes; or

An estate, the income of which is subject to United States federal income taxation regardless of its source.

A Non-U.S. shareholder is a beneficial owner of shares of our common stock that is not a partnership for United States federal income tax purposes or a U.S. shareholder.

If a partnership (including an entity treated as a partnership for United States federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective shareholder that is a partnership should consult its own tax advisors with respect to the tax considerations to its partners of the purchase, ownership and disposition of shares of our common stock.

*Tax matters are very complicated and the tax consequences to an investor of an investment our shares will depend on the facts of their particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.*

S-96

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TABLE OF CONTENTS

## **Election to be Taxed as a RIC**

We have elected to be taxed as a RIC under Subchapter M of the Code. As a RIC, we are not required to pay corporate-level federal income taxes on any income that we distribute to our shareholders from our otherwise taxable earnings and profits. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements, as described below. In addition, to receive RIC tax treatment, we must distribute to our shareholders, for each taxable year, at least 90% of our investment company taxable income as defined by the Code ( ICTI ), which is generally our net ordinary income plus our net short-term capital gains in excess of net long-term capital losses, if any (the Annual Distribution Requirement ). The excess of net long-term capital gains over net short-term capital losses, if any ( Net Capital Gains ), are not a component of the Annual Distribution Requirement, but impacts taxable income if not distributed as discussed below.

## **Taxation as a RIC**

If we:

maintain our qualification as a RIC; and  
satisfy the Annual Distribution Requirement;

then we will not be subject to U.S. federal income tax on the portion of our ICTI or Net Capital Gains we distribute to shareholders. We will be subject to U.S. federal income tax at the regular corporate rates on any ICTI or Net Capital Gain not distributed (or deemed distributed) to our shareholders.

We are also subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income (both long-term and short-term) for the one-year period ending October 31 in that calendar year (or, if we so elect, for that calendar year) and (3) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax (the Excise Tax Avoidance Requirement ). We may choose to retain a portion of our ordinary income and/or capital gain net income in any year and pay the 4% U.S. federal excise tax on the retained amounts.

In order to maintain our qualification as a RIC for federal income tax purposes, we must, among other things:

continue to qualify as a BDC under the 1940 Act at all times during each taxable year;  
derive in each taxable year at least 90% of our gross income from dividends, interest, certain payments with respect to loans of stock and securities, gains from the sale or other disposition of stock, securities, or foreign currencies and other income (including but not limited to gains from options, futures or forward contracts) derived with respect to our business of investing in such stock, securities or currencies, and net income derived from interests in qualified publicly traded partnerships, as such term is defined in the Code (the 90% Income Test ); and

diversify our holdings so that at the end of each quarter of the taxable year:  
at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of our assets and 10% of the outstanding voting securities of such issuer; and  
no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that we control (as determined under applicable tax rules) and that are engaged in the same, similar or related trades or businesses or of one or more qualified publicly traded partnerships (the Diversification Tests ).

S-97



TABLE OF CONTENTS

We may invest in partnerships, including qualified publicly traded partnerships, which may result in our being subject to state, local or foreign income taxes, franchise taxes, or withholding liabilities.

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 with original issue discount (OID) and debt instruments with PIK interest, and we must include in ICTI each year the portion of the OID 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.

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 with original issue discount (OID) and debt instruments with PIK interest, and we must include in ICTI each year the portion of the OID 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.

Some of the income and fees that we recognize would result in ICTI that would not be qualifying income for the 90% Income Test. In order to ensure that such income and fees do not disqualify us as a RIC for a failure to satisfy the 90% Income Test, we recognize such income and fees directly or indirectly through one or more entities taxed as corporations for U.S. federal income tax purposes. Such corporations are required to pay U.S. corporate income tax on their earnings, which ultimately reduces our return on such income and fees.

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our shareholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

In addition, we will be partially dependent on our subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Some of our subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may cause us to fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

Certain of our investment practices may be subject to special and complex federal income tax provisions that may, among other things, (1) treat dividends that would otherwise qualify for the dividends received deduction or constitute qualified dividend income as ineligible for such treatment, (2) disallow, suspend or otherwise limit the allowance of

certain losses or deductions, (3) convert lower-taxed long-term capital gain into higher-taxed short-term capital gain or ordinary income, (4) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (5) cause us to recognize income or gain without receipt of a corresponding distribution of cash, (6) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (7) adversely alter the characterization of certain complex financial

S-98

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TABLE OF CONTENTS

transactions and (8) produce income that will not be considered qualifying income for purposes of the 90% Income Test. We will monitor our transactions and may make certain tax elections to mitigate the potential adverse effect of these provisions, but there can be no assurance that any adverse effects of these provisions will be mitigated.

The remainder of this discussion assumes that we maintain our qualification as a RIC and have satisfied the Annual Distribution Requirement.

A RIC is limited in its ability to deduct expenses in excess of its ICTI. If our expenses in a given year exceed gross taxable income, we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years. In addition, expenses can be used only to offset ICTI, not Net Capital Gains. Due to these limits on the deductibility of expenses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our shareholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Investment income received from sources within foreign countries, or capital gains earned by investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35% or more. The United States has entered into tax treaties with many foreign countries that may entitle us to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of our assets to be invested within various countries is not now known. We do not anticipate being eligible for the special election that allows a RIC to treat foreign income taxes paid by such RIC as paid by its shareholders.

If we purchase shares in a passive foreign investment company (a PFIC), we may be subject to federal income tax on our allocable share of a portion of any excess distribution received on, or any gain from the disposition of, such shares even if our allocable share of such income is distributed as a taxable dividend to its shareholders. Additional charges in the nature of interest generally will be imposed on us in respect of deferred taxes arising from any such excess distribution or gain. If we invest in a PFIC and elect to treat the PFIC as a qualified electing fund under the Code (a QEF), in lieu of the foregoing requirements, we will be required to include in income each year our proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed by the QEF. Alternatively, we may be able to elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income our allocable share of any increase in the value of such shares, and as ordinary loss our allocable share of any decrease in such value to the extent that any such decrease does not exceed prior increases included in its income. Under either election, we may be required to recognize in a year income in excess of distributions from PFICs and proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4% excise tax.

Foreign exchange gains and losses realized by us in connection with certain transactions involving non-dollar debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Code provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to our shareholders.

## **Taxation of U.S. Shareholders**

Distributions by us generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of our ICTI will be taxable as ordinary income to U.S. shareholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional shares of common stock. To the extent such distributions paid by us to non-corporate U.S. shareholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be reported by us as qualified dividend income, or Qualifying Dividends, eligible to be taxed in the

S-99

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TABLE OF CONTENTS

hands of non-corporate shareholders at the rates applicable to long-term gains, provided certain holding period and other requirements are met at both the shareholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be Qualifying Dividends. Distributions of our Net Capital Gains, properly reported by us as capital gain dividends, will be taxable to a U.S. shareholder as long-term capital gains which are currently taxable at a maximum rate of 20% in the case of individuals, trusts or estates, regardless of the U.S. shareholder's holding period for his, her, or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. shareholder's adjusted tax basis in such shareholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. shareholder.

We may decide to retain some or all of our Net Capital Gains but designate the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. shareholder will be required to include his, her, or its share of the deemed distribution in income as if it had been actually distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a credit equal to his, her, or its allocable share of the tax paid thereon by us. Because we expect to pay tax on any retained capital gains at our regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. shareholders will be treated as having paid will exceed the tax they owe on the capital gain distribution. Such excess generally may be claimed as a credit against the U.S. shareholder's other U.S. federal income tax obligations, or refunded to the extent it exceeds the shareholder's liability for federal income tax. A shareholder that is not subject to U.S. federal income tax or otherwise not required to file a federal income tax return would be required to file a federal income tax return on the appropriate form to claim a refund for the taxes we paid. The amount of the deemed distribution net of such tax will be added to the U.S. shareholder's tax basis for his, her, or its common stock. In order to utilize the deemed distribution approach, we must provide written notice to our shareholders prior to the expiration of 60 days after the close of the relevant taxable year.

We cannot treat any of our ICTI as a deemed distribution.

In accordance with certain applicable Treasury regulations and private letter rulings issued by the IRS, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all shareholders must be at least 20% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. shareholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following year, may be treated as if it had been received by our U.S. shareholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her, or its investment.

A shareholder generally will recognize taxable gain or loss if the shareholder sells or otherwise disposes of his, her, or its shares of our common stock. The amount of gain or loss will be measured by the difference between such shareholder's adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the shareholder has held his, her, or its shares for more than one year. Otherwise, it will

S-100

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TABLE OF CONTENTS

be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition, in which case the basis of the shares acquired will be adjusted to reflect the disallowed loss.

In general, individual U.S. shareholders currently are subject to a reduced maximum federal income tax rate of 20% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses), including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. In addition, individuals with modified adjusted gross incomes in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. shareholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate U.S. shareholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. shareholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. shareholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will report to each of our U.S. shareholders, as promptly as possible after the end of each calendar year, the amounts includible in such U.S. shareholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 20% maximum rate). Dividends paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. shareholder's particular situation.

In some taxable years, we may be subject to the alternative minimum tax (AMT). If we have tax items that are treated differently for AMT purposes than for regular tax purposes, we may apportion those items between us and our shareholders, and this may affect our shareholder's AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the IRS, we may apportion these items in the same proportion that dividends paid to each shareholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances.

You should consult your own tax advisor to determine how an investment in our stock could affect your AMT liability.

We may be required to withhold federal income tax, or backup withholding, from all distributions to any non-corporate U.S. shareholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such shareholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. shareholder's federal income tax liability, provided that proper information is provided to the IRS.

As discussed in more detail below, under Taxation of Non-U.S. Shareholders, U.S. shareholders that hold their common stock through foreign accounts or intermediaries will be subject to U.S. withholding tax at a rate of 30% on dividends and proceeds of sale of our common stock paid after December 31, 2018 if certain disclosure requirements related to U.S. accounts are not satisfied.

S-101

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TABLE OF CONTENTS

**Dividend Reinvestment Plan.** We have adopted a dividend reinvestment plan through which dividend distributions are paid to our shareholders in the form of additional shares of our common stock, unless a shareholder elects to receive cash in accordance with the terms of the plan. Any distributions made to a U.S. shareholder that are reinvested under the plan will nevertheless remain taxable to the U.S. shareholder. The U.S. shareholder will have an adjusted tax basis in the additional shares of our common stock purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the shareholder's account.

## **Taxation of Non-U.S. Shareholders**

Whether an investment in our shares is appropriate for a Non-U.S. shareholder will depend upon that person's particular circumstances. An investment in our shares by a Non-U.S. shareholder may have adverse tax consequences. Non-U.S. shareholders should consult their tax advisors before investing in our common stock.

Distributions of our ICTI to Non-U.S. shareholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. shareholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. shareholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States, we will not be required to withhold federal tax if the Non-U.S. shareholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

However, no withholding is required with respect to certain distributions if: (i) the distributions are properly reported to our shareholders as interest-related dividends or short-term capital gain dividends in written statements to our shareholders, (ii) the distributions are derived from sources specified in the Code for such dividends, and (iii) certain other requirements are satisfied. Currently, we do not anticipate that any significant amount of our distributions would be reported as eligible for this exemption from withholding.

Actual or deemed distributions of our Net Capital Gains to a Non-U.S. shareholder, and gains realized by a Non-U.S. shareholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless (i) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. shareholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. shareholder in the United States, or (ii) the Non-U.S. shareholder is an individual that is present in the United States for 183 days or more during the taxable year.

If we distribute our Net Capital Gains in the form of deemed rather than actual distributions, a Non-U.S. shareholder will be entitled to a federal income tax credit or tax refund equal to the shareholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty).

Accordingly, investment in the shares may not be appropriate for a Non-U.S. shareholder.

Legislation commonly referred to as FATCA imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that either fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by United States persons (or held by foreign entities that have U.S. persons as substantial owners), or that reside in jurisdictions that have not entered into intergovernmental agreements with the United States to provide such information. The

S-102

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TABLE OF CONTENTS

types of income subject to the tax include U.S. source interest and dividends, and the gross proceeds from the sale of any property that could produce U.S. source interest or dividends paid after December 31, 2018. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, FATCA also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their shares, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their shares and proceeds from the sale of their shares. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

A Non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. shareholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. shareholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

## **Failure to Qualify as a RIC**

If we are unable to maintain our qualification as a RIC, we will be subject to tax on all of our ICTI and Net Capital Gains at regular corporate rates; we would not receive a dividend deduction for any distributions to our shareholders. Distributions would not be required, and any distributions would be taxable to our shareholders as ordinary dividend income that would, for qualifying non-corporate U.S. shareholders, be eligible for the current 20% maximum rate to the extent of our current and accumulated earnings and profits (subject to limitations under the Code). Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the shareholder's tax basis (reducing that basis accordingly), and any remaining distributions would be treated as a capital gain. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years, in order to qualify as a RIC in a subsequent year.

S-103

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TABLE OF CONTENTS**UNDERWRITING**

We intend to offer the shares through the underwriters named in the table below. Morgan Stanley & Co. LLC, UBS Securities LLC, J.P. Morgan Securities LLC and Citigroup Global Markets Inc. are acting as bookrunning managers and Morgan Stanley & Co. LLC and UBS Securities LLC are acting as representatives of the several underwriters. Subject to the terms and conditions described in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, the number of shares set forth opposite the underwriter's name.

Underwriter	Number of Shares
Morgan Stanley & Co. LLC	
UBS Securities LLC	
J.P. Morgan Securities LLC	
Citigroup Global Markets Inc.	
Janney Montgomery Scott LLC	
Ladenburg Thalmann & Co. Inc.	
Aegis Capital Corp.	
National Securities Corporation	

Total	3,500,000
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The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent registered public accounting firm. The underwriters are committed to purchase all shares included in this offering, other than those shares covered by the option to purchase additional shares described below, if they purchase any of the shares. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

**Commissions and Discounts**

The underwriters have advised us that they propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to certain other Financial Industry Regulatory Authority (FINRA) members at that price less a concession not in excess of \$ per share. After the public offering, the public offering price, concession and discount may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.

The following table shows the per share and total underwriting discounts and commissions. OFS Advisor will pay to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 525,000 shares.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions (sales load) <sup>(1)</sup>	\$	\$
Proceeds to OFS Capital Corporation (before estimated expenses of \$ )		

- (1) OFS Capital Management, LLC has agreed to pay all of the sales load to the underwriters of approximately \$ million, or \$ per share (or approximately \$ million, or \$ per share if the option to purchase additional shares is fully exercised) in connection with this offering, which amount is not reflected in the above table. All other expenses of the offering will be borne by us.

### **Option to Purchase Additional Shares**

We have granted an option to the underwriters to purchase up to 525,000 additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the

S-104

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## TABLE OF CONTENTS

date of this prospectus supplement. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase the additional shares approximately proportionate to that underwriter's initial purchase commitment.

## **No Sales of Similar Securities**

We, our executive officers and directors and OFSAM have agreed that, without the prior written consent of Morgan Stanley & Co. LLC and UBS Securities LLC, on behalf of the underwriters, we and they will not, during the period ending 90 days after the date of this prospectus supplement (the "restricted period"):

sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any shares of our common stock;  
establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act with respect to any shares of our common stock;  
enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of common stock, whether any such transaction is to be settled by delivery of common stock or such other securities, in cash or otherwise;  
publicly announce the intention to effect any transaction described above; or  
file, or participate in the filing of, any registration statement with the SEC relating to the offering of any shares of our common stock.

This lockup provision applies to common stock, any securities convertible into or exercisable or exchangeable for common stock and warrants or other rights to purchase common stock. In addition, we and each such person agrees that, without the prior written consent of Morgan Stanley & Co. LLC and UBS Securities LLC on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of common stock, any securities convertible into or exercisable or exchangeable for common stock, or warrants or other rights to purchase common stock.

The restrictions described in the immediately preceding paragraph do not apply to:

the sale of common stock to the underwriters;  
transfers of shares of common stock or any security convertible into shares of common stock as a bona fide gift or to a trust; or  
issuance of shares of common stock by us pursuant to a dividend reinvestment plan.  
Morgan Stanley & Co. LLC. and UBS Securities, in their sole discretion, may release the shares of our common stock and other securities subject to the lock-up agreements described above in whole or in part at any time.

## **Quotation on the Nasdaq Global Select Market**

Our common stock is quoted on the Nasdaq Global Select Market under the symbol OFS.

## **Price Stabilization and Short Positions**

Until the distribution of the shares is completed, SEC rules may limit the underwriters from bidding for and purchasing our common stock. However, the underwriters may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.



If the underwriters create a short position in the common stock in connection with the offering (i.e., if they sell more shares than are listed on the cover of this prospectus supplement), the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the option to purchase additional shares as described above. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the

S-105

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## TABLE OF CONTENTS

option to purchase additional shares. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Neither we nor any of the underwriters make any representation or prediction as to the magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## **Electronic Delivery**

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a website maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a limited number of shares for sale to their online brokerage customers.

## **Other Relationships**

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and their affiliates have provided in the past and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to us for which they will be entitled to receive customary fees and expenses. In particular, the underwriters or their affiliates may execute transactions with or on behalf of the company. In addition, the underwriters or their affiliates may act as arrangers, underwriters or placement agents for companies whose securities are sold to us.

In the ordinary course of their various business activities, the underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other related financial instruments for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to us or any of the portfolio companies. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at the time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We may purchase securities of third parties from the underwriters or their affiliates after the offering. However, we have not entered into any agreement or arrangement regarding the acquisition of any such securities, and we may not purchase any such securities. We would only purchase any such securities if, among other things, we identified securities that satisfied our investment needs and completed our due diligence review of such securities.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of its business and not in connection with the offering of the common stock. In addition, after the offering period for the sale of our shares, the underwriters or their affiliates may develop analyses or opinions related to OFS Capital Corporation or our portfolio

companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding OFS Capital Corporation to our stockholders.

Affiliates of certain of the underwriters may serve as lenders under any future credit facilities. Some of the underwriters and their affiliates were underwriters in connection with our initial public offering for which they received customary fees.

S-106

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TABLE OF CONTENTS

The principal business addresses of the underwriters are: Morgan Stanley & Co. LLC, 1585 Broadway, New York, New York 10036; UBS Securities LLC, 1285 Avenue of the Americas, New York, New York 10019; J.P. Morgan Securities LLC, 383 Madison Avenue, New York, NY 10179; and Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York 10013.

## **Notice to Prospective Investors in Canada**

The shares of common stock described in this prospectus supplement may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## **Notice to Prospective Investors in Singapore**

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

S-107

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TABLE OF CONTENTS

**Notice to Prospective Investors in Hong Kong**

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the shares has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

S-108

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TABLE OF CONTENTS

## **LEGAL MATTERS**

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Eversheds Sutherland (US) LLP, Washington, District of Columbia. Certain legal matters in connection with the securities offered hereby will be passed upon for the underwriters by Freshfields Bruckhaus Deringer US LLP, New York, New York.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have selected BDO USA, LLP as our independent registered public accounting firm located at 300 North Wabash, Suite 3200, Chicago, IL 60611. The consolidated financial statements of OFS Capital Corporation as of and for the years ended December 31, 2016 and December 31, 2015 in this prospectus supplement have been audited by BDO USA, LLP.

## **AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We are required to file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, Washington, D.C. 20549. The information is available free of charge by contacting us at OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606, or by calling us at (847) 734-2000 or on our website at [www.ofscapital.com](http://www.ofscapital.com). Information on our website is not incorporated by reference into this prospectus supplement.

S-109

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TABLE OF CONTENTS

**FINANCIAL STATEMENTS**

**Index to Financial Statements**

<u>OFS Capital Corporation and Subsidiaries</u>	
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>SF-41</u>
<u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u>	<u>SF-45</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2016, 2015, and 2014</u>	<u>SF-46</u>
<u>Consolidated Statements of Changes in Net Assets for the Years Ended December 31, 2016, 2015, and 2014</u>	<u>SF-47</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015, and 2014</u>	<u>SF-8</u>
<u>Consolidated Schedules of Investments as of December 31, 2016 and 2015</u>	<u>SF-50</u>
<u>Notes to Consolidated Financial Statements</u>	<u>SF-62</u>

SF-1

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TABLE OF CONTENTS

# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
OFS Capital Corporation  
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of OFS Capital Corporation (the Company), including the consolidated schedules of investments, as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, cash flows, and financial highlights for each of the three years in the period ended December 31, 2016. These consolidated financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2016 and 2015 by correspondence with the custodian, loan agent, portfolio companies, or by other appropriate auditing procedures where replies were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of OFS Capital Corporation at December 31, 2016 and 2015, and the results of its operations, changes in net assets and cash flows, and the financial highlights for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), OFS Capital Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2017 expressed an adverse opinion thereon.

/s/ BDO USA, LLP

Chicago, Illinois  
March 15, 2017

SF-2

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TABLE OF CONTENTS

# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
OFS Capital Corporation  
Chicago, Illinois

We have audited OFS Capital Corporation's (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). OFS Capital Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness has been identified and described in management's assessment and is included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. The Company did not design and maintain effective internal controls over certain key assumptions and underlying data used in the Company's investment valuations. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and

this report does not affect our report dated March 15, 2017 on those financial statements.

In our opinion, OFS Capital Corporation did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

SF-3

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TABLE OF CONTENTS

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of OFS Capital Corporation, including the consolidated schedules of investments, as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, cash flows, and financial highlights for each of the three years in the period ended December 31, 2016, and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Chicago, Illinois  
March 15, 2017

SF-4

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Consolidated Balance Sheets****(Dollar amounts in thousands, except per share data)**

	December 31,	
	2016	2015
<b>Assets</b>		
Investments, at fair value		
Non-control/non-affiliate investments (amortized cost of \$178,279 and \$175,529, respectively)	\$173,219	\$177,290
Affiliate investments (amortized cost of \$76,306 and \$63,113, respectively)	81,708	66,393
Control investments (amortized cost of \$24,722 and \$13,613, respectively)	26,700	13,613
Total investments at fair value (amortized cost of \$279,307 and \$252,255, respectively)	281,627	257,296
Cash and cash equivalents	17,659	32,714
Interest receivable	1,770	789
Prepaid expenses and other assets	3,974	3,877
<b>Total assets</b>	<b>\$305,030</b>	<b>\$294,676</b>
<b>Liabilities</b>		
SBA debentures (net of deferred debt issuance costs of \$3,037 and \$3,420, respectively)	\$146,843	\$146,460
Revolving line of credit	9,500	
Interest payable	1,599	1,548
Management and incentive fees payable	2,119	2,238
Administration fee payable	435	488
Accrued professional fees	477	433
Other liabilities	279	497
<b>Total liabilities</b>	<b>161,252</b>	<b>151,664</b>
Commitments and Contingencies (Note 7)		
<b>Net Assets</b>		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively		
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 9,700,297 and 9,691,170 shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively	97	97
Paid-in capital in excess of par	134,300	134,446
Accumulated undistributed net investment income	6,731	4,612
Accumulated undistributed net realized gain (loss)	330	(1,184 )
Net unrealized appreciation on investments	2,320	5,041
<b>Total net assets</b>	<b>143,778</b>	<b>143,012</b>
<b>Total liabilities and net assets</b>	<b>\$305,030</b>	<b>\$294,676</b>

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Number of shares outstanding	9,700,297	9,691,170
Net asset value per share	\$14.82	\$14.76

See Notes to Consolidated Financial Statements.

SF-5

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

	Years Ended December 31,		
	2016	2015	2014
<b>Investment income</b>			
Interest income:			
Non-control/non-affiliate investments	\$17,817	\$23,488	\$16,847
Affiliate investments	7,785	5,341	3,646
Control investment	1,992	141	843
Total interest income	27,594	28,970	21,336
Dividend income:			
Non-control/non-affiliate investments	367	150	1
Affiliate investments	1,272	1,211	569
Control investment	269		
Total dividend income	1,908	1,361	570
Fee income:			
Non-control/non-affiliate investments	1,366	1,463	620
Affiliate investments	110	320	269
Control investment	116	150	25
Total fee income	1,592	1,933	914
<b>Total investment income</b>	<b>31,094</b>	<b>32,264</b>	<b>22,820</b>
<b>Expenses</b>			
Interest expense	5,302	6,959	5,578
Management fees	4,516	5,225	2,916
Incentive fee	3,333	2,627	1,253
Professional fees	1,200	1,114	1,517
Administration fee	1,304	1,637	1,245
General and administrative expenses	1,294	1,291	1,176
<b>Total expenses</b>	<b>16,949</b>	<b>18,853</b>	<b>13,685</b>
<b>Net investment income</b>	<b>14,145</b>	<b>13,411</b>	<b>9,135</b>
<b>Net realized and unrealized gain (loss) on investments</b>			
Net realized gain (loss) on non-control/non-affiliate investments	2,387	(3,033)	199
Net realized gain on affiliate investments	17	1,471	28
Net realized loss on control investment			(3,586)
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(6,699)	5,099	534
Net change in unrealized appreciation/depreciation on affiliate investments	3,341	1,283	1,880
Net change in unrealized appreciation/depreciation on control	637		1,750

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investments			
<b>Net gain on investments</b>	(317 )	4,820	805
<b>Net increase in net assets resulting from operations</b>	\$13,828	\$18,231	\$9,940
Net investment income per common share basic and diluted	\$1.46	\$1.39	\$0.95
Net increase in net assets resulting from operations per common share basic and diluted	\$1.43	\$1.89	\$1.03
Dividends and distributions declared per common share	\$1.36	\$1.36	\$1.36
Basic and diluted weighted average shares outstanding	9,692,634	9,670,153	9,634,471

See Notes to Consolidated Financial Statements.

SF-6

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Consolidated Statements of Changes in Net Assets  
(Dollar amounts in thousands, except per share data)**

	Years Ended December 31,		
	2016	2015	2014
<b>Increase in net assets resulting from operations:</b>			
Net investment income	\$14,145	\$13,411	\$9,135
Net realized gain (loss) on investments	2,404	(1,562 )	(3,359 )
Net change in unrealized appreciation/depreciation on investments	(2,721 )	6,382	4,164
<b>Net increase in net assets resulting from operations</b>	<b>13,828</b>	<b>18,231</b>	<b>9,940</b>
<b>Distributions to shareholders from:</b>			
Accumulated net investment income	(12,157 )	(10,954 )	(6,139 )
Accumulated net realized gain	(169 )		
Return of capital distributions	(858 )	(2,197 )	(6,964 )
<b>Total distributions to shareholders</b>	<b>(13,184 )</b>	<b>(13,151 )</b>	<b>(13,103 )</b>
<b>Common stock transactions:</b>			
Reinvestment of shareholder distributions	122	461	256
<b>Net increase in net assets resulting from capital transactions</b>	<b>122</b>	<b>461</b>	<b>256</b>
<b>Net increase (decrease) in net assets</b>	<b>766</b>	<b>5,541</b>	<b>(2,907 )</b>
<b>Net assets:</b>			
Beginning of year	143,012	137,471	140,378
End of year	\$143,778	\$143,012	\$137,471
Accumulated undistributed net investment income	\$6,731	\$4,612	\$2,459
<b>Common stock activity:</b>			
Shares issued from reinvestment of shareholder distributions	9,127	40,336	21,037
Shares issued and outstanding at beginning of year	9,691,170	9,650,834	9,629,797
<b>Shares issued and outstanding at end of year</b>	<b>9,700,297</b>	<b>9,691,170</b>	<b>9,650,834</b>

See Notes to Consolidated Financial Statements.

SF-7

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

	Years Ended December 31,		
	2016	2015	2014
<b>Cash Flows From Operating Activities</b>			
Net increase in net assets resulting from operations	\$13,828	\$18,231	\$9,940
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net realized (gain) loss on investments	(2,404 )	1,562	3,359
Net change in unrealized appreciation/depreciation on investments	2,721	(6,382 )	(4,164 )
Amortization of Net Loan Fees (see Note 2)	(1,414 )	(2,263 )	(1,459 )
Amendment fees collected	261	112	354
Payment-in-kind interest and dividend income	(2,627 )	(2,322 )	(1,172 )
Reversal of payment-in-kind interest income on non-accrual loans			64
Amortization and write-off of deferred debt issuance costs	490	2,117	1,354
Amortization of intangible asset	195	195	209
Purchase and origination of portfolio investments	(68,237)	(123,950)	(162,822)
Proceeds from principal payments on portfolio investments	41,404	96,069	79,587
Proceeds from sale or redemption of portfolio investments	5,274	98,895	9,493
Proceeds from distributions received from portfolio investments	192	183	11
Changes in operating assets and liabilities:			
Interest receivable	(937 )	(113 )	(139 )
Interest payable	51	233	272
Management and incentive fees payable	(119 )	1,009	61
Administration fee payable	(53 )	215	(7 )
Other assets and liabilities	59	(53 )	(150 )
<b>Net cash provided by (used in) operating activities</b>	<b>(11,316)</b>	<b>83,738</b>	<b>(65,209 )</b>
<b>Cash Flows From Investing Activities</b>			
Change in restricted cash			450
<b>Net cash provided by investing activities</b>			<b>450</b>
<b>Cash Flows From Financing Activities</b>			
Net repayment of advances from affiliated entities			(15 )
Distributions paid to shareholders	(13,062)	(12,690 )	(12,847 )
Borrowings under revolving line of credit	9,500	1,217	20,188
Repayments under revolving line of credit		(73,829 )	(56,531 )
Draw down on SBA debentures		22,585	101,295
Change in other liabilities			90
Payment of debt issuance costs	(177 )	(750 )	(3,282 )
Payment of common stock offering costs		(4 )	(261 )

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<b>Net cash (used in) provided by financing activities</b>	(3,739 )	(63,471 )	48,637
Net increase (decrease) in cash and cash equivalents	(15,055)	20,267	(16,122 )
Cash and cash equivalents beginning of year	32,714	12,447	28,569
Cash and cash equivalents end of year	\$17,659	\$32,714	\$12,447
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for interest	\$4,762	\$4,609	\$3,592
Reinvestment of shareholder distributions	122	461	256

See Notes to Consolidated Financial Statements.

SF-8

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2016  
(Dollar amounts in thousands)**

Portfolio Company <sup>(1)</sup> Investment Type	Industry	Interest Rate <sup>(2)</sup>	Spread Above Index <sup>(2)</sup>	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<b><u>Non-control/Non-affiliate investments</u></b>								
<b>Accurate Group Holdings, Inc.<sup>(4)</sup></b>								
Subordinated Loan	Offices of Real Estate Appraisers	13.00%	N/A	8/23/2018	\$10,000	\$10,032	\$10,000	7.0 %
<b>Armor Holdings II LLC</b>								
Senior Secured Loan	Other Professional, Scientific, and Technical Services	10.25%	(L +9.00%)	12/26/2020	3,500	3,469	3,496	2.4
<b>AssuredPartners, Inc</b>								
Senior Secured Loan	Insurance Agencies and Brokerages	10.00%	(L +9.00%)	10/20/2023	5,000	4,854	5,013	3.5
<b>Avison Young Canada, Inc.</b>								
Senior Secured Loan <sup>(4)(5)</sup>	Offices of Real Estate Agents and Brokers	9.50%	N/A	12/15/2021	4,000	3,923	3,923	2.7
<b>BCC Software, LLC<sup>(4)</sup></b>								
Senior Secured Loan	Custom Computer Programming Services	9.00%	(L +8.00%)	6/20/2019	5,143	5,105	5,143	3.6
Senior Secured Loan Revolver <sup>(9)(3)</sup>		N/A	(L +8.00%)	6/20/2019		(8 )		
					5,143	5,097	5,143	3.6
<b>Community Intervention Services, Inc.<sup>(4)</sup></b>								
Subordinated Loan <sup>(6)(10)</sup>	Outpatient Mental Health	7.0% cash/6.0%	N/A	1/16/2021	8,030	7,639	5,393	3.8

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	and Substance Abuse Centers	PIK						
<b>Confie Seguros Holdings II Co.</b>								
Senior Secured Loan	Insurance Agencies and Brokerages	10.25%	(L +9.00%)	5/8/2019	4,000	3,976	3,973	2.8
<b>C7 Data Centers, Inc.<sup>(4)</sup></b>								
Senior Secured Loan <sup>(8)</sup>	Other Computer Related Services	12.47%	(L +8.50%)	6/22/2020	14,850	14,738	14,883	10.4
<b>Elgin Fasteners Group</b>								
Senior Secured Loan	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	8.50%	(L +7.25%)	8/27/2018	4,104	4,090	3,555	2.5
<b>Enhance Technologies Holdings LLC</b>								
Senior Secured Loan	Other Basic Inorganic Chemical Manufacturing	5.50%	(L +4.50%)	2/7/2018	2,032	2,027	2,017	1.4
<b>Intrafusion Holding Corp.<sup>(4)</sup></b>								
Senior Secured Loan <sup>(7)</sup>	Other Outpatient Care Centers	11.33%	(L +6.75%)	9/25/2020	14,250	14,207	14,393	10.0
<b>Jobson Healthcare Information, LLC<sup>(4)</sup></b>								
Senior Secured Loan <sup>(10)</sup>	Other Professional, Scientific, and Technical Services	10.13% cash/4.295% PIK	(L +12.425%)	7/21/2019	14,762	14,423	12,346	8.6
Warrants (1,056,428 member units) <sup>(9)</sup>						454		
					14,762	14,877	12,346	8.6
<b>Maverick Healthcare Equity, LLC<sup>(4)</sup></b>								
Preferred Equity (1,250,000 units) <sup>(9)</sup>	Home Health Equipment Rental					900	1,037	0.7
Common Equity (1,250,000 units) <sup>(9)</sup>						900	1,037	0.7
<b>MN Acquisition, LLC<sup>(4)</sup></b>								
Senior Secured Loan	Software Publishers	10.50%	(L +9.50%)	8/24/2021	4,989	4,896	4,949	3.4
<b>My Alarm Center, LLC<sup>(4)</sup></b>								
Senior Secured Loan	Security Systems	12.00%	(L +11.00%)	7/9/2019	6,250	6,034	6,260	4.4

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	Services (except Locksmiths)			
Preferred Equity (100 Class A units) <sup>(9)</sup>		203	205	0.1
Preferred Equity (25 Class A-1 units) <sup>(9)</sup>		44	36	
		6,250	6,281	6,501 4.5

See Notes to Consolidated Financial Statements.

SF-9

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)  
December 31, 2016  
(Dollar amounts in thousands)**

See Notes to Consolidated Financial Statements.

SF-10

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)  
December 31, 2016  
(Dollar amounts in thousands)**

See Notes to Consolidated Financial Statements.

SF-11

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)  
December 31, 2016  
(Dollar amounts in thousands)**

- (1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The majority of investments that bear interest at a variable rate are indexed to the London Interbank Offered Rate ( LIBOR ) (L) or Prime (P), and reset monthly, quarterly, or semi-annually. Substantially all of the Company s LIBOR referenced investments are subject to an interest rate floor. For each investment, the Company has provided
- (2) the spread over the reference rate and current interest rate in effect at December 31, 2016. 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) The negative fair value is the result of the unfunded commitment being below par.
- (4) Investments held by OFS SBIC I, LP. All other investments pledged as collateral under the PWB Credit Facility. Non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended ( 1940 Act ).
- (5) Qualifying assets must represent at least 70% of the Company s assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2016, 98.4% of the Company s assets were qualifying assets.

See Notes to Consolidated Financial Statements.

SF-12

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)**  
**December 31, 2016**  
**(Dollar amounts in thousands)**

- (6) Investment was on non-accrual status as of December 31, 2016, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2, *Dividend Income* and *Non-accrual loans* for further details. 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
- (7) reported interest rate of 11.33% at December 31, 2016, includes additional interest of 2.08% per annum as specified under the contractual arrangement among the Company and the co-lenders. The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co-lenders pursuant to a payment waterfall. The
- (8) reported interest rate of 12.47% at December 31, 2016, includes additional interest of 2.97% per annum as specified under the contractual arrangement among the Company and the co-lenders.

(9) Non-income producing.

- The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest
- (10) 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, 2016:

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%
Intelli-Mark Technologies, Inc.	Senior Secured Loan	0% or 2.00%	13.00% or 11.50%	2.00%
Jobson Healthcare Information, LLC	Senior Secured Loan	1.50% and 4.295%	10.13% and 12.925%	4.295%
Pfanstiehl Holdings, Inc.	Subordinated Loan	0% or 2.00%	10.50% or 8.50%	2.00%
United Biologics Holdings, LLC	Senior Secured Loan	0% or 2.00%	14.00% or 12.00%	2.00%

See Notes to Consolidated Financial Statements.

SF-13



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2015  
(Dollar amounts in thousands)**

Portfolio Company <sup>(1)</sup> Investment Type	Industry	Interest Rate <sup>(2)</sup>	Spread Above Index <sup>(2)</sup>	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<b><u>Non-control/Non-affiliate Investments</u></b>								
<b>Accurate Group Holdings, Inc.<sup>(4)</sup></b>								
Subordinated Loan	Offices of Real Estate Appraisers	12.50%	N/A	8/23/2018	\$ 10,000	\$ 10,050	\$ 9,940	7.0%
<b>A.C.T. Lighting, Inc.<sup>(4)</sup></b>								
Subordinated Loan	Electrical Apparatus and Equipment, Wiring Supplies, and Related	12.00% cash/2.0% PIK	N/A	7/24/2019	3,574	3,558	3,559	2.5
<b>All Metals Holding, LLC<sup>(4)</sup></b>								
Senior Secured Term Loan	Metal Service Centers and Other Metal Merchant Wholesalers	10.50%	N/A	12/30/2019	9,900	9,765	9,697	6.8
Common Equity (69,464 member units) <sup>(10)</sup>						69	259	0.2
<b>AssuredPartners, Inc.<sup>(4)</sup></b>								
Senior Secured Loan	Insurance Agencies and Brokerages	10.00%	(L +9.00%)	10/22/2023	3,000	2,883	2,894	2.0
<b>B+B SmartWorx Inc. (f/k/a B&amp;B Electronics Manufacturing Company)</b>								
Senior Secured Loan	Communications Equipment Manufacturing	6.50%	(L +5.00%)	3/31/2016	2,257	2,257	2,257	1.6

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**BCC Software, LLC<sup>(4)</sup>**

Senior Secured Loan	Custom Computer Programming Services	9.00%	(L +8.00%)	6/20/2019	6,573	6,504	6,355	4.4
Senior Secured Loan (Revolver) <sup>(3)(10)</sup>		N/A	(L +8.00%)	6/20/2019		(11 )	(36 )	
					6,573	6,493	6,319	4.4

**Community Intervention Services, Inc. (f/k/a South Bay Mental Health Center, Inc.)<sup>(4)</sup>**

Subordinated Loan <sup>(11)</sup>	Outpatient Mental Health and Substance Abuse Centers	10.0% cash/3.0% PIK	N/A	1/16/2021	6,672	6,610	6,456	4.5
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**Confie Seguros Holdings II Co.**

Senior Secured Loan	Insurance Agencies and Brokerages	10.25%	(L +9.00%)	5/8/2019	4,000	3,965	3,893	2.7
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**C7 Data Centers, Inc.<sup>(4)</sup>**

Senior Secured Loan <sup>(8)</sup>	Other Computer Related Services	13.25%	(L +8.50%)	6/22/2020	11,850	11,828	11,508	8.0
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**Elgin Fasteners Group**

Senior Secured Loan	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	6.00%	(L +4.75%)	8/27/2016	4,551	4,534	4,506	3.2
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**HealthFusion, Inc.<sup>(4)(9)</sup>**

Senior Secured Loan	Software Publishers	13.00%	N/A	10/7/2018	4,750	4,711	4,893	3.4
Warrant (2,007,360 shares) <sup>(10)</sup>							2,560	1.8
					4,750	4,711	7,453	5.2

**Inhance Technologies Holdings LLC**

Senior Secured Loan	Other Basic Inorganic Chemical Manufacturing	5.50%	(L +4.50%)	2/7/2018	2,248	2,242	2,180	1.5
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**Intelli-Mark Technologies, Inc.<sup>(4)</sup>**

Senior Secured Loan <sup>(10)</sup>	Other Travel Arrangement and Reservation Services	13.00%	N/A	11/23/2020	8,750	8,664	8,664	6.1
Common Equity (2,553,089 shares) <sup>(10)</sup>						1,500	1,500	1.0
					8,750	10,164	10,164	7.1

**Intrafusion Holding Corp.<sup>(4)</sup>**

Senior Secured Loan <sup>(7)</sup>	Other Outpatient Care Centers	12.84%	(P +5.75%)	9/25/2020	14,250	14,196	14,059	9.8
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See Notes to Consolidated Financial Statements.

SF-14

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)  
December 31, 2015  
(Dollar amounts in thousands)**

See Notes to Consolidated Financial Statements.

SF-15

---

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)  
December 31, 2015  
(Dollar amounts in thousands)**

See Notes to Consolidated Financial Statements.

SF-16

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Consolidated Schedule of Investments (continued) December 31, 2015 (Dollar amounts in thousands)

- (1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. Investments that bear interest at a variable rate are indexed to the London Interbank Offered Rate ( LIBOR ) (L) or Prime (P), and reset monthly or quarterly. All of the Company s LIBOR referenced investments are subject to an
- (2) interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2015. 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) The negative fair value is the result of the unfunded commitment being valued below par.
- (4) Investments held by OFS SBIC I, LP. All other investments pledged as collateral under the PWB Credit Facility. Non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended ( 1940 Act ).
- (5) Qualifying assets must represent at least 70% of the Company s assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2015, 96.3% of the Company s assets were qualifying assets.
- (6) Investment was on non-accrual status as of December 31, 2015, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 2 for further details.  
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
- (7) reported interest rate of 12.84% at December 31, 2015, includes additional interest of 3.59% per annum as specified under the contractual arrangement among the Company and the co-lenders.

See Notes to Consolidated Financial Statements.

SF-17

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (continued)**  
**December 31, 2015**  
**(Dollar amounts in thousands)**

(8) The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co-lenders pursuant to a payment waterfall. The reported interest rate of 13.25% at December 31, 2015, includes additional interest of 3.75% per annum as specified under the contractual arrangement among the Company and the co-lenders.

(9) In January 2016, HealthFusion, Inc. was purchased, at which time the Common Stock Warrants were redeemed and the Senior Secured Loan was repaid at par. In connection with the loan repayment, the Company received a prepayment penalty of \$143. The Common Stock Warrants were redeemed for total consideration of \$2,385, which included a cash payment of \$2,115 and an additional amount held in escrow valued at \$270 to be released 50% in one year and the remaining amount in approximately two years. In addition, the Company could receive an earn-out payment of up to approximately \$230 to \$460 in 2017.

(10) Non-income producing.

(11) The interest rate includes 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, 2015.

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 3.00%	13.00% or 10.00%	3.00%
Intelli-Mark Technologies, Inc.	Senior Secured Term Loan	0% or 2.00%	13.00% or 11.50%	2.00%
Jobson Healthcare Information, LLC	Senior Secured Term Loan	0% or 2.795%	10.13% or 12.925%	2.795%
Pfanstiehl Holdings, Inc	Subordinated Loan	0% or 1.50%	13.50% or 12.00%	1.50%
United Biologics Holdings, LLC	Subordinated Loan	0% or 2.00%	14.00% or 12.00%	2.00%

See Notes to Consolidated Financial Statements.

SF-18

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 1. Organization

OFS Capital Corporation (the Company), a Delaware corporation, is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for income tax purposes, the Company has elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

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

In addition, OFS Advisor also serves as the investment adviser for Hancock Park Corporate Income, Inc. (Hancock Park), a Maryland corporation and a BDC. Hancock Park's investment objective is similar to that of the Company.

The Company may make investments directly or through OFS SBIC I, LP (SBIC I LP), its investment company subsidiary licensed under the Small Business Administration (SBA) Small Business Investment Company program (the SBIC Program). The SBIC Program is designed to stimulate the flow of capital into eligible businesses. SBIC I LP is subject to SBA regulatory requirements, including limitations on the businesses and industries in which it can invest, requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the Small Business Investment Act of 1958 (SBIC Act), limitations on the financing terms of investments, and capitalization thresholds that may limit distributions to the Company; and is subject to periodic audits and examinations of its financial statements.

#### Note 2. Summary of Significant Accounting Policies

**Basis of presentation:** The Company prepares its consolidated financial statements in accordance with GAAP, including Accounting Standards Codification (ASC) Topic 946, Financial Services—Investment Companies (ASC Topic 946), and the requirements for reporting on Form 10-K, the 1940 Act, and Articles 6 or 10 of Regulation S-X. 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 in accordance with GAAP. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation.

**Principles of consolidation:** The Company consolidates majority-owned investment company subsidiaries. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation.

**Fair value of financial instruments:** The Company applies fair value to substantially all of its financial instruments.

ASC Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820) defines fair value, establishes a framework to measure fair value, and requires disclosures regarding fair value measurements. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined through the use of models and other valuation techniques, valuation inputs, and

assumptions market participants would use to value the investment. Highest priority is given to prices for identical assets quoted in active markets (Level 1) and the lowest priority is given to unobservable valuation inputs (Level 3).

The availability of observable inputs can vary significantly and is affected by many factors, including the type of product, whether the product is new to the market, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on less observable or unobservable inputs, the

SF-19

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 2. Summary of Significant Accounting Policies (continued)

determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3 (i.e., those instruments valued using non-observable inputs), which comprise the entirety of the Company's investments.

Changes to the valuation policy are reviewed by management and the Company's board of directors (the Board). As the Company's investments change, markets change, new products develop, and valuation inputs become more or less observable, the Company will continue to refine its valuation methodologies.

See Note 6 for more detailed disclosures of the Company's fair value measurements of its financial instruments.

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

Additionally, the Company adopted the North American Industry Classification System in the first quarter of 2016 for the purpose of industry classification of the Company's investments on the accompanying schedule of investments. The December 31, 2015 schedule of investments has been conformed to the December 31, 2016 presentation.

**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.

**Reportable segments:** The Company has a single reportable segment and single operating segment structure.

**Cash and cash equivalents:** Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities of three months or less. The Company's cash and cash equivalents are maintained with a member bank of the Federal Deposit Insurance Corporation (FDIC) and at times, such balances may be in excess of the FDIC insurance limits. Included in cash and cash equivalents was \$17,659 and \$32,714 held in a US Bank Money Market Deposit Account as of December 31, 2016 and 2015, respectively.

## Revenue recognition:

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

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

The PIK interest, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest income, as applicable, on the consolidated statements of operations. The Company discontinues accrual of interest income, including PIK interest, when there is reasonable doubt that the interest income will be collected.

Loan origination fees, original issue discount ( OID ), market discount or premium, and loan amendment fees (collectively, Net Loan Fees ) are recorded as an adjustment to the amortized cost of the investment, and accreted or amortized as an adjustment to interest income over the life of the respective debt

SF-20

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)**

investment using a method that approximates the effective interest method. When the Company receives a loan principal payment, the unamortized Net Loan Fees related to the paid principal is accelerated and recognized in interest income.

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

Unamortized Net Loan Fees on debt investments were \$2,983 and \$1,885 as of December 31, 2016 and 2015, respectively. The following table summarizes interest income recognized during the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015	2014
Interest income:			
Cash interest income	\$ 24,901	\$ 25,464	\$ 19,158
Net Loan Fee amortization	1,414	2,263	1,459
PIK interest income	1,194	1,206	683
Other interest income	85	37	36
Total interest income	\$ 27,594	\$ 28,970	\$ 21,336

*Dividend Income:* Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity securities is accrued as earned. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared ( PIK dividends ) are recorded as an adjustment to the cost basis of the investment. The Company discontinues accrual of PIK dividends on preferred equity securities when there is reasonable doubt that the dividend income will be collected. At December 31, 2016, the Company had one preferred equity security (Master Cutlery, LLC), with an amortized cost and fair value of \$3,483 and \$954, respectively, that the Company discontinued the PIK dividend accrual. Distributions received from common or preferred equity securities that do not qualify as dividend income are recorded as a return of capital and a reduction in the adjusted cost basis of the investment. The following table summarizes dividend income recognized during the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015	2014
Preferred equity dividends:			
Cash dividends	\$ 168	\$ 160	\$ 125
PIK dividends	1,433	1,116	445
Total preferred equity dividends	1,601	1,276	570
Common equity dividends	307	85	
Total dividend income	\$ 1,908	\$ 1,361	\$ 570

*Fee Income:* The Company generates 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 its business, the Company receives certain fees from portfolio companies which are non-recurring in nature. Such

SF-21

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)**

non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and fees for capital structuring services from certain portfolio companies, which are recognized as earned upon closing of the investment. The following table summarizes fee income recognized during the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015	2014
Fee income:			
Management, valuation, and other	\$ 159	\$ 159	\$ 139
Prepayment, structuring, and other fees	1,432	1,774	775
Total fee income	\$ 1,592	\$ 1,933	\$ 914

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

*Non-accrual loans:* When there is reasonable doubt that principal, cash interest, PIK interest, or dividends will be collected, loans or preferred equity investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, Net Loan Fee amortization, or dividend income, as applicable. When an investment is placed on non-accrual status, all interest and dividends previously accrued but not collected, other than PIK interest or dividends that has been contractually added to the adjusted cost basis of the investment prior to the designation date, is reversed against current period interest and dividend income. Interest and dividend payments subsequently received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment. Interest or dividend accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest or dividends and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal, interest or dividends. At December 31, 2016 the Company had one loan designated non-accrual with respect to PIK interest and Net Loan Fees with an amortized cost and fair value of \$7,639 and \$5,393, respectively. This loan was initially placed on non-accrual status at September 30, 2016, at which time, the Company ceased recognizing cash and PIK interest income, and Net Loan Fee amortization. During the fourth quarter of 2016, through execution of an amendment, the

loan became current with respect to all cash and PIK interest, and the Company resumed accruing cash interest. However, at December 31, 2016, management determined that the principal balance of the loan may not be fully collectible, and therefore the Company placed the loan on non-accrual with respect to the PIK interest and Net Loan Fee amortization. At December 31, 2015, one investment with aggregate cost and fair value of \$937 and \$798, respectively, was carried as a non-accrual loan.

**Income taxes:** The Company has elected to be treated, and intends to qualify annually, as a RIC under Subchapter M of the Code. To qualify as a RIC, the Company must, among other things, meet certain source of income and asset diversification requirements, and timely distribute at least 90% of its investment company taxable income ( ICTI ) to its shareholders. The Company has made, and intends to continue to make, the requisite distributions to its shareholders, which generally relieves the Company from U.S. federal income taxes.

SF-22

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 2. Summary of Significant Accounting Policies (continued)

Depending on the level of ICTI earned in a tax year, the Company may choose to retain ICTI in an amount less than that which would trigger federal income tax liability under Subchapter M of the Code. However, the Company would be liable for a 4% excise tax on such income. Excise tax liability is recognized when the Company determines its estimated current year annual ICTI exceeds estimated current year distributions.

The Company may utilize wholly-owned holding companies taxed under Subchapter C of the Code when making equity investments in portfolio companies taxed as pass-through entities to meet its source-of-income requirements as a RIC. These tax blocker entities are consolidated in the Company's GAAP financial statements and may result in federal income tax expense with respect to income derived from those investments. Such income, net of applicable federal income tax, is not included in the Company's tax-basis net investment income until distributed by the holding company, which may result in temporary differences and character differences between the Company's GAAP and tax-basis net investment income and realized gains and losses. Federal income tax expense from such holding-company subsidiaries is included in general and administrative expenses in the consolidated statements of operations.

The Company evaluates tax positions taken in the course of preparing its tax returns to determine whether they are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold could result in greater and undistributed ICTI, income and excise tax expense, and, if involving multiple years, a re-assessment of the Company's RIC status. GAAP requires recognition of accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at December 31, 2016 and 2015. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

**Distributions:** Distributions to common shareholders are recorded on the declaration date. The timing of distributions as well as the amount to be paid out as a distribution is determined by the Board each quarter.

Distributions from net investment income and net realized gains are determined in accordance with the Code. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. Distributions paid in excess of taxable net investment income and net realized gains are considered returns of capital to shareholders.

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

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

**Deferred debt issuance costs:** Deferred debt issuance costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. Deferred debt issuance costs are presented as a direct reduction of the related debt liability on the consolidated balance sheets except for deferred debt issuance costs associated with the Company's line of credit arrangements, which are included in prepaid expenses and other assets on the consolidated balance sheets. Deferred debt issuance costs are amortized to interest expense over the term of the related debt.

**Goodwill:** On December 4, 2013, in connection with acquisition of the limited partnership interests in SBIC I LP and membership interest in SBIC I GP (the SBIC Acquisitions), the Company recorded goodwill of \$1,077, which is included in prepaid expenses and other assets on the consolidated balance sheets. Goodwill is not subject to amortization. Goodwill is evaluated for impairment annually or more frequently if

SF-23

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 2. Summary of Significant Accounting Policies (continued)

events occur or circumstances change that indicate goodwill may be impaired. There have been no goodwill impairments since the date of the SBIC Acquisitions.

**Intangible asset:** On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded an intangible asset of \$2,500 attributable to the SBIC license. The Company amortizes this intangible asset on a straight-line basis over its estimated useful life of 13 years. The Company expects to incur annual amortization expense of \$195 in each of the years ending December 31, 2025 and \$145 in 2026.

The Company tests its intangible asset for impairment if events or circumstances suggest that the asset carrying value may not be fully recoverable. The intangible asset, net of accumulated amortization of \$600 and \$405 at December 31, 2016 and 2015, respectively, is included in prepaid expenses and other assets.

**Interest expense:** Interest expense is recognized on an accrual basis.

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

SF-24

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)****New Accounting Standards**

The following table discusses recently issued Accounting Standards Updates ( ASU ) by the Financial Accounting Standards Board ( FASB ) adopted by the Company during 2016:

Standard	Description	Period of Adoption	Effect of Adoption on the financial statements
<i>Standards that were adopted</i>			
ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis	Modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities	First Quarter 2016 retrospectively	No material impact to the Company's consolidated financial statements
ASU 2015-03, Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs	Changes the presentation of debt issuance costs in the financial statements where an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 did not specifically address presentation or subsequent measurement of debt issuance costs related to line of credit	First Quarter 2016 retrospectively	Resulted in a \$3,420 retrospective reduction of both net deferred debt issuance costs and SBA debentures payable in the consolidated balance sheet as of December 31, 2015 and a reduction of amortization and write-off of deferred debt issuance costs and corresponding increase in interest expense in the consolidated statement of operations for the years ended December 31, 2015 and 2014 of \$2,100 and \$1,354, respectively. Net deferred debt issuance costs of \$3,037 are presented as a direct deduction from the SBA debentures payable in the consolidated balance sheet as

arrangements

of December 31, 2016.  
Amortization and write-off of  
deferred debt issuance costs  
associated with the Company's SBA  
debentures and the OFS Capital  
WM revolving line of credit is  
included in interest expense in the  
consolidated statement of  
operations. See Note 8 for more  
details. There was no impact to  
consolidated earnings as a result of  
this adoption

SF-25

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)**

Standard	Description	Period of Adoption	Effect of Adoption on the financial statements
ASU 2015-15, Interest Imputation of Interest: Presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements amendments to SEC paragraphs	Response to SEC views on ASU 2015-03. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line of credit arrangements, the SEC stated it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement	First Quarter 2016 retrospectively	Net deferred debt issuance costs of \$256 and \$185 associated with the Company's PWB Credit Facility are presented as an asset and included in prepaid expenses and other assets in the consolidated balance sheet as of December 31, 2016 and 2015, respectively. There was no impact to consolidated earnings as a result of this adoption

SF-26



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)**

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

Standard	Description	Effect of Adoption on the financial statements
<i>Standards that are not yet adopted</i>		
ASU 2014-09, Revenue from Contracts with Customers	Supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard defines a five step process to achieve this core principle. The standard must be adopting using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures)	In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09, such that the guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company has completed its initial evaluation phase and has determined the impact of its pending adoption of ASU 2014-09 is not expected to have a material effect on the Company's consolidated financial statements.
ASU 2016-01, Financial Instruments Overall	Modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Entities will have to measure equity investments that do not result in consolidation and are not accounted	Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is required to record its investments at fair value with changes in fair value recognized

for under the equity method at fair value, and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC Topic 820, and as such these investments may be measured at cost in net income in accordance with ASC Topic 946. Therefore, the adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements

SF-27

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Summary of Significant Accounting Policies  
(continued)**

Standard	Description	Effect of Adoption on the financial statements
ASU 2016-15, Statement of Cash Flows	Addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows.	Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. The Company is currently evaluating the impact of this ASU will have on the Company's consolidated financial position and disclosures.
ASU 2016-19, Technical Corrections and Improvements	Makes minor corrections and clarifications that affect a wide variety of topics in the Accounting Standards Codification, including an amendment to Topic 820, Fair Value Measurement, which clarifies the difference between a valuation approach and a valuation technique when applying the guidance of that Topic. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. The transition guidance for the Topic 820 amendment must be applied prospectively because it could potentially involve the use of hindsight that includes fair value measurements.	Annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is permitted for any fiscal year or interim period for which the entity's financial statements have not yet been issued. The Company is currently evaluating the impact this ASU will have on the Company's consolidated financial position or disclosures.

**Note 3. OFS Capital WM**

OFS Capital WM, LLC ( "OFS Capital WM" ), a wholly-owned investment company subsidiary, was formed in August 2010 with the limited purpose of holding, acquiring, managing and financing senior secured loan investments to middle-market companies in the United States. On September 28, 2010, the Company became the owner of OFS

Capital WM through a transaction in which it transferred eligible loans or 100% of its participating interest in certain other loans to OFS Capital WM in exchange for cash and a 100% equity ownership interest in OFS Capital WM.

These loans were managed and serviced by MCF Capital Management, LLC ( MCF ) under a loan and security agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, and Well Fargo Delaware Trust Company, N.A. (the Loan and Security Agreement ). MCF charged a management fee of 0.25% per annum of the assigned value of the underlying portfolio investments plus an accrued fee that was deferred until termination of the Loan and Security Agreement on May 28, 2015. The Company incurred management fee expense related to this agreement of \$-0-, \$288, and \$731, for the years ended December 31, 2016, 2015, and 2014, respectively.

**OFS Capital WM Asset Sale and Related Transactions**

On May 28, 2015, the Company and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison Capital Funding LLC ( Madison ), an affiliate of MCF, pursuant to which OFS Capital WM sold a portfolio of 20 senior secured debt investments with an aggregate outstanding principal balance of \$67,807 to Madison for cash proceeds of \$67,309 (the WM Asset Sale ). On May 28, 2015, the total fair

SF-28

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. OFS Capital WM (continued)

value of the debt investments sold, applying the Company's March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was approximately \$66,703. The determination of the fair value of the Company's investments is subject to the good faith determination by the Company's board of directors, which is conducted no less frequently than quarterly, pursuant to the Company's valuation policies and accounting principles generally accepted in the United States.

On May 28, 2015, pursuant to the Loan and Security Agreement, the Company applied \$52,414 from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM's secured revolving line of credit with Wells Fargo Bank, N.A. ( WM Credit Facility ). As a result of the termination of the WM Credit Facility, the Company wrote-off related unamortized deferred financing closing costs of \$1,216.

On May 28, 2015, in connection with the WM Asset Sale, the Company entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to certain of its remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter. The Company incurred loan administration fee expense of \$39, \$33, and \$-0- for the years ended December 31, 2016, 2015, and 2014, respectively.

#### Note 4. Related Party Transactions

**Investment Advisory and Management Agreement:** OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company pursuant to an investment advisory and management agreement dated November 7, 2012 ( Advisory Agreement ). Under the terms of the Advisory Agreement, which are in accordance with the 1940 Act and subject to the overall supervision of the Company's Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of Orchard First Source Asset Management, LLC ( OFSAM ) and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor's services under the Investment Advisory Agreement are not exclusive to the Company and OFS Advisor is free to furnish similar services to other entities, including other BDCs affiliated with OFS Advisor, so long as its services to the Company are not impaired. OFS Advisor also serves as the investment adviser to CLO funds and other assets, including Hancock Park Corporate Income, Inc., a non-traded BDC with an investment strategy similar to the Company.

OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an

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

The base management fee is payable quarterly in arrears and was \$4,516, \$4,937, and \$2,184, for the years ended December 31, 2016, 2015, and 2014, respectively.

The incentive fee has two parts. The first part ( Part One ) is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring,

SF-29

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 4. Related Party Transactions (continued)

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

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

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

realized capital losses and unrealized capital depreciation for the period beginning on the date of the Company's election to be a BDC and ending December 31, 2012.

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

SF-30

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 4. Related Party Transactions (continued)

The Company incurred incentive fee expense of \$3,333, \$2,627, and \$1,253 for the for the years ended December 31, 2016, 2015, and 2014, respectively. Incentive fees for the years ended December 31, 2016, 2015, and 2014, included Part One incentive fees (based on net investment income) of \$3,472, \$2,488 and \$1,253, respectively, and Part Two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(139), \$139 and \$-0-, respectively.

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

**Administration Agreement:** OFS Capital Services, LLC ( OFS Services ), a wholly-owned subsidiary of OFSAM, furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to an administration agreement dated November 7, 2012 ( 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 shareholders 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 shareholders, and generally oversees the payment of the Company s expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, 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.

Administration fee expense was \$1,304, \$1,637 and \$1,245 for the years ended December 31, 2016, 2015, and 2014, respectively.

#### Note 5. Investments

As of December 31, 2016, the Company had loans to 39 portfolio companies, of which 74% were senior secured loans and 26% were subordinated loans, at fair value, as well as equity investments in 17 of these portfolio companies. The Company also held an equity investment in two portfolio companies in which it did not hold a debt interest. At December 31, 2016, investments consisted of the following:

	Amortized Cost	Fair Value
Senior secured debt investments	\$ 182,315	\$ 180,955
Subordinated debt investments	66,591	63,410
Preferred equity	23,293	23,721
Common equity and warrants	7,108	13,541
<b>Total</b>	<b>\$ 279,307</b>	<b>\$ 281,627</b>

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SF-31

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. Investments (continued)**

At December 31, 2016, all but one of the Company's investments, with an amortized cost and fair value of \$3,923 and \$3,923, respectively (domiciled in Canada), 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 portfolio were as follows:

	Amortized Cost		Fair Value	
<b>Administrative and Support and Waste Management and Remediation Services</b>				
Other Travel Arrangement and Reservation Services	\$10,182	3.6 %	\$10,839	3.8 %
Security Systems Services (except Locksmiths)	18,663	6.7	18,883	6.7
Tour Operators	439	0.2	1,019	0.4
<b>Arts, Entertainment, and Recreation</b>				
Fitness and Recreational Sports Centers	14,372	5.1	14,410	5.1
<b>Education Services</b>				
Colleges, Universities, and Professional Schools	5,314	1.9	5,142	1.8
<b>Finance and Insurance</b>				
Insurance Agencies and Brokerages	13,510	4.8	13,599	4.8
<b>Health Care and Social Assistance</b>				
Medical Laboratories	4,204	1.5	4,174	1.5
Other Outpatient Care Centers	14,207	5.2	14,393	5.1
Outpatient Mental Health and Substance Abuse Centers	7,639	2.7	5,393	1.9
<b>Information</b>				
Other Information Services	2,427	0.9	2,340	0.8
Other Telecommunications	2,652	0.9	2,630	0.9
Software Publishers	4,896	1.8	4,949	1.8
<b>Manufacturing</b>				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,090	1.5	3,555	1.3
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,925	4.3	13,551	4.8
Other Basic Inorganic Chemical Manufacturing	4,413	1.6	4,396	1.6
Packaging Machinery Manufacturing	1,996	0.7	1,885	0.7
Pharmaceutical Preparation Manufacturing	4,049	1.4	9,893	3.5
Pump and Pumping Equipment Manufacturing	10,908	3.9	10,016	3.6
Travel Trailer and Camper Manufacturing	12,797	4.6	13,149	4.7
<b>Other Services (except Public Administration)</b>				
	13,695	4.9	11,610	4.1

Commercial and Industrial Machinery and Equipment (except  
Automotive and Electronic) Repair and Maintenance

SF-32

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. Investments (continued)**

	Amortized Cost		Fair Value	
<b>Professional, Scientific, and Technical Services</b>				
Computer Systems Design and Related Services	3,879	1.4	3,946	1.4
Custom Computer Programming Services	5,097	1.8	5,143	1.8
Other Accounting Services	5,328	1.9	4,911	1.7
Other Computer Related Services	14,738	5.3	14,883	5.3
Other Professional, Scientific, and Technical Services	32,750	11.7	31,422	11.2
Veterinary Services	650	0.2	651	0.2
<b>Real Estate and Rental and Leasing</b>				
Home Health Equipment Rental	900	0.3	1,037	0.4
Office Machinery and Equipment Rental and Leasing	11,888	4.3	13,510	4.8
Offices of Real Estate Agents and Brokers	3,923	1.4	3,923	1.4
Offices of Real Estate Appraisers	10,032	3.6	10,000	3.6
<b>Retail Trade</b>				
All Other General Merchandise Stores	6,839	2.4	6,839	2.4
<b>Wholesale Trade</b>				
Metal Service Centers and Other Metal Merchant Wholesalers	12,700	4.5	14,142	5.0
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,205	3.0	5,394	1.9
	\$279,307	100.0 %	\$281,627	100.0 %

During the year ended December 31, 2016, the Company converted \$1,765 in principal of a subordinated debt investment into preferred equity units and warrants valued at \$1,765, converted \$329 in principal of a senior secured debt investment into preferred equity units valued at \$335, and converted \$800 in principal of a subordinated debt investment into a senior secured debt investment in the same portfolio company. In addition, the Company amended a senior secured debt investment for which it received preferred equity units in the same portfolio company valued at \$203 and received additional preferred equity units valued at \$44 in connection with a \$1,250 follow on investment in the same portfolio company.

As of December 31, 2015, the Company had loans to 38 portfolio companies, of which 71% were senior secured loans and 29% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held equity investments in one portfolio company in which it did not hold a debt interest. At December 31, 2015, investments consisted of the following:

Fair Value

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	Amortized Cost	
Senior secured debt investments	\$ 161,944	\$ 160,437
Subordinated debt investments	65,227	64,240
Preferred equity	19,120	22,133
Common equity and warrants	5,964	10,486
<b>Total</b>	<b>\$ 252,255</b>	<b>\$ 257,296</b>

SF-33

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. Investments (continued)**

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

	Amortized Cost		Fair Value	
<b>Administrative and Support and Waste Management and Remediation Services</b>				
Other Travel Arrangement and Reservation Services	\$10,164	4.0 %	\$10,164	4.0 %
Security Systems Services (except Locksmiths)	5,000	2.0	5,000	1.9
Tour Operators	2,849	1.1	3,198	1.2
<b>Education Services</b>				
Colleges, Universities, and Professional Schools	5,005	2.0	4,786	1.9
<b>Finance and Insurance</b>				
Insurance Agencies and Brokerages	11,663	4.6	11,497	4.5
<b>Health Care and Social Assistance</b>				
Medical Laboratories	4,165	1.7	3,677	1.4
Other Outpatient Care Centers	15,187	6.0	15,031	5.8
Outpatient Mental Health and Substance Abuse Centers	6,610	2.6	6,456	2.5
<b>Information</b>				
Other Information Services	2,564	1.0	2,433	0.9
Other Telecommunications	3,798	1.5	3,711	1.4
Software Publishers	4,711	1.9	7,453	2.9
<b>Manufacturing</b>				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,534	1.8	4,506	1.8
Communications Equipment Manufacturing	2,257	0.9	2,257	0.9
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,770	4.7	12,812	4.9
Other Basic Inorganic Chemical Manufacturing	4,766	1.9	4,695	1.8
Packaging Machinery Manufacturing	1,995	0.8	1,940	0.8
Pharmaceutical Preparation Manufacturing	4,068	1.6	5,698	2.2
Pump and Pumping Equipment Manufacturing	12,853	5.1	12,752	5.0
Soap and Other Detergent Manufacturing	937	0.4	798	0.3
Travel Trailer and Camper Manufacturing	13,613	5.4	13,613	5.3
<b>Other Services (except Public Administration)</b>				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	14,449	5.7	13,792	5.3
<b>Professional, Scientific, and Technical Services</b>				
	9,915	3.9	9,952	3.9

Administrative Management and General Management  
Consulting

SF-34

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. Investments (continued)**

	Amortized Cost		Fair Value	
Computer Systems Design and Related Services	2,971	1.2	2,892	1.1
Custom Computer Programming Services	6,493	2.6	6,319	2.5
Other Accounting Services	5,738	2.3	7,100	2.8
Other Computer Related Services	11,828	4.7	11,508	4.5
Other Professional, Scientific, and Technical Services	31,574	12.4	31,511	12.1
<b>Real Estate and Rental and Leasing</b>				
Home Health Equipment Rental	900	0.4	1,951	0.8
Office Machinery and Equipment Rental and Leasing	8,037	3.2	8,452	3.3
Offices of Real Estate Appraisers	10,050	4.0	9,940	3.9
<b>Wholesale Trade</b>				
Electrical Apparatus and Equipment, Wiring Supplies, and Related	3,558	1.4	3,559	1.4
Metal Service Centers and Other Metal Merchant Wholesalers	9,834	3.9	9,956	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,399	3.3	7,887	3.1
	\$252,255	100.0 %	\$257,296	100.0 %

**Unconsolidated Significant Subsidiaries:** In accordance with Regulation S-X and GAAP, the Company is not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which the Company has a controlling interest unless the business of the controlled operating company consists of providing services to the Company. In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under the respective rules. As of December 31, 2016, MTE Holding Corp. and Subsidiaries was considered a significant unconsolidated subsidiary under Regulation S-X Rule 4-08(g). The Company's voting ownership in MTE Holding Corp is limited to 50% through a substantive participating voting rights agreement with an unaffiliated investor. Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of MTE Holding Corp. and Subsidiaries is presented below:

	December 31,	
	2016	2015
Balance Sheet:		
Current assets	\$ 5,535	\$ 4,511
Noncurrent assets	24,681	24,588
<b>Total Assets</b>	<b>\$ 30,216</b>	<b>\$ 29,099</b>
Current liabilities	\$ 2,401	\$ 1,239

Noncurrent liabilities	16,889	18,328
<b>Total liabilities</b>	<b>19,290</b>	<b>19,567</b>
Non-controlling interest	4,878	4,256
<b>Total equity</b>	<b>6,048</b>	<b>5,276</b>

SF-35

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. Investments (continued)**

Summary of Operations:	Years Ended December 31,		
	2016	2015	2014 <sup>(1)</sup>
Net Sales	\$ 27,704	\$ 1,958	\$
Gross Profit	7,436	508	
Net income	2,232	(967 )	
Net income (loss) attributable to MTE Holding Corp.	1,235	(535 )	

(1) MTE Holding Corp. was organized in 2015.

**Note 6. Fair Value of Financial Instruments**

The Company's investments are valued at fair value as determined in good faith by Company management under the supervision, and review and approval of the Board. These fair values are determined in accordance with a documented valuation policy and a consistently applied valuation process that includes a review of each investment by an independent valuation firm at least once every 12 months.

Each quarter the Company assesses whether sufficient market quotations are available or whether a sufficient number of indicative prices from pricing services or brokers or dealers have been received. Investments for which sufficient market quotations are available are valued at such market quotations. Otherwise, the Company undertakes, on a quarterly basis, a multi-step valuation process as described below:

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

Each portfolio company or investment is valued by OFS Advisor.

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

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

The audit committee of the Board reviews the preliminary valuations of OFS Advisor's investment committee and independent valuation firms and, if appropriate, recommends the approval of the valuations by the Board.

The Company's Board discusses valuations and determines the fair value of each investment in the portfolio in good

faith based on the input of OFS Advisor, the audit committee and, where appropriate, the respective independent valuation firm.

SF-36

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TABLE OF CONTENTS

## **OFS Capital Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)**

#### **Note 6. Fair Value of Financial Instruments (continued)**

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

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

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

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

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

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the measurement date. All of the Company's investments, which are measured at fair value, were categorized as Level 3 based upon the lowest level of significant input to the valuations. There were no transfers among Level 1, 2 and 3 for the years ended December 31, 2016, 2015, and 2014. The following sections describe the valuation techniques used by the Company to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.

Consistent with the policies and methodologies adopted by the Board, the Company performs detailed valuations of its debt and equity investments, including an analysis on the Company's unfunded loan commitments, using both the market and income approaches as appropriate. There is no one methodology to estimate enterprise value and, in fact,

for any one portfolio company, enterprise value is generally best expressed as a range of values. The Company may also engage one or more independent valuation firms(s) to conduct independent appraisals of its investments to develop the range of values, from which the Company derives a single estimate of value. Under the income approach, the Company typically prepares and analyzes discounted cash flow models to estimate the present value of future cash flows of either an individual debt investment or of the underlying portfolio company itself.

The primary method used to estimate the fair value of the Company's debt investments is the discounted cash flow method. However, if there is deterioration in credit quality or a debt investment is in workout status, the Company may consider other methods in determining the fair value, including the value attributable to the debt investment from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis. The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant

SF-37

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TABLE OF CONTENTS

## **OFS Capital Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)**

#### **Note 6. Fair Value of Financial Instruments (continued)**

factors depending on investment type, including the latest arm's length or market transactions involving the subject security, a benchmark credit spread or other indication of market yields, and company performance. The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment, which may include a weighting factor applied to multiple valuation methods. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date.

The Company changed the primary method used to value certain of its investments, primarily equity investments, as of December 31, 2016, from the income approach to the market approach, principally due to the nature of evidence available under the discounted cash flow method, and to better align with industry practice. The Company may also utilize an income approach when estimating the fair value of its equity securities, either as a primary methodology if consistent with industry practice or if the market approach is otherwise not applicable, or as a supporting methodology to corroborate the fair value ranges determined by the market approach.

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

Application of these valuation methodologies involves a significant degree of judgment by management. Fair values of new investments or investments where an arm's length transaction occurred in the same security are generally assumed to be equal to their cost ( Transaction Price ) for up to three months after their initial purchase.

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.

SF-38

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Fair Value of Financial Instruments (continued)**

The following tables provide quantitative information about the Company's significant Level 3 fair value inputs to the Company's fair value measurements as of December 31, 2016 and 2015. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

	Fair Value at December 31, 2016 <sup>(1)</sup>	Valuation technique	Unobservable inputs	Range (Weighted average)	
Debt investments:					
Senior secured	\$ 149,128	Discounted cash flow	Discount rates	6.70%	18.71% (12.07%)
	15,901	Enterprise value	EBITDA multiples	7.25%	7.50% (7.31%)
Subordinated	45,635	Discounted cash flow	Discount rates	10.75%	21.24% (14.19%)
	5,393	Enterprise value	EBITDA multiples	8.00x	8.00x (8.00x)
Equity investments					
Preferred equity	23,721	Enterprise value	EBITDA multiples	4.50x	8.50x (6.82x)
Common equity and warrants	13,042	Enterprise value	EBITDA multiples	5.00x	8.50x (6.07x)

<sup>(1)</sup> Excludes \$15,926, \$12,382, and \$499 of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at a Transaction Price.

	Fair Value at December 31, 2015 <sup>(1)</sup>	Valuation technique	Unobservable inputs	Range (Weighted average)	
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Debt investments:

Senior secured	\$ 109,315	Discounted cash flow	Discount rates	7.11%	25.00% (12.05%)
Subordinated	64,240	Discounted cash flow	Discount rates	12.56%	22.34% (15.12%)

Equity investments:

Preferred equity	20,329	Discounted cash flow	Discount rates	15.00%	25.00% (18.91%)
			EBITDA multiples	5.10x	7.42x (6.50x)
Common equity and warrants	3,357	Discounted cash flow	Discount rates	25.00%	30.00% (25.78%)
			EBITDA multiples	3.98x	8.08x (5.19x)

(1) Excludes \$51,122, \$-0-, and \$8,933 of senior secured debt investments, subordinated debt investments, and equity investments, respectively, valued at a Transaction Price.

Changes in market credit spreads or the credit quality of the underlying portfolio company (both of which could impact the discount rate), as well as changes in EBITDA and/or EBITDA multiples, among other things, could have a significant impact on fair values, with the fair value of a particular debt investment susceptible to change in inverse relation to the changes in the discount rate. Changes in EBITDA and/or EBITDA multiples, as well as changes in the discount rate, could have a significant impact on fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA and/or EBITDA multiples, and in inverse relation to changes in the discount rate.

SF-39

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Fair Value of Financial Instruments (continued)**

The following tables present changes in investments measured at fair value using Level 3 inputs for the years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2016	\$160,437	\$64,240	\$22,133	\$10,486	\$257,296
Net realized gain on investments	83	7		2,137	2,227
Net change in unrealized appreciation/depreciation on investments	329	(2,376 )	(2,584 )	1,910	(2,721 )
Amortization of Net Loan Fees	1,012	402			1,414
Capitalized PIK interest, dividends, and fees	547	602	1,433		2,582
PIK amendment fees	(442 )	(97 )			(539 )
Purchase and origination of portfolio investments	44,671	22,101	643	822	68,237
Proceeds from principal payments on portfolio investments	(26,519 )	(14,885 )			(41,404 )
Sale and redemption of portfolio investments	(2,840 )			(2,434 )	(5,274 )
Distribution received from equity investment			(324 )		(324 )
Equity received in connection with purchase of portfolio investments and amendments	(743 )	(79 )	248	574	
Conversion from debt investment to equity investment (Note 5)	(320 )	(1,765 )	2,039	46	
Conversion from subordinated to senior secured debt investment (Note 5)	800	(800 )			
Reclassification from Subordinated to Senior Secured debt	3,940	(3,940 )			
Other			133		133
Level 3 assets, December 31, 2016	\$180,955	\$63,410	\$23,721	\$13,541	\$281,627

SF-40



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Fair Value of Financial Instruments (continued)**

	Year Ended December 31, 2015				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2015	\$241,749	\$52,453	\$15,302	\$2,730	\$312,234
Net realized loss on investments	(3,876 )		1,651	663	(1,562 )
Net change in unrealized appreciation/depreciation on investments	2,554	(1,060 )	1,695	3,193	6,382
Amortization of Net Loan Fees	1,705	90			1,795
Capitalized PIK interest, dividends and fees	524	782	1,115		2,421
Purchase and originations of portfolio investments	90,120	21,757	6,932	5,141	123,950
Proceeds from principal payments on portfolio investments	(81,538 )	(14,531 )			(96,069 )
Sale and redemption of portfolio investments	(86,096 )		(4,335 )	(1,241 )	(91,672 )
Cash distribution received from equity investments			(183 )		(183 )
Conversion from senior to subordinated debt	(4,705 )	4,705			
Conversion from equity investment to debt investment		44	(44 )		
Level 3 assets, December 31, 2015	\$160,437	\$64,240	\$22,133	\$10,486	\$257,296

The net unrealized (depreciation) reported in the Company's consolidated statements of operations for the years ended December 31, 2016, 2015, and 2014, attributable to the Company's Level 3 assets held at those respective year ends was \$254, \$3,243, and \$2,467, respectively.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since fair value measurements are only required for a portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. The Company's SBA-guaranteed debentures are carried at cost and with their longer maturity dates, fair value is estimated by discounting remaining payments using current market rates for similar

instruments and considering such factors as the legal maturity date. As of December 31, 2016 and 2015, the fair value of the Company's SBA debentures using Level 3 inputs is estimated at \$159,708 and \$149,880, respectively

SF-41

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 7. Commitments and Contingencies**

Unfunded commitments to the Company's portfolio companies as of December 31, 2016, were as follows:

Name of Portfolio Company	Investment Type	December 31, 2016
BCC Software, LLC	Senior Secured Revolver	\$ 1,094
O <sub>2</sub> Holdings, LLC	Senior Secured Loan	1,000
TRS Services, LLC	Senior Secured Loan	500
		\$ 2,594

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 December 31, 2016.

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

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

**Note 8. Borrowings**

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

Under present regulations of the SBIC Act, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is \$150,000. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed \$350,000. In connection with the SBIC Acquisitions, the Company increased its total commitments to SBIC I LP to \$75,000, which became a drop down SBIC fund of the Company on December 4, 2013. During 2014, the Company fully funded its \$75,000 commitment to SBIC I LP. As

of December 31, 2016 and 2015, SBIC I LP had fully drawn the \$149,880 of leverage commitments from the SBA.

On a stand-alone basis, SBIC I LP held \$247,512 and \$245,147 in assets at December 31, 2016 and 2015, respectively, which accounted for approximately 81% and 83% of the Company's total consolidated assets, respectively. These assets can not be pledged under any debt obligation of the Company.

SF-42

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 8. Borrowings (continued)**

The following table shows the Company's outstanding SBA debentures payable as of December 31, 2016 and 2015:

Pooling Date	Maturity Date	Fixed Interest Rate	SBA debentures outstanding	
			December 31, 2016	December 31, 2015
September 19, 2012	September 1, 2022	3.049 %	\$ 14,000	\$ 14,000
September 25, 2013	September 1, 2023	4.448	7,000	7,000
March 26, 2014	March 1, 2024	3.995	5,000	5,000
September 24, 2014	September 1, 2024	3.819	4,110	4,110
September 24, 2014	September 1, 2024	3.370	31,265	31,265
March 25, 2015	March 1, 2025	2.872	65,920	65,920
September 23, 2015	September 1, 2025	3.184	22,585	22,585
<b>SBA debentures outstanding</b>			149,880	149,880
Unamortized debt issuance costs			(3,037 )	(3,420 )
<b>SBA debentures outstanding, net of unamortized debt issuance costs</b>			<b>\$ 146,843</b>	<b>\$ 146,460</b>

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

The effective interest rate on the SBA debentures, which includes amortization of deferred debt issuance costs, was 3.43% as of December 31, 2016 and 2015. Interest expense on the SBA debentures was \$5,156, \$4,352, and \$1,433 for the years ended December 31, 2016, 2015, and 2014, respectively, which includes \$382, \$297, and \$114 of debt issuance costs amortization, respectively.

The weighted-average fixed cash interest rate on the SBA debentures as of December 31, 2016 and 2015, was 3.18%.

*PWB Credit Facility:* On November 5, 2015, the Company entered into a Business Loan Agreement ( BLA ) with Pacific Western Bank, as lender, to provide the Company with a \$15,000 senior secured revolving credit facility ( PWB Credit Facility ). The PWB Credit Facility is available for general corporate purposes including investment

funding and was scheduled to mature on November 6, 2017. 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 and otherwise specified in the BLA. The PWB Credit Facility is guaranteed by OFS Capital WM and secured by all of the Company's current and future assets excluding assets held by SBIC I LP and the Company's SBIC I LP and SBIC I GP partnership interests.

On October 31, 2016, the BLA was amended to, among other things (i) increase the maximum amount available under the PWB Credit Facility from \$15 million to \$25 million, (ii) extend the maturity date from November 6, 2017 to October 31, 2018, (iii) increase the fixed interest rate from 4.75% to 5.00% per annum, and (iv) exclude subordinated loan investments (as defined in the BLA) from the borrowing base. In addition, as of the amendment date, the Company will incur an unused commitment fee, payable monthly in arrears, equal to 0.50% per annum on any unused portion of the PWB Credit Facility in excess of \$15,000, which is included in interest expense on the consolidated statement of operations. There were no advances under the facility prior to the October 31, 2016 amendment.

SF-43

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 8. Borrowings (continued)

The average dollar amount of borrowings outstanding during the year ended December 31, 2016, was \$578. The effective interest rate, which includes amortization of deferred debt issuance costs and unused fees on the unused portion in excess of \$15,000, as of December 31, 2016, was 6.14%. Deferred debt issuance costs, net of accumulated amortization, was \$256 and \$185 as of December 31, 2016 and 2015, respectively. Amortization of debt issuance costs was \$108, \$17, and \$0, for the years ended December 31, 2016, 2015, and 2014, respectively.

Availability under the PWB Credit Facility as of December 31, 2016 was \$15,500 based on the stated advance rate of 50% under the borrowing base.

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 December 31, 2016, the Company was in compliance with the applicable covenants.

*OFS Capital WM Revolving Line of Credit:* Prior to the termination of the WM Credit Facility on May 28, 2015 (see Note 4), OFS Capital WM had a \$75,000 secured revolving credit facility, as amended from time to time, with Wells Fargo. The WM Credit Facility was secured by all eligible loans acquired by OFS Capital WM, and had a maturity date of December 31, 2018 and a reinvestment period through December 31, 2015. The interest rate on outstanding borrowings was the London Interbank Offered Rate plus 2.50% per annum. The minimum equity requirement was set at \$35,000. The interest rate on the outstanding borrowings at December 31, 2014 was 2.76%. The unused commitment fee on the WM Credit Facility was (i) 0.5% per annum of the first \$25,000 of the unused facility and (ii) 2% per annum of the balance in excess of \$25,000, and was included in interest expense on the consolidated statement of operations. During the three months ended March 31, 2015, the Company recorded a \$430 write-off of debt issuance costs due to a permanent reduction in the facility's commitment from \$100,000 to \$75,000. During the three months ended June 30, 2015, the Company incurred a \$1,216 write-off of debt issuance costs due to the termination of the facility on May 28, 2015.

#### Note 9. Federal Income Tax

The Company has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC, the Company is required to distribute annually to its shareholders at least 90% of its ICTI, as defined by the Code. Additionally, to avoid a 4% excise tax on undistributed earnings the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the

one-year period ending October 31 of that calendar year, and (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no federal income tax. Maintenance of the Company's RIC status also requires adherence to certain source of income and asset diversification requirements.

The Company has met the required distribution, source of income and asset diversification requirements as of December 31, 2016, and intends to continue meeting these requirements. Accordingly, there is no liability for federal income taxes at the Company level. The Company's ICTI differs from the net increase in net assets resulting from operations primarily due to differences in income recognition on the unrealized appreciation/depreciation of investments, income from Company's equity investments in pass-through entities, PIK dividends that have not yet been declared and paid by underlying portfolio companies, capital gains and losses and the net creation or utilization of capital loss carryforwards.

SF-44

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 9. Federal Income Tax (continued)**

The distributions paid to shareholders are reported as ordinary income, long-term capital gains, and returns of capital.  
The tax character of distributions paid were as follows:

	Years Ended December 31,		
	2016	2015	2014
Ordinary taxable income	\$ 12,157	\$ 10,954	\$ 6,139
Long-term capital gain	169		
Return of capital	858	2,197	6,964
Total distributions to stockholders	\$ 13,184	\$ 13,151	\$ 13,103

The Company records reclassifications to its capital accounts related to permanent differences between GAAP and tax treatment related to goodwill amortization, excise taxes, and other permanent differences; and temporary differences between GAAP and tax treatment of realized gains and losses, income arising from Company's equity investments in pass-through entities, PIK dividends, and other temporary differences. Reclassifications were as follows:

	Years Ended December 31,		
	2016	2015	2014
Paid-in capital in excess of par	\$ 592	\$ (198 )	\$ 62
Undistributed net investment income	131	(304 )	(555 )
Accumulated net realized gain (loss)	(723 )	502	493

Tax basis undistributed income as of December 31, 2016 and 2015 was as follows:

	December 31,	
	2016	2015
Undistributed net investment income	\$	\$
Capital loss carryforward (non-expiring)		(2,447 )

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of December 31, 2016 and 2015 were as follows:

	December 31,	
	2016	2015
Tax-basis amortized cost of investments	\$ 273,414	\$ 247,714
Tax-basis gross unrealized appreciation on investments	19,554	13,826
Tax-basis gross unrealized depreciation on investments	(11,341 )	(4,244 )

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Tax-basis net unrealized appreciation on investments	8,213	9,582
Fair value of investments	\$ 281,627	\$ 257,296

SF-45

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 10. Financial Highlights**

The following is a schedule of financial highlights for the years ended December 31, 2016, 2015, and 2014:

	Years Ended December 31,					
	2016		2015		2014	
<b>Per share data:</b>						
Net asset value per share at beginning of period	14.76		14.24		\$14.58	
Distributions <sup>(4)</sup>						
Dividends from ordinary income	(1.25	)	(1.13	)	(0.64	)
Dividends from capital gains	(0.02	)				
Return of capital	(0.09	)	(0.23	)	(0.72	)
Net investment income	1.46		1.39		0.95	
Net realized gain (loss) on non-control/non-affiliate investments	0.25		(0.31	)	0.02	
Net realized gain on affiliate investments			0.14			
Net realized loss on control investment					(0.37	)
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(0.69	)	0.53		0.05	
Net change in unrealized appreciation/depreciation on affiliate investments	0.33		0.13		0.19	
Net change in unrealized depreciation on control investment	0.07				0.18	
<b>Net asset value per share at end of period</b>	<b>\$14.82</b>		<b>\$14.76</b>		<b>\$14.24</b>	
Per share market value, end of period	\$13.76		\$11.48		\$11.78	
Total return based on market value <sup>(1)</sup>	32.3	%	9.0	%	2.4	%
Total return based on net asset value <sup>(2)</sup>	9.7	%	13.4	%	7.0	%
Shares outstanding at end of period	9,700,297		9,691,170		9,650,834	
Weighted average shares outstanding	9,693,801		9,670,153		9,634,471	
<b>Ratio/Supplemental Data (in thousands except ratios)</b>						
Average net asset value <sup>(3)</sup>	\$142,818		\$140,002		\$138,131	
Net asset value at end of period	143,778		143,012		137,471	
Net investment income	14,145		13,411		9,135	
Ratio of total expenses to average net assets	11.9	%	13.5	%	9.9	%
Ratio of net investment income to average net assets	9.8	%	9.6	%	6.6	%
Portfolio turnover	18.1	%	44.6	%	34.9	%

- (1) Calculation is ending market value less beginning market value, adjusting for dividends and distributions reinvested at prices obtained in the Company's dividend reinvestment plan for the respective distributions.
- (2) Calculation is ending net asset value less beginning net asset value, adjusting for dividends and distributions reinvested at the Company's quarter-end net asset value for the respective distributions.
- (3) Based on the average of the net asset value at the beginning of the indicated period and the end of each calendar quarter within the period indicated.
- (4) The components of the distributions are presented on an income tax basis.

SF-46

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 11. Distributions**

The Company intends to make distributions to shareholders on a quarterly basis of substantially all of its net investment income. In addition, although the Company intends to make distributions of net realized capital gains, if any, at least annually, out of assets legally available for such distributions, it may in the future decide to retain such capital gains for investment.

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 its ability to receive distributions from SBIC I LP. SBIC I LP's ability to make distributions is governed by SBA regulations. Consolidated cash and cash equivalents includes \$13,513 held by SBIC I LP, which was not available for distribution at December 31, 2016.

The following table summarizes distributions declared and paid for the years ended December 31, 2016, 2015, and 2014:

Date Declared	Record Date	Payment Date	Amount Per Share <sup>(1)</sup>	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
<b>Year ended December 31, 2014</b>						
January 21, 2014	January 31, 2014	February 14, 2014	\$ 0.34	\$ 3,240	2,656	\$ 34
May 7, 2014	June 16, 2014	June 30, 2014	0.34	3,230	3,467	45
August 7, 2014	September 16, 2014	September 30, 2014	0.34	3,250	2,141	26
November 4, 2014	December 17, 2014	December 31, 2014	0.34	3,127	12,773	151
			\$ 1.36	\$ 12,847	21,037	\$ 256
<b>Year ended December 31, 2015</b>						
March 4, 2015	March 17, 2015	March 31, 2015	\$ 0.34	\$ 3,133	12,106	\$ 148
May 4, 2015	June 16, 2015	June 30, 2015	0.34	3,132	12,834	154
August 6, 2015	September 16, 2015	September 30, 2015	0.34	3,142	14,355	147
December 2, 2015			0.34	3,283	1,041	12

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	December 17, 2015	December 31, 2015	\$ 1.36	\$ 12,690	40,336	\$ 461
<b>Year ended December 31, 2016</b>						
March 7, 2016	March 17, 2016	March 31, 2016	\$ 0.34	\$ 3,280	1,154	\$ 15
May 2, 2016	June 16, 2016	June 30, 2016	0.34	3,269	1,998	26
August 5, 2016	September 16, 2016	September 30, 2016	0.34	3,258	2,888	38
October 31, 2016	December 16, 2016	December 30, 2016	0.34	3,255	3,087	43
			\$ 1.36	\$ 13,062	9,127	\$ 122

The determination of the tax attributes of distributions is made annually as of the end of each fiscal year based (1) upon taxable income for the full year and distributions paid for the full year. The return of capital portion of each distribution as of December 31, 2014, 2015, and 2016 was \$0.72, \$0.23, and \$0.09, respectively.

For the year ended December 31, 2016, \$122 of the total \$13,183 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 9,127 shares at an average value of \$13.23 per share at the date of issuance. For the year ended December 31, 2015, \$461 of the total \$13,151 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 40,336 shares at an average value of \$11.44 per share at the date of issuance. For the year ended December 31, 2014, \$256 of the total \$13,103 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 21,037 shares at an average value of \$12.17 per share at the date of issuance.

SF-47

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 11. Distributions (continued)**

Since the Company's IPO, distributions to shareholders total \$50,879, or \$5.27 per share on a cumulative basis.

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 shareholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company's distributions 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 source of the distribution is mailed to the Company's shareholders. For the year ended December 31, 2016, approximately \$1.25 per share, \$0.02 per share, and \$0.09 per share of the Company's distributions represented ordinary income, long-term capital gain, and a return of capital to its shareholders, respectively.

	Quarter Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total investment income	\$8,209	\$7,359	\$7,683	\$7,843
Net investment income	3,736	3,297	3,457	3,655
Net gain (loss) on investments	1,087	(909 )	881	(1,376 )
Net increase in net assets resulting from operations	4,823	2,388	4,338	2,279
Net increase in net assets resulting from operations per share <sup>(1)</sup>	\$0.49	\$0.25	\$0.45	\$0.24
Net asset value per share <sup>(2)</sup>	\$14.82	\$14.67	\$14.76	\$14.65

	Quarter Ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total investment income	\$8,873	\$7,688	\$8,082	\$7,621
Net investment income	4,280	3,630	2,752	2,749
Net gain (loss) on investments	1,896	(2,209 )	4,650	483
Net increase in net assets resulting from operations	6,176	1,421	7,402	3,232
Net increase in net assets resulting from operations per share <sup>(1)</sup>	\$0.64	\$0.15	\$0.77	\$0.33
Net asset value per share <sup>(2)</sup>	\$14.76	\$14.46	\$14.66	\$14.24

- (1) Based on weighted average shares outstanding for the respective period.
- (2) Based on shares outstanding at the end of the respective period.

SF-48

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 13. Consolidated Schedule of Investments In and  
Advances To Affiliates**

Name of Portfolio Company	Investment Type <sup>(1)</sup>	Interest, Fees and Dividends Credited to Income <sup>(2)</sup>	December 31, 2015, Fair Value	Gross Additions <sup>(3)</sup>	Gross Reductions <sup>(4)</sup>	December 31, 2016, Fair Value
<b>Control Investments</b>						
MTE Holding Corp. and Subsidiaries	Senior Secured Loan	\$ 1,395	\$ 10,544	\$ 67	\$ (845 )	\$ 9,766
	Common Equity	180	3,069	314		3,383
		1,575	13,613	381	(845 )	13,149
Malabar International	Subordinated Loan	714		7,687	(4 )	7,683
	Preferred Equity	88		5,868		5,868
		802		13,555	(4 )	13,551
<b>Total Control Investments</b>		2,377	13,613	13,936	(849 )	26,700
<b>Affiliate Investments</b>						
All Metals Holding, LLC	Senior Secured Loan <sup>(7)</sup>	1,360		12,193	672	12,865
	Subordinated Loan <sup>(7)</sup>	236		1,279	(1,279 )	
	Common Equity (Performance Fee)			79	(79 )	
	Common Equity <sup>(5)</sup>			1,277		1,277
Contract Datascan Holdings, Inc.		1,596		14,828	(686 )	14,142
	Subordinated Loan	823	5,236	2,666		7,902
	Preferred Equity <sup>(5)(6)</sup>	446	2,772	2,649		5,421
	Common		444		(257 )	187

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		Equity <sup>(5)</sup>				
		1,269	8,452	5,315	(257 )	13,510
Intelli-Mark Technologies, Inc.	Senior Secured Loan	1,174		8,841		8,841
	Common Equity <sup>(5)</sup>			1,998		1,998
		1,174		10,839		10,839
Malabar International	Subordinated Loan	398	7,496	47	(7,543 )	
	Preferred Equity	44	5,316		(5,316 )	
		442	12,812	47	(12,859 )	
Master Cutlery, LLC	Subordinated Loan	625	4,705	6	(271 )	4,440
	Preferred Equity <sup>(6)</sup>	29	3,015		(2,061 )	954
	Common Equity <sup>(5)</sup>		167		(167 )	
		654	7,887	6	(2,499 )	5,394
NeoSystems Corp.	Subordinated Loan	651	4,619	96	(1,059 )	3,656
	Preferred Equity <sup>(5)(6)</sup>	120	2,481	120	(1,346 )	1,255
		771	7,100	216	(2,405 )	4,911
Pfanstiehl Holdings, Inc	Subordinated Loan	431	3,814	11	(15 )	3,810
	Common Equity	127	1,884	4,199		6,083
		558	5,698	4,210	(15 )	9,893
Strategic Pharma Solutions, Inc.	Senior Secured Loan	1,000	8,848	61	(526 )	8,383
	Preferred Equity <sup>(5)(6)</sup>	111	1,804	1,222		3,026
		1,111	10,652	1,283	(526 )	11,409
TRS Services, Inc.	Senior Secured Loan	1,196	11,009	238	(1,698 )	9,549
	Preferred Equity (Class AA units) <sup>(5)(6)</sup>	25		354		354
	Preferred Equity (Class A units) <sup>(5)(6)</sup>	371	2,757	371	(1,421 )	1,707
	Common Equity <sup>(5)</sup>		26		(26 )	
		1,592	13,792	963	(3,145 )	11,610
<b>Total Affiliate Investments</b>		9,167	66,393	37,707	(22,392 )	81,708
<b>Total Control and Affiliate Investments</b>		\$ 11,544	\$ 80,006	\$ 51,643	\$ (23,241 )	\$ 108,408

(1) Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated schedule of investments.

(2)

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Represents the total amount of interest, fees or dividends included in 2016 income for the portion of the year ended December 31, 2016, that an investment was included in Control or Affiliate Investment categories, respectively.  
SF-49

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TABLE OF CONTENTS

## **OFS Capital Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)**

#### **Note 13. Consolidated Schedule of Investments In and Advances To Affiliates (continued)**

(3) Gross additions include increases in cost basis resulting from a new portfolio investment, PIK interest, fees and dividends, accretion of OID, net increases in unrealized net appreciation or decreases in unrealized depreciation, and transfers from Non-control/Non-affiliate Investments to Affiliate Investments and from Affiliate Investments to Control Investments.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any, and net decreases in unrealized appreciation or net increases in unrealized depreciation, and transfers from Affiliate Investment to Control Investment.

(5)

Non-income producing.

(6) Dividends credited to income include dividends contractually earned but not declared.

(7) During the quarter ended December 31, 2016, the Company received cash of approximately \$477 and converted principal of \$800 into principal of the Senior Secured Loan. The \$800 conversion is included as a gross reduction and gross addition of the Subordinated Loan and Senior Secured Loan, respectively.

#### **Note 14. Subsequent Events Not Disclosed Elsewhere**

On March 9, 2017, the Company's Board declared a distribution of \$0.34 per share for the first quarter of 2017, payable on March 31, 2017 to shareholders of record as of March 17, 2017.

SF-50

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TABLE OF CONTENTS

**\$200,000,000**

**OFS CAPITAL  
CORPORATION**

**Common Stock  
Preferred Stock  
Warrants  
Subscription Rights  
Debt Securities**

We are an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments.

We may offer, from time to time, in one or more offerings or series, up to \$200.0 million in shares of our common stock, par value \$0.01 per share, preferred stock, par value \$0.01 per share, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities which we refer to, collectively, as the securities. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

The securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents or underwriters involved in the sale of shares of our securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any securities through agents, underwriters or dealers without delivery of this prospectus and a prospectus supplement describing the method and terms of the offering of the securities.

Substantially all of the debt securities in which we invest are below investment grade debt securities and are often referred to as high yield or junk securities. Exposure to below investment grade securities involves certain risk, and those securities are viewed as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. A material amount of our debt investments contain floating interest rate provisions that may make it more difficult for the borrowers to make debt repayments. Further, our debt investments generally will not pay down principal during their term which could result in a substantial loss to us if the portfolio company is unable to refinance or repay the debt at maturity.

Our common stock is traded on the NASDAQ Global Select Market under the symbol OFS. On June 28, 2016, the last reported sales price on the NASDAQ Global Select Market for our common stock was \$12.83 per share. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of March 31, 2016 was \$14.65.

We qualify as an emerging growth company, as that term is used in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Please read this prospectus before investing and keep it for future reference. It contains important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting Investor Relations of OFS Capital Corporation, 10 S. Wacker Drive, Suite 2500, Chicago, IL 60606, or by calling us at (847) 734-2000 or on our website at [www.ofscapital.com](http://www.ofscapital.com). The Securities and Exchange Commission, or the SEC, maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus.

**Investing in our securities involves a high degree of risk, including credit risk and the risk of the use of leverage. Before buying any of our securities, you should read the discussion of the material risks of investing in our securities in Risk Factors beginning on page 16 of this prospectus.**

**Neither the SEC nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.**

Prospectus dated July 1, 2016

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TABLE OF CONTENTS**TABLE OF CONTENTS**

	Page
<u>PROSPECTUS SUMMARY</u>	<u>1</u>
<u>FEES AND EXPENSES</u>	<u>9</u>
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	<u>12</u>
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	<u>15</u>
<u>RISK FACTORS</u>	<u>16</u>
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>48</u>
<u>USE OF PROCEEDS</u>	<u>49</u>
<u>PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS</u>	<u>50</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>54</u>
<u>THE COMPANY</u>	<u>79</u>
<u>SENIOR SECURITIES</u>	<u>89</u>
<u>PORTFOLIO COMPANIES</u>	<u>90</u>
<u>MANAGEMENT</u>	<u>95</u>
<u>PORTFOLIO MANAGEMENT</u>	<u>102</u>
<u>MANAGEMENT AND OTHER AGREEMENTS</u>	<u>104</u>
<u>RELATED-PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS</u>	<u>112</u>
<u>CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS</u>	<u>115</u>
<u>DETERMINATION OF NET ASSET VALUE</u>	<u>117</u>
<u>DISTRIBUTION REINVESTMENT PLAN</u>	<u>120</u>
<u>DESCRIPTION OF OUR CAPITAL STOCK</u>	<u>122</u>
<u>DESCRIPTION OF OUR PREFERRED STOCK</u>	<u>125</u>
<u>DESCRIPTION OF OUR SUBSCRIPTION RIGHTS</u>	<u>126</u>
<u>DESCRIPTION OF OUR WARRANTS</u>	<u>128</u>
<u>DESCRIPTION OF OUR DEBT SECURITIES</u>	<u>130</u>
<u>REGULATION</u>	<u>142</u>
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	<u>149</u>
<u>PLAN OF DISTRIBUTION</u>	<u>156</u>
<u>CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR</u>	<u>157</u>
<u>BROKERAGE ALLOCATION AND OTHER PRACTICES</u>	<u>158</u>
<u>LEGAL MATTERS</u>	<u>158</u>
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>158</u>
<u>CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>158</u>
<u>AVAILABLE INFORMATION</u>	<u>159</u>
<u>INDEX TO FINANCIAL STATEMENTS</u>	<u>F-1</u>

**You should rely only on the information contained in this prospectus and any prospectus supplement to this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus or any accompanying prospectus supplement. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus and any such supplement do not constitute an offer to sell, or a solicitation of an offer to buy, any securities by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation.**

**The information in this prospectus and any such supplement is accurate only as of its date, and under no**

**circumstances should the delivery of this prospectus and any such supplement or the sale of any securities imply that the information in this prospectus is accurate as of any later date or that the affairs of OFS Capital Corporation have not changed since such date. This prospectus and any accompanying prospectus supplement will be updated to reflect material changes.**

i

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TABLE OF CONTENTS

## **ABOUT THIS PROSPECTUS**

This prospectus and any accompanying prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended, we may offer, from time to time, up to \$200.0 million of shares of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, or debt securities on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. Our securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus and any accompanying prospectus supplement provides you with a general description of our securities that we may offer. Each time we use this prospectus to offer our securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any such supplements together with the additional information described under Available Information and Risk Factors sections before you make an investment decision.

A prospectus supplement may also add to, update or change information contained in this prospectus.

TABLE OF CONTENTS

## PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider before investing in our securities. Throughout this prospectus, we refer to OFS Capital Corporation and its consolidated subsidiaries as the Company, we, us or our; OFS Capital Management, LLC as OFS Advisor or the Advisor; and OFS Capital Services, LLC as OFS Services or the Administrator.*

### OFS Capital Corporation

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

As of March 31, 2016, our investment portfolio consisted of outstanding loans of approximately \$218.3 million in aggregate principal amount in 35 portfolio companies and equity investments of approximately \$32.5 million, at fair value. As of March 31, 2016, 61% of our investment portfolio was comprised of senior secured loans, 26% of subordinated loans and 13% of equity investments, at fair value.

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

Our investment strategy includes OFS SBIC I LP ( SBIC I LP ), which received a license under the U.S. Small Business Administration ( SBA ) Small Business Investment Company program in May 2012. 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 Regulation Small Business Investment Company Regulations.

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

the SBA.

On a stand-alone basis, SBIC I LP held approximately \$249.6 million and \$245.1 million in assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of our total consolidated assets at March 31, 2016 and December 31, 2015, respectively.

Our investment activities are managed by OFS Capital Management, LLC ( OFS Advisor ), and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the investment advisory agreement between us and OFS Advisor (the Investment Advisory Agreement ), we have agreed to pay OFS Advisor an annual base management fee based on the average

1

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TABLE OF CONTENTS

value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC ( SBIC I GP ) on December 4, 2013.

We have also entered into an administration agreement ( Administration Agreement ) with OFS Capital Services, LLC ( OFS Services ). Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.

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

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

We have elected to be treated for tax purposes as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended ( Code ). To qualify as a RIC, we must, among other things, meet certain source-of-income and assets diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income we distribute to our shareholders.



TABLE OF CONTENTS

## **Organizational Structure**

### **About OFS and Our Adviser**

OFS (which refers to the collective activities and operations of OFSAM and its subsidiaries and certain affiliates) is an established investment platform focused on meeting the capital needs of middle-market companies.

As of March 31, 2016, OFS had 41 full-time employees. OFS is headquartered in Chicago, Illinois, and has additional offices in New York, New York and Los Angeles, California.

Our investment activities are managed by OFS Advisor, our investment adviser. OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of OFSAM, our parent company prior to the completion of our initial public offering ( IPO ), and is a registered investment adviser under the Investment Advisers Act of 1940 (the Advisers Act ).

Our relationship with OFS Advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. OFS Advisor provides us with advisory services in exchange for a base management fee and incentive fee. See Management and Other Agreements Investment Advisory Agreement for a discussion of the base management fee and incentive fee payable by us to OFS Advisor. The base management fee is based on our total assets (other than cash and cash equivalents and the intangible asset and goodwill resulting from the SBIC Acquisitions but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor s services and fees as well as its portfolio management decisions and portfolio performance.

OFS Advisor has entered into a Staffing Agreement with Orchard First Source Capital, Inc. ( OFSC ), a wholly-owned subsidiary of OFSAM. Under the Staffing Agreement, OFSC makes experienced investment professionals available to OFS Advisor and provides access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its

## TABLE OF CONTENTS

affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment adviser, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

OFS Advisor capitalizes on the deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFS's professionals. The senior management team of OFS, including Bilal Rashid, Jeff Cerny and Mark Hauser, provides services to OFS Advisor. These managers have developed a broad network of contacts within the investment community, averaging over 20 years of experience investing in debt and equity securities of middle-market companies. In addition, these managers have gained extensive experience investing in assets that will constitute our primary focus and have expertise in investing across all levels of the capital structure of middle-market companies.

## **Our Administrator**

OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and recordkeeping services at such facilities. OFS Services oversees our financial reporting as well as prepares our reports to shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. OFS Services also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services may retain third parties to assist in providing administrative services to us. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions at cost, on a direct basis.

## **Market Opportunity**

Our investment strategy is focused primarily on investments in middle-market companies in the United States. We find the middle-market attractive for the following reasons:

***Large Target Market.*** According to the U.S. Census Bureau in its 2012 economic census, there were approximately 197,000 companies in the United States with annual revenues between \$10 million and \$2.5 billion, compared with approximately 1,300 companies with revenues greater than \$2.5 billion at the time of the census. 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 vast bulk of OFS's portfolio companies since its inception, and constituted the vast bulk of our portfolio as of March 31, 2016. We believe that this market segment will continue to produce significant investment opportunities for us.

***Specialized Lending Requirements with High Barriers to Entry.*** We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to private middle-market companies in the United States (a) is generally more labor-intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (b) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market, and (c) may also require more extensive ongoing monitoring by the lender. As a result, middle-market companies historically have been served by a limited segment of the lending community. As a result of the unique challenges facing lenders to middle-market companies, there are high barriers to entry that a new lender must overcome.

***Robust Demand for Debt Capital.*** We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. Subject to market conditions, we expect the large amount of unfunded buyout commitments will drive demand for leveraged buyouts over the next several years, which should, in turn, create leveraged lending opportunities for us.

TABLE OF CONTENTS

## Competitive Strengths and Core Competencies

***Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure.*** We are managed by OFS Advisor, which has access through the Staffing Agreement with OFSC to the resources and expertise of OFS's investment professionals. As of March 31, 2016, OFS's credit and investment professionals (including all investment committee members) employed by OFSC had an average of over 20 years of investment experience with strong institutional backgrounds.

***Significant Investment Capacity.*** The net proceeds of equity and debt offerings and borrowing capacity under our credit facilities, will provide us with a substantial amount of capital available for deployment into new investment opportunities in our targeted asset class.

***Scalable Infrastructure Supporting the Entire Investment Cycle.*** We believe that our loan acquisition, origination and sourcing, underwriting, administration and management platform is highly scalable (that is, it can be expanded on a cost efficient basis within a timeframe that meets the demands of business growth). Our platform extends beyond origination and sourcing and includes a regimented credit monitoring system. We believe that our careful approach, which involves ongoing review and analysis by an experienced team of professionals, should enable us to identify problems early and to assist borrowers before they face difficult liquidity constraints.

***Extensive Loan Sourcing Capabilities.*** OFS Advisor gives us access to the deal flow of OFS. We believe OFS's 20-year history as a middle-market lending platform and its market position make it a leading lender to many sponsors and other deal sources, especially in the currently under-served lending environment, and we have extensive relationships with potential borrowers and other lenders.

***Structuring with a High Level of Service and Operational Orientation.*** We provide client-specific and creative financing structures to our portfolio companies. Based on our experience in lending to and investing in middle-market companies, we believe that the middle-market companies we target, as well as sponsor groups we may pursue, require a higher level of service, creativity and knowledge than has historically been provided by other service providers more accustomed to participating in commodity-like loan transactions.

***Rigorous Credit Analysis and Approval Procedures.*** OFS Advisor utilizes the established, disciplined investment process of OFS for reviewing lending opportunities, structuring transactions and monitoring investments. Using OFS's disciplined approach to lending, OFS Advisor seeks to minimize credit losses through effective underwriting, comprehensive due diligence investigations, structuring and, where appropriate, the implementation of restrictive debt covenants.

## Structure of Investments

We anticipate that our loan portfolio will continue to contain investments of the following types with the following characteristics:

***Senior Secured First-Lien Loans.*** First-lien senior secured loans comprise, and will continue to comprise, a significant portion of our investment portfolio. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans (in certain cases, subject to a payment waterfall). The collateral takes the form of first-priority liens on specified assets of the portfolio company borrower and, typically, first-priority pledges of the ownership interests in the borrower. Our first lien loans may provide for moderate loan amortization in the early years of the loan, with the majority of the amortization deferred until loan maturity.

**Senior Secured Unitranche Loans.** Unitranche loans are loans that combine both senior and subordinated debt into one loan under which the borrower pays a single blended interest rate that is intended to reflect the relative risk of the secured and unsecured components. We typically structure our unitranche loans as senior secured loans. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans. This collateral takes the form of first-priority liens on the assets of a portfolio company and, typically, first-priority pledges of the ownership interests in the company. We believe that unitranche lending represents a significant growth opportunity for us, offering the borrower the convenience of dealing with one lender, which may result in a higher blended rate of interest to us than we might realize in a traditional multi-tranche structure. Unitranche loans typically provide for moderate loan

TABLE OF CONTENTS

amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases, we will be the sole lender, or we, together with our affiliates, will be the sole lender, of unitranche loans, which can afford us additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of underperformance.

**Senior Secured Second-lien Loans.** We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of such loans. This collateral typically takes the form of second-priority liens on the assets of a portfolio company, and we may enter into an intercreditor agreement with the holders of the portfolio company's first-lien senior secured debt. These loans typically provide for no contractual loan amortization in the initial years of the facility, with all amortization deferred until loan maturity.

**Subordinated ( Mezzanine ) Loans.** We typically structure these investments as unsecured, subordinated loans that typically provide for relatively high, fixed interest rates that provide us with significant current interest income. These loans typically will have interest-only payments (often representing a combination of cash pay and payment-in-kind ( PIK ) interest) in the early years, with amortization of principal deferred to maturity. Mezzanine loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. Mezzanine investments are generally more volatile than secured loans and may involve a greater risk of loss of principal. Mezzanine loans often include a PIK feature (meaning a feature allowing for the payment of interest in the form of additional principal amount of the loan instead of in cash), which effectively operates as negative amortization of loan principal, thereby increasing credit risk exposure over the life of the loan.

**Warrants and Other Equity Securities.** In some cases, we will also acquire an equity interest in the portfolio company in connection with making a loan, or receive nominally priced warrants or options to buy a minority equity interest in the portfolio company in connection with a loan. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure such warrants to include provisions protecting our rights as a minority-interest holder, as well as a put, or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

**General Structuring Considerations.** We tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its operating results.

We seek to limit the downside potential of our investments by:

selecting investments that we believe have a very low probability of loss;  
requiring a total return on our investments (including both interest and potential equity appreciation) that we believe will compensate us appropriately for credit risk; and

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or rights to a seat on the board of directors under some circumstances.

We expect to hold most of our investments to maturity or repayment, but we may sell some of our investments earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

## **Conflicts of Interests**

Subject to certain 1940 Act restrictions on co-investments with affiliates, OFS Advisor will offer us the right to participate in investment opportunities that it determines are appropriate for us in view of our

6

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TABLE OF CONTENTS

investment objective, policies and strategies and other relevant factors. Such offers will be subject to the exception that, in accordance with OFS Advisor's allocation policy, we might not participate in each individual opportunity but will, on an overall basis, be entitled to participate fairly and equitably with other entities managed by OFS Advisor and its affiliates.

To the extent that we compete with entities managed by OFS Advisor or any of its affiliates for a particular investment opportunity, OFS Advisor will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) its internal allocation policy, (b) the requirements of the Advisers Act, and (c) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates. OFS Advisor's allocation policy is intended to ensure that we generally share fairly and equitably with other investment funds or other investment vehicles managed by OFS Advisor or its affiliates in investment opportunities that OFS Advisor determines are appropriate for us in view of our investment objective, policies and strategies and other relevant factors, particularly those involving a security with limited supply or involving differing classes of securities of the same issuer that may be suitable for us and such other investment funds or other investment vehicles. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

suitability/priority of a particular investment for the investment vehicles;

if applicable, the targeted position size of the investment for the investment vehicles;

level of available cash for investment with respect to the investment vehicles;

total amount of funds committed to the investment vehicles; and

the age of the investment vehicles and the remaining term of their respective investment periods, if any.

In situations where co-investment with such other accounts is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, OFS Advisor will need to decide which account will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. See **Related-Party Transactions and Certain Relationships**.

On January 15, 2016, we filed an exemptive application with the SEC to permit us to co-invest with funds or entities managed by OFS Advisor in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. Any such order, if granted by the SEC, will be subject to certain terms and conditions. There can be no assurance when or if such exemptive relief will be granted by the SEC. If such relief is granted, then we will be permitted to co-invest with our affiliates if a required majority (as defined in Section 57(o) of the 1940 Act) or our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by 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.

## **Corporate Information**



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Our principal executive offices are located at 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, and our telephone number is (847) 734-2060. Our corporate website is located at <http://www.ofscapital.com>. Information on our website is not incorporated into or a part of this prospectus.

7

---

TABLE OF CONTENTS

## Implications of Being an Emerging Growth Company

We qualify as an emerging growth company, as that term is used in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

An exemption from the auditors attestation requirement in the assessment of the emerging growth company's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act );

No non-binding advisory votes on executive compensation or golden parachute arrangements; and

Reduced financial statement and executive compensation requirements.

Notwithstanding the foregoing, we have complied with Section 404(b) of the Sarbanes-Oxley Act regarding auditor attestation for the fiscal year ended December 31, 2015.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the Securities Act ), for complying with new or revised accounting standards. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We could remain an emerging growth company for up to five years, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1 billion, (b) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

## Risks

Investing in our securities may be speculative and involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. Certain of these risks are referenced below:

Capital markets are currently functional, but may experience periods of disruption and instability, which could have a negative impact on our business and operations.

There are numerous risks relating to our business, including credit losses on our investments, the risk of loss associated with leverage, illiquidity and valuation uncertainties in our investments, possible lack of appropriate investments, the lack of experience in operating a BDC of our investment adviser and our dependence on such investment adviser.

There are also numerous risks relating to our investments, including the risky nature of the securities in which we invest, the subordinated nature of select investments, our potential lack of control over our portfolio companies, our limited ability to invest in public or foreign companies and the potential incentives in our investment adviser to invest more speculatively than it would if it did not have an opportunity to earn incentive fees.

We also have various risks relating to our status as a BDC, including limitations on raising additional capital, failure to qualify as a BDC and loss of tax status as a RIC. In addition, SBIC I LP has the risk of losing its SBIC status.

There are also risks relating to this offering, including volatility in our stock price and the anti-takeover effect of certain provisions in our certificate of incorporation.

See Risk Factors beginning on page 16 of this prospectus for a more detailed discussion of these and other material risks you should carefully consider before deciding to invest in our securities.

TABLE OF CONTENTS**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us, the Company or OFS Capital, or that we will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in OFS Capital.

Shareholder transaction expenses:		
Sales load (as a percentage of offering price)	0%	
Offering expenses (as a percentage of offering price)	0%	
Distribution reinvestment plan expenses	0%	
Total shareholder transaction expenses (as a percentage of offering price)		%
Annual expenses (as a percentage of net assets attributable to common stock):		
Base management fee payable under Investment Advisory Agreement	3.14% <sup>(4)</sup>	
Incentive fees payable under Investment Advisory Agreement	2.46% <sup>(5)</sup>	
Interest payments on borrowed funds	3.74% <sup>(6)</sup>	
Other expenses	2.91% <sup>(7)</sup>	
Acquired fund fees and expenses	0%	
Total annual expenses	12.25% <sup>(4)</sup>	

In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding (1) prospectus supplement will disclose the applicable sales load and the following Example will be updated accordingly.

(2) The related prospectus supplement will disclose the applicable offering expenses and total shareholder transaction expenses.

(3) The expenses of the distribution reinvestment plan are included in other expenses. For additional information, see Distribution Reinvestment Plan.

Our base management fee, under the investment management agreement, is 1.75% of our total assets (other than cash and cash equivalents, intangible assets, and goodwill, but including assets purchased with borrowed amounts and including assets owned by any consolidated entity). We may from time to time decide it is appropriate to (4) change the terms of the agreement. Under the 1940 Act, any material change to our Investment Advisory Agreement must be submitted to stockholders for approval. See Management and Other Agreements Investment Advisory Agreement.

The 3.14% fee reflected in the table is the ratio of the base management fee, calculated based on our statement of operations for the three months ended March 31, 2016, to our net assets attributable to common stock (rather than our total assets) as of March 31, 2016. We use leverage in our operations and the management fee is based on our total assets (other than cash and cash equivalents, intangible assets, and goodwill, but including assets purchased with borrowed money and assets of any consolidated entity). Thus, the ratio reported in this table will exceed the 1.75% of total assets stated in the investment management agreement. See Risk Factors Risks Related to Our Investments Our base management fee may induce OFS Advisor to incur leverage.

(5) Assumes an incentive fee of \$3.5 million, which was calculated based on our statement of operations for the quarter ended March 31, 2016, excluding the Capital Gains Fee of \$(0.1) million, which represents the reversal of the Capital Gains Fee accrued at December 31, 2015. For the quarter ended March 31, 2016, we incurred an actual incentive fee expense of \$0.7 million, which consisted of part one incentive fees (based on net investment income) of \$0.8 million and part two incentive fees (based upon net realized and unrealized gains and losses, or capital

gains) of \$(0.1) million.

The incentive fee consists of two parts:

The first part (part one), payable quarterly in arrears, equals 20.0% of our pre-incentive fee net investment income initially calculated based on values at the closing of this offering (including income that is accrued but not yet received in cash), subject to a 2.0% quarterly (8.0% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until our pre-incentive fee net investment income equals the hurdle rate of

9

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TABLE OF CONTENTS

2.0% but then receives, as a catch-up, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. 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 our pre-incentive fee net investment income as if a hurdle rate did not apply.

The hurdle rate is fixed at 2.0% quarterly (8% annualized), which means that, if interest rates rise, it will be easier for our pre-incentive fee net investment income to surpass the hurdle rate, which could lead to the payment of fees to OFS Advisor in an amount greater than expected. There is no accumulation of amounts on the hurdle rate from quarter to quarter and accordingly there is no clawback of amounts previously paid if subsequent quarters are below the quarterly hurdle rate and there is no delay of payment if prior quarters are below the quarterly hurdle rate.

The second part (part two), payable annually in arrears, equals 20.0% of our realized capital gains on a cumulative basis as of the closing of this offering through the end of the year, if any (or upon the termination of the Investment Advisory Agreement, as of the termination date), computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. Unrealized capital appreciation is accrued, but not paid until said appreciation is realized. We accrue the Capital Gains Fee if, on a cumulative basis, the sum of the net realized capital gains (and losses) plus net unrealized appreciation (and depreciation) is positive. See Management and Other Agreements Investment Advisory Agreement.

Interest payments on borrowed funds represents an estimate of our annualized interest expenses on our SBA debentures and our expected interest expense under the PWB Credit Facility over the next twelve months. At March 31, 2016, we had \$149.9 million of SBA debentures outstanding with an effective interest rate of 3.42%. At (6) March 31, 2016, the PWB Credit Facility was undrawn. Any advances under the facility bear interest at a fixed rate per annum equal to 4.75%. For purposes of this calculation, we have assumed an average amount outstanding over the next twelve months under the facility of \$3.8 million at a fixed rate per annum of 4.75%.

We may borrow additional funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. We do not expect to issue any preferred stock during the next twelve months and, therefore, have not included the cost of issuing and servicing preferred stock in the table. In January 2015, we filed an application with the SBA for a second SBIC license, which, if approved, would provide up to \$75.0 million in additional SBA debentures for the funding of our future investments upon our contribution of at least \$37.5 million in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and other customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA. Our stockholders will bear directly or indirectly the costs of borrowings under any debt instruments we may enter into.

Includes our estimated overhead and other expenses, including payments under the Administration Agreement (7) based on our allocable portion of overhead and other expenses incurred by OFS Services. See Management and Other Agreements Administration Agreement.

Our shareholders indirectly bear the expenses of underlying funds or other investment vehicles that would be (8) investment companies under section 3(a) of the 1940 Act but for the exceptions to that definition provided for in sections 3(c)(1) and 3(c)(7) of the 1940 Act ( Acquired Funds ) in which we invest. We do not currently invest in underlying funds or other investment companies.

TABLE OF CONTENTS**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above. The expense amounts assume an annual base management fee 1.75% for each year. Transaction expenses are not included in the following example.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 93	\$ 265	\$ 420	\$ 745
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return from realized capital gains	\$ 102	\$ 289	\$ 454	\$ 787

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5% annual return, would not be payable and is not included in the example. In addition, while the example assumes reinvestment of all distributions at net asset value, if our board of directors authorizes and we declare a cash distribution, participants in our distribution reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See [Distribution Reinvestment Plan](#) for additional information regarding our distribution reinvestment plan.

**This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.**

TABLE OF CONTENTS

## **SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected financial and other data for the years ended December 31, 2015 and 2014 are derived from our consolidated financial statements that have been audited by BDO USA, LLP, our independent registered public accounting firm.

Selected financial and other data for the year ended December 31, 2013, the period November 8, 2012 to December 31, 2012, the period January 1, 2012 through November 7, 2012, and the year ended December 31, 2011 are derived from our consolidated financial statements that have been audited by RSM US LLP, our previous independent registered public accounting firm. The selected financial data and other data for the three months ended March 31, 2016 and 2015 are derived from our unaudited financial statements. Interim results as of and for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities, and the consolidated financial statements and related notes included elsewhere herein.



TABLE OF CONTENTS

- (1) The consolidated statement of operations for the year ended December 31, 2012 included the Company's Pre-IPO and Post-IPO operations during 2012.  
Weighted average annualized yield on income producing investments at fair value for the year ended December 31, 2011 gives pro forma effect to OFS Capital's consolidation of OFS Capital WM as if the consolidation took place at December 31, 2011.  
The number of portfolio companies at December 31, 2011 gives pro forma effect to OFS Capital's consolidation of OFS Capital WM as a result of the WM 2012 Credit Facility Amendments, as if the consolidation took place at December 31, 2011.
- (2) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If the tax characteristics of our distributions paid during 2016 were determined as of March 31, 2016, approximately \$0.04 per share would represent a return of capital. The return of capital portion of these distributions as of December 31, 2015, 2014, and 2013 (which includes the period December 8, 2012 to December 31, 2012), was \$0.23, \$0.72, and \$0.40.
- (3) (5) This represents investments at book value.
- (4) On January 1, 2016, we adopted Accounting Standards Update ( ASU ) 2015-03 which requires that debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct

13

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TABLE OF CONTENTS

deduction from the carrying amount of the debt liability rather than as an asset. Adoption of ASU 2015-03 requires the changes to be applied retrospectively.

(7) This represents member's equity.

The following tables set forth certain quarterly financial information for the first quarter in the year ended December 31, 2016, and each of the first, second, third, and fourth quarters in the years ended December 31, 2015 and 2014.

This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

	Quarter Ended (unaudited) March 31, 2016
Total investment income	\$ 7,843
Net investment income	3,655
Net realized and unrealized loss	(1,376 )
Net increase in net assets resulting from operations	2,279
Net increase in net assets resulting from operations per share <sup>(1)</sup>	\$ 0.24
Net asset value per share <sup>(2)</sup>	\$ 14.65

	Quarter Ended (unaudited)			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total investment income	\$8,873	\$ 7,688	\$ 8,082	\$ 7,621
Net investment income	4,280	3,630	2,752	2,749
Net realized and unrealized gain (loss)	1,896	(2,209 )	4,650	483
Net increase in net assets resulting from operations	6,176	1,421	7,402	3,232
Net increase in net assets resulting from operations per share <sup>(1)</sup>	\$0.64	\$ 0.15	\$ 0.77	\$ 0.33
Net asset value per share <sup>(2)</sup>	\$ 14.76	\$ 14.46	\$ 14.66	\$ 14.24

	Quarter Ended (unaudited)			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Total investment income	\$6,953	\$ 6,197	\$4,658	\$ 5,012
Net investment income	2,743	2,893	2,099	1,400
Net realized and unrealized gain (loss)	754	942	(1,542)	651
Net increase in net assets resulting from operations	3,497	3,835	557	2,051
Net increase in net assets resulting from operations per share <sup>(1)</sup>	\$0.36	\$ 0.40	\$0.06	0.21
Net asset value per share <sup>(2)</sup>	\$ 14.24	\$ 14.22	\$ 14.17	\$ 14.45

- (1) Based on weighted average shares outstanding for the respective period.
- (2) Based on shares outstanding at the end of the respective period.

TABLE OF CONTENTS**RATIO OF EARNINGS TO FIXED CHARGES**

The following table contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our consolidated financial statements, including the notes to those statements, included in this prospectus.

	For the Three Months Ended March 31, 2016	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Earnings to Fixed Charges <sup>(1)(2)</sup>	2.74	3.52	2.58	2.42	2.16	N/A

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

(2) Not applicable for year ended December 31, 2011 as the Company had no fixed charges.

TABLE OF CONTENTS

## RISK FACTORS

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, and any prospectus supplement accompanying this prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face, but they are the principal risks associated with an investment in us. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in any prospectus supplement accompanying this prospectus, are the principal risk factors associated with an investment in our securities, as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.*

### **Risks Related to Our Business and Structure**

**Global capital markets could enter a period of severe disruption and instability. These conditions have historically affected and could again materially and adversely affect debt and equity capital markets in the United States and around the world and our business.**

The U.S. and global capital markets experienced extreme volatility and disruption during the economic downturn that began in mid-2007, and the U.S. economy was in a recession for several consecutive calendar quarters during the same period. In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt, which created concerns about the ability of certain nations to continue to service their sovereign debt obligations. Risks resulting from such debt crisis and any future debt crisis in Europe or any similar crisis elsewhere could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in certain countries and the financial condition of financial institutions generally. In July and August 2015, Greece reached agreements with its creditors for bailouts that provide aid in exchange for certain austerity measures. These and similar austerity measures may adversely affect world economic conditions and have an adverse impact on our business and that of our portfolio companies. In the second quarter of 2015, stock prices in China experienced a significant drop, resulting primarily from continued sell-off of shares trading in Chinese markets. In August 2015, Chinese authorities sharply devalued China's currency. These market and economic disruptions adversely affected, and these and other similar market and economic disruptions may in the future affect, the U.S. capital markets, which could adversely affect our business and that of our portfolio companies. These market disruptions materially and adversely affected, and may in the future affect, the broader financial and credit markets and has reduced the availability of debt and equity capital for the market as a whole and to financial firms, in particular. At various times, these disruptions resulted in, and may in the future result, a lack of liquidity in parts of the debt capital markets, significant write-offs in the financial services sector and the repricing of credit risk. These conditions may reoccur for a prolonged period of time again or materially worsen in the future, including as a result of further downgrades to the U.S. government's sovereign credit rating or the perceived credit worthiness of the United States or other large global economies. Unfavorable economic conditions, including future recessions, also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We may in the future have difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may cause us to reduce the volume of loans we originate and/or fund, adversely affect the value of our portfolio investments or otherwise have a material

adverse effect on our business, financial condition, results of operations and cash flows.

**Prior to November 7, 2012, we had not operated as a BDC or qualified to be treated as a RIC, and none of OFS Advisor or its affiliates had ever managed a BDC or a RIC, and we may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our shareholders.**

Prior to November 7, 2012, we had not operated as a BDC or qualified to be treated as a RIC, and none of OFS Advisor or its affiliates has ever managed a BDC. As a result of our limited experience as a BDC, we are subject to the business risks and uncertainties associated with new entities of these types, including the risk that we will not achieve our investment objective, or that we will not qualify or maintain our qualification to be treated as a RIC, and that the value of your investment could decline substantially.

TABLE OF CONTENTS

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs. Business development companies are required, for example, to invest at least 70% of their assets, as defined by the 1940 Act, primarily in securities of U.S. private or thinly traded public companies, cash, cash equivalents, U.S. government securities and other high-quality debt instruments that mature in one year or less from the date of investment. Furthermore, any failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our shareholders, we may elect to withdraw our status as a BDC. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a BDC, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business. Moreover, qualification for treatment as a RIC requires satisfaction of source-of-income, asset diversification and distribution requirements. None of us, OFS Advisor or any of our or their respective affiliates has any experience operating under these constraints, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective.

**We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates.**

We do not have any internal management capacity or employees. We will depend on the diligence, skill and network of business contacts of the OFS senior professionals to achieve our investment objective. Our future success will depend, to a significant extent, on the continued service and coordination of the OFS senior management team, particularly Bilal Rashid, Senior Managing Director and President of OFSC, Jeffrey Cerny, Senior Managing Director and Treasurer of OFSC and Mark Hauser, Senior Managing Director of OFSC. Each of these individuals is an employee at will of OFSC and, with the exception of Mr. Hauser, is not subject to an employment contract. In addition, we rely on the services of Richard Ressler, Chairman of the executive committee of OFSAM and Chairman of the Advisor Investment Committee (as defined below) pursuant to a consulting agreement with Orchard Capital Corporation. The departure of Mr. Ressler or any of the senior managers of OFSC, or of a significant number of its other investment professionals, could have a material adverse effect on our ability to achieve our investment objective.

We expect that OFS Advisor will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the Investment Advisory Agreement. We can offer no assurance, however, that OFS senior professionals will continue to provide investment advice to us. If these individuals do not maintain their existing relationships with OFS and its affiliates and do not develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio or achieve our investment objective. In addition, individuals with whom the OFS senior professionals have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that such relationships will generate investment opportunities for us.

OFS Advisor is a subsidiary of OFSAM that has no employees and depends upon access to the investment professionals and other resources of OFS and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. OFS Advisor also depends upon OFS to obtain access to deal flow generated by the professionals of OFS and its affiliates. Under a Staffing Agreement between OFSC, a subsidiary of OFSAM that employs OFS's personnel, and OFS Advisor, OFSC has agreed to provide OFS Advisor with the resources necessary to fulfill these obligations.

The Staffing Agreement provides that OFSC will make available to OFS Advisor experienced investment professionals and access to the senior investment personnel of OFSC for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. We are not a party to this Staffing Agreement and cannot assure shareholders that OFSC will fulfill its obligations under the agreement. If OFSC fails to perform, we cannot assure

shareholders that OFS Advisor will enforce the Staffing Agreement or that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of OFSC and its affiliates or their information and deal flow.

The investment committees that oversee our investment activities are provided by OFS Advisor under the Investment Advisory Agreement, as well as by SBIC I GP. The Advisor Investment Committee consists of Richard Ressler (Chairman), Jeffrey Cerny, Mark Hauser and Bilal Rashid. The SBIC Investment Committee consists of Mark Hauser and Bilal Rashid. The loss of any member of the Investment Committees or of other



TABLE OF CONTENTS

OFS senior professionals could limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition and results of operation.

**Our business model depends to a significant extent upon strong referral relationships with financial institutions, sponsors and investment professionals. Any inability of OFS Advisor to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.**

We depend upon OFS Advisor to maintain OFS's relationships with financial institutions, sponsors and investment professionals, and we will continue to rely to a significant extent upon these relationships to provide us with potential investment opportunities. If OFS Advisor fails to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the principals of OFS Advisor have relationships are not obligated to provide us with investment opportunities, and, therefore, we can offer no assurance that these relationships will generate investment opportunities for us in the future.

**Our financial condition and results of operation will depend on our ability to manage our business effectively.**

Our ability to achieve our investment objective and grow will depend on our ability to manage our business. This will depend, in turn, on the ability of the Investment Committees to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon the execution by the Investment Committees to execute our investment process, their ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. OFS Advisor will have substantial responsibilities under the Investment Advisory Agreement. The OFS senior professionals and other personnel of OFS Advisor's affiliates, including OFSC, may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

**We have potential conflicts of interest related to obligations that OFS Advisor or its affiliates may have to other clients.**

OFS Advisor and its affiliates manage other assets and collateralized loan obligation ( CLO ) funds and may manage other entities in the future, and these other funds and entities may have similar or overlapping investment strategies. The members of the Investment Committees serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds or other investment vehicles managed by OFS Advisor or its affiliates. Similarly, OFS Advisor and/or its affiliates may have other clients with similar, different or competing investment objectives. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our shareholders. OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities

Our business model depends to a significant extent upon strong referral relationships with financial institutions, sponsors,

in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

suitability/priority of a particular investment for the investment vehicles;

if applicable, the targeted position size of the investment for the investment vehicles;

level of available cash for investment with respect to the investment vehicles;

TABLE OF CONTENTS

total amount of funds committed to the investment vehicles; and  
the age of the investment vehicles and the remaining term of their respective investment periods, if any.  
There can be no assurance that we will be able to participate in all investment opportunities that are suitable to us.

**Members of the Investment Committees, OFS Advisor or its affiliates may, from time to time, possess material non-public information, limiting our investment discretion.**

OFS senior professionals and members of the Investment Committees may serve as directors of, or in a similar capacity with, companies in which we invest, the securities of which are purchased or sold on our behalf. In the event that material nonpublic information is obtained with respect to such companies, or we become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or selling the securities of such companies, and this prohibition may have an adverse effect on us and our stockholders.

**Our incentive fee structure may create incentives for OFS Advisor that are not fully aligned with the interests of our shareholders.**

In the course of our investing activities, we will pay management and incentive fees to OFS Advisor. The base management fee is based on our total assets (other than cash and cash equivalents and the intangible asset and goodwill resulting from the SBIC Acquisitions but including assets purchased with borrowed amounts and including assets owned by any consolidated entity). As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than one might achieve through direct investments. Because these fees are based on our total assets, other than cash and cash equivalents but including assets purchased with borrowed amounts and including any assets owned by any consolidated entity, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interests associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate. As a result of this arrangement, OFS Advisor or its affiliates may from time to time have interests that differ from those of our shareholders, giving rise to a conflict.

**We may pay an incentive fee on income we do not receive in cash.**

The part of the incentive fee payable to OFS Advisor that relates to our pre-incentive fee net investment income is computed and paid on income that may include interest income that has been accrued but not yet received in cash.

This fee structure may be considered to involve a conflict of interest for OFS Advisor to the extent that it may encourage OFS Advisor to favor debt financings that provide for deferred interest, rather than current cash payments of interest. OFS Advisor may have an incentive to invest in deferred interest securities in circumstances where it would not have done so but for the opportunity to continue to earn the incentive fee even when the issuers of the deferred interest securities would not be able to make actual cash payments to us on such securities. This risk could be increased because OFS Advisor is not obligated to reimburse us for any incentive fees received even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued.

**To the extent PIK interest and PIK dividends constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.**

Our investments may include contractual PIK interest or PIK dividends, which represents contractual interest or dividends added to a loan balance or equity security and due at the end of such loan's or equity security's term. To the extent PIK interest and PIK dividends constitute a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash. Such risks include:

TABLE OF CONTENTS

The higher interest or dividend rates of PIK instruments reflect the payment deferral and increased risk associated with these instruments, and PIK instruments often represent a significantly higher risk than non-PIK instruments. Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.

PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK income may also create uncertainty about the source of our cash distributions.

For accounting purposes, any cash distributions to shareholders representing PIK income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. As a result, despite the fact that a distribution representing PIK income could be paid out of amounts invested by our shareholders, the 1940 Act does not require that shareholders be given notice of this fact by reporting it as a return of capital.

PIK interest or dividends have the effect of generating investment income at a compounding rate, thereby further increasing the incentive fees payable to OFS Advisor. Similarly, all things being equal, the deferral associated with PIK interest or dividends also decreases the investment principal-to-value ratio at a compounding rate.

**The valuation process for certain of our portfolio holdings creates a conflict of interest.**

Many of our portfolio investments are made in the form of securities that are not publicly traded. As a result, our board of directors will determine the fair value of these securities in good faith as described below in Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments. In connection with that determination, investment professionals from OFS Advisor may provide our board of directors with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. In addition, the members of our board of directors who are not independent directors have a substantial indirect pecuniary interest in OFS Advisor. The participation of OFS Advisor's investment professionals in our valuation process, and the indirect pecuniary interest in OFS Advisor by those members of our board of directors, could result in a conflict of interest since OFS Advisor's management fee is based, in part, on our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity).

**We may have additional conflicts related to other arrangements with OFS Advisor or its affiliates.**

We have entered into a license agreement with OFSAM under which OFSAM has granted us a non-exclusive, royalty-free license to use the name OFS. See Management and Other Agreements License Agreement. In addition, we will rent office space from a subsidiary of OFSAM and pay to that subsidiary our allocable portion of overhead and other expenses incurred in performing its obligations under the Administration Agreement, such as rent and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer and chief accounting officer. This will create conflicts of interest that our board of directors must monitor.

**The Investment Advisory Agreement with OFS Advisor and the Administration Agreement with OFS Services were not negotiated on an arm's length basis and may not be as favorable to us as if they had been negotiated with an unaffiliated third party.**

The Investment Advisory Agreement and the Administration Agreement were negotiated between related parties. Consequently, their terms, including fees payable to OFS Advisor, may not be as favorable to us as if they had been negotiated with an unaffiliated third party. In addition, we could choose not to enforce, or to enforce less vigorously, our rights and remedies under these agreements because of our desire to maintain our ongoing relationship with OFS Advisor, OFS Services and their respective affiliates. Any such decision, however, would breach our fiduciary obligations to our shareholders.

TABLE OF CONTENTS

**Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.**

Because we have elected to be treated as a BDC under the 1940 Act, we are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Those transactions include purchases and sales, and so-called joint transactions, in which we and one or more of our affiliates are engaging together in certain types of profit-making activities. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we are generally prohibited from engaging in purchases or sales of assets or joint transactions with such affiliates, absent the prior approval of our independent directors. Additionally, without the approval of the SEC, we are prohibited from engaging in purchases or sales of assets or joint transactions with the following affiliated persons: (a) our officers, directors, and employees; (b) OFS Advisor and its affiliates; and (c) OFSAM or its affiliates.

We may, however, invest alongside OFSAM and its affiliates or their respective other clients in certain circumstances where doing so is consistent with current law and SEC staff interpretations. For example, we may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that OFS Advisor, acting on our behalf and on behalf of other clients, negotiates no term other than price. Co-investment with such other accounts is not permitted or appropriate under this guidance when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between our interests and those of other accounts. Moreover, except in certain circumstances, this guidance does not permit us to invest in any issuer in which OFSAM and its affiliates or a fund managed by OFSAM or its other affiliates has previously invested.

With the exception of investments specifically permitted by current law or regulatory guidance, we will not be permitted to co-invest with other funds managed by OFSAM or its affiliates unless we receive exemptive relief from the SEC permitting us to do so. On January 15, 2016, we filed an application for such relief with the SEC. See Regulation Exemptive Relief. There can be no assurance when or if such exemptive relief will be granted by the SEC.

Where we are or may in the future be permitted to invest alongside OFSAM and its affiliates or their respective other clients, OFS Advisor will, to the extent consistent with applicable law, regulatory guidance, or exemptive relief, allocate investment opportunities in accordance with its allocation policy. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

suitability/priority of a particular investment for the investment vehicles;

if applicable, the targeted position size of the investment for the investment vehicles;

level of available cash for investment with respect to the investment vehicles;

total amount of funds committed to the investment vehicles; and

the age of the investment vehicles and the remaining term of their respective investment periods, if any.

In situations where co-investment with other accounts is not permitted or appropriate, OFS Advisor will need to decide which account will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would



TABLE OF CONTENTS

have made. These restrictions, and similar restrictions that limit our ability to transact business with our officers or directors or their affiliates, may limit the scope of investment opportunities that would otherwise be available to us.

**SBA regulations limit the outstanding dollar amount of SBA guaranteed debenture funding that may be received by an SBIC or group of SBICs under common control.**

SBA regulations currently limit the amount that an SBIC may borrow to 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 \$225 million. A bill proposed in the U.S. House of Representatives would increase the total SBIC leverage capacity for affiliated SBIC funds from \$225 million to \$350 million. However, the ultimate form and likely outcome of such legislation, if reintroduced, or any similar legislation cannot be predicted.

We cannot presently predict whether or not we will borrow the maximum permitted amount; if we reach the maximum dollar amount of SBA guaranteed debentures permitted, and thereafter require additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, SBIC I LP's status as an SBIC does not automatically assure that it will receive SBA guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon whether SBIC I LP is and continues to be in compliance with SBA regulations and policies and whether funding is available. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by SBIC I LP. As of March 31, 2016, the Company had fully funded its \$75.0 million commitment to SBIC I LP. As of December 31, 2015, SBIC I LP had leverage commitments of approximately \$149.9 million from the SBA, and \$149.9 million of outstanding SBA-guaranteed debentures, leaving no incremental borrowing capacity under present SBA regulations. In January 2015, we filed an application with the SBA for a second SBIC license, which, if approved, would provide up to \$75.0 million in additional SBA debentures for the funding of our future investments upon our contribution of at least \$37.5 million in additional regulatory capital and subject to the issuance of a leverage commitment by the SBA and other customary procedures. There can be no assurance as to whether or when this application will be approved by the SBA.

**SBIC I LP is subject to SBA regulations.**

Our investment strategy includes SBIC I LP, which is regulated by the SBA. On December 4, 2013, we acquired the remaining limited and general partnership interests of SBIC I LP that we did not already own, which resulted in SBIC I LP becoming our wholly-owned subsidiary.

The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of leverage commitments by the SBA and other customary procedures. Prior to becoming our wholly-owned subsidiary, SBIC I LP had received \$67.3 million in SBA leverage commitments. In July 2014, the Company funded the remaining \$13.6 million of its \$75 million commitment to SBIC I LP. As of March 31, 2016, SBIC I LP had leverage commitments of approximately \$149.9 million from the SBA, and \$149.9 million of outstanding SBA-guaranteed debentures, leaving no incremental borrowing capacity under present SBA regulations.

SBA regulations limit the outstanding dollar amount of SBA guaranteed debenture funding that may be received by

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant 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 its use of debentures, declare outstanding debentures immediately due and payable, and/or limit its ability to make new investments. The SBA, as a creditor, will have a superior claim to SBIC I LP's assets over SBIC I LP's limited partners and our shareholders in the event SBIC I LP is liquidated or the SBA exercises its remedies under the SBA debentures issued by SBIC I LP in the event of a default. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision

TABLE OF CONTENTS

of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because of our ownership interest in SBIC I LP.

The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits an SBIC from providing funds to small businesses for certain purposes, such as relending, real estate or investing in companies outside of the United States, and providing funds to businesses engaged in a few prohibited industries and to certain passive (i.e., non-operating) companies. In addition, without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC's regulatory capital in any one company and its affiliates. Compliance with SBIC requirements may cause SBIC I LP to forego attractive investment opportunities that are not permitted under SBA regulations.

SBIC I LP is subject to ongoing regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. In addition, SBIC I LP may also be limited in its ability to make distributions to us if it does not have sufficient accumulated net profit, in accordance with SBA regulations. These requirements may make it more difficult for us to achieve our investment objective.

**We finance our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.**

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. We may pledge up to 100% of our assets and may grant a security interest in all of our assets, other than assets held in SBIC I LP and our ownership interest in SBIC I LP and SBIC I GP, under the terms of any debt instruments we may enter into with lenders. In addition, under the terms of any credit facility or other debt instrument we enter into, we are likely to be required by its terms to use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged, thereby magnifying losses or eliminating our equity stake in a leveraged investment. Similarly, any decrease in our revenue or income will cause our net income to decline more sharply than it would have had we not borrowed. Such a decline would also negatively affect our ability to make distribution payments on our common stock or preferred stock. Our ability to service our debt will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, because the management fee payable to OFS Advisor is payable based on our total assets (other than cash and cash equivalents and goodwill and intangible assets related to the SBIC Acquisitions but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), OFS Advisor will have a financial incentive to incur leverage which may not be consistent with our shareholders' interests. In addition, our common shareholders will bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the management fee payable to OFS Advisor.

As a BDC, we are generally required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. An asset coverage ratio of 200% means that for every \$100 in net assets, the Company may raise \$100 from borrowings or other debt. If this ratio declines below 200%, we will not be able to incur additional debt and could be required to sell a portion of our investments to repay some debt when it is disadvantageous to do so. This could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on OFS Advisor's and our board of directors' assessment of market and other factors at the time

We finance our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested

of any proposed borrowing. We cannot assure shareholders that we will be able to obtain credit at all or on terms acceptable to us.

TABLE OF CONTENTS

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%
Corresponding return to common stockholder <sup>(1)</sup>	-21 %	-12 %	-4 %	5 %	14 %

Assumes \$245.4 million in investments at fair value, \$149.9 million in debt outstanding, \$142.0 million in net (1) assets and an average cost of funds of 3.42%. Assumptions are based on our financial condition and our average cost of funds at March 31, 2016.

Based on our outstanding indebtedness of \$149.9 million as of March 31, 2016 and the average cost of funds of 3.42% as of that date, our investment portfolio must experience an annual return of at least 2.1% to cover interest payments on the outstanding debt.

**Changes in interest rates will affect our cost of capital and net investment income.**

To the extent we borrow money or issue preferred stock to make investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds or pay distributions on preferred stock and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

A rise in the general level of interest rates typically leads to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates may result in an increase of the amount of incentive fees payable to OFS Advisor.

**We may enter into reverse repurchase agreements, which are another form of leverage.**

We may enter into reverse repurchase agreements as part of our management of our temporary investment portfolio. Under a reverse repurchase agreement, we will effectively pledge our assets as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the fair value of the pledged collateral. At the maturity of the reverse repurchase agreement, we will be required to repay the loan and correspondingly receive back our collateral. While used as collateral, the assets continue to pay principal and interest which are for the benefit of us.

Our use of reverse repurchase agreements, if any, involves many of the same risks involved in our use of leverage, as the proceeds from reverse repurchase agreements generally will be invested in additional securities. There is a risk that the market value of the securities acquired in the reverse repurchase agreement may decline below the price of the securities that we have sold but remain obligated to purchase. In addition, there is a risk that the market value of the securities retained by us may decline. If a buyer of securities under a reverse repurchase agreement were to file for

bankruptcy or experience insolvency, we may be adversely affected. Also, in entering into reverse repurchase agreements, we would bear the risk of loss to the extent that the proceeds of such agreements at settlement are less than the fair value of the underlying securities being pledged. In addition, due to the interest costs associated with reverse repurchase agreements transactions, our net asset value would decline, and, in some cases, we may be worse off than if we had not used such instruments.

**We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.**

Preferred stock, which is another form of leverage, has the same risks to our common shareholders as borrowings because the distributions on any preferred stock we issue must be cumulative. Payment of such distributions and repayment of the liquidation preference of such preferred stock must take preference over

TABLE OF CONTENTS

any dividends or other payments to our common shareholders, and preferred shareholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

**We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.**

A number of entities compete with us to make the types of investments that we plan to make. We will compete with public and private funds, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some of our competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or the source of income, asset diversification and distribution requirements we must satisfy to maintain our RIC status. These characteristics could allow our competitors to consider a wider variety of instruments, establish more relationships and offer better pricing and more flexible structuring than we are able to. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objective.

With respect to the investments we make, we will not seek to compete based primarily on the interest rates we will offer, and we believe that some of our competitors may make loans with interest rates that will be lower than the rates we offer. In the secondary market for acquiring existing loans, we expect to compete generally on the basis of pricing terms. With respect to all investments, we may lose some investment opportunities if we do not match our competitors pricing, terms and structure. However, if we match our competitors pricing, terms and structure, we may experience decreased net interest income, lower yields and increased risk of credit loss. We may also compete for investment opportunities with OFSAM and its other affiliates or accounts managed by OFSAM or one of its other affiliates. Although OFS Advisor will allocate opportunities in accordance with its policies and procedures, allocations to such other accounts will reduce the amount and frequency of opportunities available to us and may not be in the best interests of us and our shareholders. Moreover, the performance of investments will not be known at the time of allocation.

**We may suffer credit losses.**

Investment in middle market companies is highly speculative and involves a high degree of risk of credit loss, and therefore our securities may not be suitable for someone with a low tolerance for risk. These risks are likely to increase during volatile economic periods, such as the U.S. and many other economies have recently been experiencing.

**We will be subject to corporate-level federal income tax if we are unable to qualify or maintain our qualification as a RIC.**

We have elected to be treated as a RIC under Subchapter M of the Code, but no assurance can be given that we will be able to maintain RIC status. As a RIC, we are not required to pay corporate-level federal income taxes on our income and capital gains distributed (or deemed distributed) to our shareholders. To continue to qualify as a RIC under the Code and to be relieved of federal taxes on income and gains distributed to our shareholders, we must meet certain

We may in the future determine to fund a portion of our investments with preferred stock, which would make us

source-of-income, asset diversification and distribution requirements. The distribution requirement for a RIC is satisfied if we distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our shareholders on an annual basis. We will be subject, to the extent we use debt financing or preferred stock, to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements or preferred stock that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify and maintain our qualification for the tax benefits available to RICs and, thus, may be subject to corporate-level federal income tax. To maintain our qualification as a RIC, we must also meet certain asset diversification



TABLE OF CONTENTS

requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private or thinly traded public companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to continue to qualify, as a RIC for any reason and become subject to corporate-level federal income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distributions to shareholders and the amount of our distributions and the amount of funds available for new investments. Such a failure would have a material adverse effect on us and our shareholders. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

**Our subsidiaries and portfolio companies may be unable to make distributions to us that will enable us to meet RIC requirements, which could result in the imposition of an entity-level tax.**

In order for us to continue to maintain our status as a RIC and to minimize corporate-level taxes, we are required to distribute on an annual basis substantially all of our taxable income, which includes income from our subsidiaries and portfolio companies. As a substantial portion of our investments are made through SBIC I LP, we are significantly dependent on that entity for cash distributions to enable us to maintain the RIC distribution requirements. SBIC I LP may be limited by the Small Business Investment Act of 1958 and SBA regulations governing SBICs from making certain distributions to us that may be necessary to enable us to continue to qualify as a RIC. We may have to request a waiver of the SBA's restrictions for SBIC I LP to make certain distributions to maintain our status as a RIC and we cannot assure shareholders that the SBA will grant such waiver. If our subsidiaries and portfolio companies are unable to make distributions to us, this may result in loss of RIC status and a consequent imposition of a corporate-level federal income tax on us.

**We may have difficulty paying our required distributions if we recognize income before, or without, receiving cash representing such income.**

For U.S. federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as the accretion of OID. This may arise if we purchase assets at a discount, receive warrants in connection with the making of a loan or in other circumstances, or through contracted PIK interest or dividends (meaning interest or dividends paid in the form of additional principal amount of the loan or equity security instead of in cash), which represents contractual interest or dividends added to the loan balance or equity security and due at the end of the investment term. Such OID, which could be significant relative to our overall investment activities, or increases in loan or equity investment balances as a result of contracted PIK arrangements, will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to maintain the tax benefits available to RICs. In such a case, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations and sourcings to meet these distribution requirements. If we sell built-in-gain assets, we may be required to recognize taxable income in respect of the built-in-gain on such assets. In such a case, we would have to distribute all of our taxable gain (including the built-in-gain) in respect of such sale to avoid the imposition of entity-level tax on such gain. If we are not able to obtain such cash from other sources, we may fail to maintain the tax benefits available to RICs and thus be subject to

corporate-level income tax. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

**We may in the future choose to pay distributions in our own stock, in which case shareholders may be required to pay tax in excess of the cash they receive.**

We make taxable distributions that are payable in cash or shares of our common stock at the election of each shareholder. Under certain applicable provisions of the Code and the Treasury regulations, taxable distributions payable in cash or in shares of stock at the election of shareholders are treated as taxable dividends. The Internal Revenue Service has issued private rulings indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 20% of the total

TABLE OF CONTENTS

distribution. Under these rulings, if too many shareholders elect to receive their distributions in cash, each such shareholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If we decide to make any distributions consistent with these rulings that are payable in part in our stock, taxable shareholders receiving such distributions will be required to include the full amount of the distributions (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. shareholder may be required to pay tax with respect to such distributions in excess of any cash received. If a U.S. shareholder sells the stock it receives as a distribution in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. shareholders, we may be required to withhold U.S. tax with respect to such distributions, including in respect of all or a portion of such distribution that is payable in stock. In addition, if a significant number of our shareholders determine to sell shares of our stock in order to pay taxes owed on distributions, it may put downward pressure on the trading price of our stock.

**Because we expect to distribute substantially all of our net investment income and net realized capital gains to our shareholders, we may need additional capital to finance our growth and such capital may not be available on favorable terms or at all.**

We have elected to be taxed for federal income tax purposes as a RIC under Subchapter M of the Code. If we meet certain requirements, including source of income, asset diversification and distribution requirements, and if we continue to qualify as a BDC, we will continue to qualify to be a RIC under the Code and will not have to pay corporate-level taxes on income we distribute to our shareholders as distributions, allowing us to substantially reduce or eliminate our corporate-level tax liability. As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200% at the time we issue any debt or preferred stock. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt or preferred stock and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure investors that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue common stock priced below net asset value without shareholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

**Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital. As a BDC, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage.**

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted as a BDC to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on

We may in the future choose to pay distributions in our own stock, in which case shareholders may be required to pay

the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common shareholders. If we issue senior securities, we will be exposed to typical risks associated with leverage, including an increased risk of loss.

As of March 31, 2016, we had debt outstanding in the amount of \$149.9 million. Our ability to incur additional debt and remain in compliance with the asset coverage test will be limited. We may seek an additional credit facility to finance investments or for working capital requirements. There can be no assurance that we will be able to obtain such financing on favorable terms or at all. We have received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from our definition of senior securities in our statutory 200% asset coverage ratio under the 1940 Act.

TABLE OF CONTENTS

If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred shareholders would have separate voting rights on certain matters and might have other rights, preferences or privileges more favorable than those of our common shareholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in our shareholders' best interest. Holders of our common stock will directly or indirectly bear all of the costs associated with offering and servicing any preferred stock that we issue. In addition, any interests of preferred shareholders may not necessarily align with the interests of holders of our common stock and the rights of holders of shares of preferred stock to receive dividends would be senior to those of holders of shares of our common stock. We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in the best interests of us and our shareholders, and if our shareholders approve any such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our shareholders at that time will decrease, and our shareholders might experience dilution.

**Our ability to invest in public companies may be limited in certain circumstances.**

To maintain our status as a BDC, we are not permitted to acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our assets, as defined by the 1940 Act, are qualifying assets (with certain limited exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as a qualifying asset only if such issuer has a common equity market capitalization that is less than \$250 million at the time of such investment and meets the other specified requirements.

**The PWB Credit Facility contains various covenants and restrictions which, if not complied with, could accelerate our repayment obligations under the credit facility or limit its use, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.**

On November 5, 2015, we became party to the PWB Credit Facility, which provides us with a senior secured revolving line of credit of up to \$15.0 million, with maximum availability equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base and otherwise specified in the credit agreement. The PWB Credit Facility is guaranteed by our subsidiary OFS Capital WM, LLC ( OFS Capital WM ) and secured by all of our current and future assets excluding assets held by SBIC I LP and our SBIC I LP and SBIC I GP partnership interests. The PWB Credit Facility 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 PWB Credit Facility 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. The Credit Facility permits us to fund additional investments as long as we are within the conditions set out in the credit agreement. Our

continued compliance with these covenants depends on many factors, some of which are beyond our control, and there are no assurances that we will continue to comply with these covenants. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders. The Credit Facility remained undrawn at March 31, 2016.

**Adverse developments in the credit markets may impair our ability to secure debt financing.**

During the economic downturn in the United States that began in mid-2007, many commercial banks and other financial institutions stopped lending or significantly curtailed their lending activity. In addition, in an

TABLE OF CONTENTS

effort to stem losses and reduce their exposure to segments of the economy deemed to be high risk, some financial institutions limited routine refinancing and loan modification transactions and even reviewed the terms of existing facilities to identify bases for accelerating the maturity of existing lending facilities. As a result, it may be difficult for us to obtain desired financing to finance the growth of our investments on acceptable economic terms, or at all.

If we are unable to consummate credit facilities on commercially reasonable terms, our liquidity may be reduced significantly. If we are unable to repay amounts outstanding under any facility we may enter into and are declared in default or are unable to renew or refinance any such facility, it would limit our ability to initiate significant originations or to operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as inaccessibility of the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we are unable to predict when economic and market conditions may become more favorable. Even if such conditions improve broadly and significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

**Terrorist attacks, acts of war or natural disasters may affect any market for our common stock, impact the businesses in which we invest and harm our business, operating results and financial condition.**

Terrorist acts, acts of war or natural disasters may disrupt our operations, as well as the operations of the businesses in which we invest. Such acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

**The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.**

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions.

If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as customer, counterparty, employee and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss, exposure or destruction of data, or other cybersecurity incidents, with increased costs and other consequences, including those described above.



TABLE OF CONTENTS

**If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to continue to qualify as a BDC or be precluded from investing according to our current business strategy.**

As a BDC, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our assets, as defined by the 1940 Act, are qualifying assets. See Regulation.

We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If a sufficient portion of our assets are not qualifying assets, we could violate the 1940 Act provisions applicable to business development companies. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition and results of operations.

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end fund, we would be subject to substantially more regulatory restrictions under the 1940 Act which would significantly decrease our operating flexibility.

**Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments.**

Many of our portfolio investments, including those of our subsidiaries, take the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable.

We value these securities at fair value as determined in good faith by our board of directors, including to reflect significant events affecting the value of our securities. Most of our investments (other than cash and cash equivalents) are classified as Level 3 under Accounting Standards Codification Topic 820, Fair Value Measurement and Disclosures (ASC Topic 820). This means that our portfolio valuations are based on unobservable inputs and our own assumptions about how market participants would price the asset or liability in question. Inputs into the determination of fair value of our portfolio investments require significant management judgment or estimation. Even if observable market data are available, such information is result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimers materially reduces the reliability of such information.

We presently retain the services of two independent service providers to review the valuation of these securities.

The types of factors that the board of directors takes into account in determining the fair value of our investments generally include, as appropriate, comparison to third-party yield benchmarks and comparison to publicly traded securities including such factors as yield, maturity and measures of credit quality, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of

fair value may differ materially from the values that would have been used if a ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

We adjust quarterly the valuation of our portfolio to reflect our board of directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of income as net change in unrealized appreciation or depreciation.

TABLE OF CONTENTS

**We may experience fluctuations in our quarterly operating results.**

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, distributions from our subsidiaries and portfolio companies, the degree to which we encounter competition in our markets and general economic conditions. In light of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

**Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could have a material adverse effect on our, and our portfolio companies, business, results of operations or financial condition.**

We and our portfolio companies are subject to regulation by laws at the U.S. federal, state and local levels, including those that govern BDCs, RICs, SBICs or non-depository commercial lenders. These laws and regulations, including applicable accounting standards, as well as their interpretation, may change from time to time, and new laws, regulations, accounting standards and interpretations may also come into effect. Any such new or changed laws or regulations could have a material adverse effect on our business.

We are also subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. If we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and may be subject to civil fines and criminal penalties.

In addition, changes to the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy, including making investments in entities such as OFS Capital WM and SBIC I LP, in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this annual report on Form 10-K and our accounting practices described in this annual report on Form 10-K, and may shift our investment focus from the areas of expertise of OFS Advisor to other types of investments in which OFS Advisor may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

On July 21, 2010, the Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was signed into law. Although passage of the Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect us and the financial industry as a whole, many of its provisions remain subject to extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities. While the full impact of the Dodd-Frank Act on us and our portfolio companies may not be known for an extended period of time, the Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

Over the last several years, there has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether these regulations will be implemented or what form they will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

TABLE OF CONTENTS

**The effect of global climate change may impact the operations of our portfolio companies.**

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

**Proposed legislation may allow us to incur additional leverage.**

Legislation has been introduced in the U.S. House of Representatives which is intended to revise certain regulations applicable to BDCs. The legislation provides for (i) increasing the amount of funds BDCs may borrow by reducing asset to debt limitations from 2:1 to 3:2, (ii) permitting BDCs to file registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment adviser subsidiaries. There are no assurances as to when the legislation will be reintroduced and enacted by Congress, if at all, or, if enacted, what final form the legislation would take. There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

**Loss of status as a RIC would reduce our net asset value and distributable income.**

We have qualified as a RIC under the Code. As a RIC, we do not have to pay federal income taxes on our income (including realized gains) that we distribute to our shareholders, provided that we satisfy certain distribution and other requirements. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. If we fail to qualify for RIC status in any year, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value and the amount potentially available for distribution. In addition, if we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, we would have to establish appropriate reserves for taxes that we would have to pay on behalf of shareholders. It is possible that establishing reserves for taxes could have a material adverse effect on the value of our common stock. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

**Our board of directors may change our investment objective, operating policies and strategies without prior notice or shareholder approval.**

Our board of directors has the authority, except as otherwise provided in the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without shareholder approval. However, absent shareholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. Under Delaware law, we also cannot be dissolved without prior shareholder approval except by judicial action. We cannot predict the effect any changes to our current operating policies and strategies would have on our business,

operating results and the price value of our common stock. Nevertheless, any such changes could adversely affect our business and impair our ability to make distributions.

**OFS Advisor can resign on 60 days notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.**

OFS Advisor has the right, under the Investment Advisory Agreement, to resign at any time upon not less than 60 days written notice, whether we have found a replacement or not. If OFS Advisor resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do

TABLE OF CONTENTS

so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by OFS Advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

**OFS Services can resign from its role as our administrator under the Administration Agreement, and we may not be able to find a suitable replacement, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.**

OFS Services has the right to resign under the Administration Agreement, whether we have found a replacement or not. If OFS Services resigns, we may not be able to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and administrative activities is likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by OFS Services. Even if we are able to retain a comparable service provider or individuals to perform such services, whether internal or external, their integration into our business and lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

**We incur significant costs as a result of being a publicly traded company.**

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act and other rules implemented by the SEC.

**Efforts to comply with Section 404 of the Sarbanes-Oxley Act involve significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act may adversely affect us and the market price of our securities.**

Under current SEC rules, beginning with our fiscal year ended December 31, 2013, we have been required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and related rules and regulations of the SEC. We are required to review our internal control over financial reporting on an annual basis, and evaluate and disclose changes in our internal control over financial reporting on a quarterly and annual basis.

As a result, we expect to continue to incur additional expenses that may negatively impact our financial performance and our ability to make distributions. This process also results in a diversion of management's time and attention. In

OFS Advisor can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time,

the event that we are unable to maintain compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and the market price of our securities may be adversely affected.

**We have identified a material weakness in our internal control over financial reporting and our business and stock price may be adversely affected if we have not adequately addressed the weakness.**

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations.

As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2015, management identified a material weakness related to reconciliation of components of



## TABLE OF CONTENTS

distributions in the statement of changes in net assets and net assets within the balance sheet. As part of its fourth quarter close, which was completed during the first quarter of 2016, the Company discovered and corrected errors related to certain reclassifications between the components of net assets primarily related to accounting for the tax character of, and basis differences between tax and accounting principles generally accepted in the United States of America ( GAAP ), and the presentation of certain unrealized gains and losses within the components of net assets. The error correction impacted the classification of certain components of consolidated net assets as of December 31, 2014 and distributions reported in the consolidated statement of changes in net assets for the year ended December 31, 2014 and 2013. In addition, it impacted the presentation of unrealized gains and losses within the components of net assets as of December 31, 2013. The purpose of the reclassifications was to (a) give effect to the tax character of, and basis differences between tax and GAAP in (i) accumulated shareholder distributions, (ii) accumulated undistributed net investment income, and (iii) accumulated net realized gains/losses, and (iv) net unrealized appreciation (depreciation) on investments. The adjustments had no impact on previously reported consolidated total net assets, net investment income, net increase in net assets resulting from operations, or consolidated cash flows. The Company discovered the error through the implementation of a new control as part of its fourth quarter close, which was completed during the first quarter of 2016, and as a result a material weakness existed at December 31, 2015. We believe that the audited consolidated financial statements included in this prospectus are accurate. As of March 31, 2016, we addressed the underlying causes of the material weakness as described further in Remediation Efforts. Accordingly, we believe that the unaudited consolidated financial statements included in this prospectus do fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

### **Remediation Efforts**

We are currently in the process of remediating the material weakness in our internal control over financial reporting as described above and are taking the necessary steps that we believe will address the underlying causes of the material weakness. We have completed the development and formal documentation of our policies and procedures relating to our internal control over financial reporting, but we have not completed the testing of these formalized controls. The identified material weakness in internal control will not be considered fully remediated until sufficient time has elapsed to provide evidence that the new controls have been implemented and are operating effectively. We implemented the following remediation steps to address the material weakness discussed above and to improve our internal control over financial reporting:

Our account reconciliation process for components of net assets and distributions was enhanced (1) to ensure the proper reclassification entries are recorded to account for the tax character of, and basis differences between tax and GAAP and (2) to ensure the beginning of the quarter and normal, recurring elements of changes in net assets appropriate to the account, equal the reconciled balance at the end of the quarter for components of net assets and distributions.

If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

**Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.**

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. While the capital markets have improved, these conditions could deteriorate again in the future.

During such market disruptions, we may have difficulty raising debt or equity capital, especially as a result of regulatory constraints.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in

## TABLE OF CONTENTS

the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

Various social and political tensions in the United States and around the world, including in the Middle East, Eastern Europe and Russia, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Several European Union ( EU ) countries, including Greece, Ireland, Italy, Spain, and Portugal, continue to face budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is also continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. The recent United States and global economic downturn, or a return to the recessionary period in the United States, could adversely impact our investments. We cannot predict the duration of the effects related to these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

## **Risks Related to Our Investments**

### **Economic recessions or downturns could impair our portfolio companies and harm our operating results.**

Many of our portfolio companies are susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, lenders in certain cases can be subject to lender liability claims for actions taken by them when they become too involved in the borrower's business or exercise control over a borrower. It is possible that we could become subject to a lender liability claim, including as a result of actions taken if we render significant managerial assistance to the borrower. Furthermore, if one of our portfolio companies were to file for bankruptcy protection, even though we may have structured our investment as senior secured debt, depending on the facts and circumstances, including the extent to which we provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to claims of other creditors.

**Our investments in leveraged portfolio companies may be risky, and we could lose all or part of their investment.**

Investment in leveraged companies involves a number of significant risks. Leveraged companies in which we invest may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold. Such developments may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees that we may have obtained in connection with our investment. In addition, our mezzanine loans are generally subordinated to senior loans and are generally unsecured. As such, other creditors may rank senior to us in the event of an insolvency. Smaller leveraged companies also may have less predictable operating results and may require substantial additional capital to support their operations, finance their expansion or maintain their competitive position.

TABLE OF CONTENTS

**Our investments in lower credit quality obligations are risky and highly speculative, and we could lose all or part of our investment.**

Most of our debt investments are likely to be in lower grade obligations. The lower grade investments in which we invest may be rated below investment grade by one or more nationally-recognized statistical rating agencies at the time of investment or may be unrated but determined by OFS Advisor to be of comparable quality. Debt securities rated below investment grade are commonly referred to as "junk bonds" and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. The debt in which we invest typically is not rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than Baa3 by Moody's Investors Service, lower than BBB- by Fitch Ratings or lower than BBB- by Standard & Poor's). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

Investment in lower grade investments involves a substantial risk of loss. Lower grade securities or comparable unrated securities are considered predominantly speculative with respect to the issuer's ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for lower grade debt tend to be very volatile and are less liquid than investment grade securities. For these reasons, your investment in our company is subject to the following specific risks: increased price sensitivity to a deteriorating economic environment; greater risk of loss due to default or declining credit quality; adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and if a negative perception of the lower grade debt market develops, the price and liquidity of lower grade securities may be depressed. This negative perception could last for a significant period of time.

**Our investments in private and middle-market portfolio companies are risky, and we could lose all or part of our investment.**

Investment in private and middle-market companies involves a number of significant risks. Generally, little public information exists about these companies, and we rely on the ability of OFS Advisor's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Middle-market companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees we may have obtained in connection with our investment. In addition, such companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Additionally, middle-market companies are more likely to depend on the management talents and efforts of a small group of persons. Therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us. Middle-market companies also may be parties to litigation and may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence. In addition, our executive officers, directors and OFS Advisor may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

**If the assets securing the loans that we make decrease in value, then we may lack sufficient collateral to cover losses.**

We will at times take a security interest in the available assets of our portfolio companies, including the equity interests of their subsidiaries and, in some cases, the equity interests of our portfolio companies held by their shareholders. There is a risk that the collateral securing these types of loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. In some circumstances, our lien could be subordinated to claims of other creditors. Additionally, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for

TABLE OF CONTENTS

these types of loans. Moreover, in the case of certain of our investments, we do not have a first lien position on the collateral. Consequently, the fact that a loan may be secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or that we will be able to collect on the loan should we be forced to enforce our remedies.

**Our equity ownership in a portfolio company may represent a control investment. Our ability to exit a control investment in a timely manner could result in a realized loss on the investment.**

If we obtain a control investment in a portfolio company, our ability to divest ourselves from a debt or equity investment could be restricted due to illiquidity in a private stock, limited trading volume on a public company's stock, inside information on a company's performance, insider blackout periods, or other factors that could prohibit us from disposing of the investment as we would if it were not a control investment. Additionally, we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

**We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.**

In the event of a default by a portfolio company on a secured loan, we will only have recourse to the assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of inter-creditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through standstill periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company's ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer a loss which may adversely impact our financial performance.

**The lack of liquidity in our investments may adversely affect our business.**

All of our assets are presently invested in illiquid securities, and a substantial portion of our investments in leveraged companies is subject to legal and other restrictions on resale or is otherwise less liquid than more broadly traded public securities. The illiquidity of these investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly

less than the value at which we have previously recorded our investments. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, OFS Advisor, OFSAM or any of its other affiliates have material nonpublic information regarding such portfolio company.

**Price declines and illiquidity in the corporate debt markets may adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.**

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

37

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TABLE OF CONTENTS

a comparison of the portfolio company's securities to publicly traded securities;  
the enterprise value of a portfolio company;  
the nature and realizable value of any collateral;  
the portfolio company's ability to make payments and its earnings and discounted cash flow;  
the markets in which the portfolio company does business; and  
changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. We record decreases in the market values or fair values of our investments as unrealized depreciation. Declines in prices and liquidity in the corporate debt markets may result in significant net unrealized depreciation in our portfolio. The effect of all of these factors on our portfolio may reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse effect on our business, financial condition and results of operations.

**We are a non-diversified management investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.**

We are classified as a non-diversified management investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our asset diversification requirements as a RIC under the Code, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

**Our portfolio may be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.**

Although we believe our portfolio is well-diversified across companies and industries, our portfolio is and may in the future be concentrated in a limited number of portfolio companies and industries. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code, we do not have fixed guidelines for diversification. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, while we are not targeting any specific industries, our investments may be concentrated in relatively few industries. As a result, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

**We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings.**

Although we generally do not expect to make investments in companies or securities that OFS Advisor determines to be distressed investments, we may hold debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings or experience similar financial distress. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to

TABLE OF CONTENTS

exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

**Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.**

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in seeking to:

increase or maintain in whole or in part our position as a creditor or equity ownership percentage in a portfolio company;

exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or preserve or enhance the value of our investment.

We have discretion to make follow-on investments, subject to the availability of capital resources. Failure on our part to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our level of risk, because we prefer other opportunities or because we are inhibited by compliance with BDC requirements or the desire to maintain our RIC status. Our ability to make follow-on investments may also be limited by OFS Advisor's allocation policy.

**Because we generally do not hold controlling equity interests in our portfolio companies, we may not be able to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.**

We generally do not hold controlling equity positions in our portfolio companies. For portfolio companies in which we do not hold a controlling equity interest, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or shareholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

**Defaults by our portfolio companies will harm our operating results.**

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize such portfolio company's ability to meet its obligations under the debt or equity

securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

**Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.**

We have invested a substantial portion of our capital in senior secured, unitranche, second-lien and mezzanine loans issued by our portfolio companies. The portfolio companies may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt

TABLE OF CONTENTS

instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Additionally, certain loans that we make to portfolio companies may be secured on a second-priority basis by the same collateral securing first-priority debt of such companies. The senior secured liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the portfolio company under the agreements governing the loans. The holders of obligations secured by first-priority liens on the collateral will generally control the liquidation of, and be entitled to receive proceeds from, any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second-priority liens after payment in full of all obligations secured by the first-priority liens on the collateral. If such proceeds were not sufficient to repay amounts outstanding under the loan obligations secured by the second-priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, would only have an unsecured claim against the portfolio company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with more senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of such senior debt. Under a typical intercreditor agreement, at any time that obligations that have the benefit of the first-priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first-priority liens:

- the ability to cause the commencement of enforcement proceedings against the collateral;
- the ability to control the conduct of such proceedings;
- the approval of amendments to collateral documents;
- releases of liens on the collateral; and
- waivers of past defaults under collateral documents.

We may not have the ability to control or direct such actions, even if our rights are adversely affected.

We may also make unsecured loans to portfolio companies, meaning that such loans will not benefit from any interest in collateral of such companies. Liens on such portfolio companies' collateral, if any, will secure the portfolio company's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the portfolio company under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before us. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy our unsecured loan obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then our unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the portfolio company's remaining assets, if any.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.



TABLE OF CONTENTS

**If we make subordinated investments, the obligors or the portfolio companies may not generate sufficient cash flow to service their debt obligations to us.**

We make subordinated investments that rank below other obligations of the obligor in right of payment. Subordinated investments are subject to greater risk of default than senior obligations as a result of adverse changes in the financial condition of the obligor or in general economic conditions. If we make a subordinated investment in a portfolio company, the portfolio company may be highly leveraged, and its relatively high debt-to-equity ratio may create increased risks that its operations might not generate sufficient cash flow to service all of its debt obligations.

**The disposition of our investments may result in contingent liabilities.**

A significant portion of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate, or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

**Our investments in the healthcare industry are subject to extensive government regulation, litigation risk and certain other risks particular to that industry.**

We invest in companies in the healthcare industry that are subject to extensive regulation by the Food and Drug Administration, or the FDA, and to a lesser extent, other federal, state and other foreign agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies that produce medical devices or drugs are subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace. In addition, governmental budgetary constraints effecting the regulatory approval process, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry. Changes in healthcare or other laws and regulations applicable to the businesses of some of our portfolio companies may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. Portfolio companies in the healthcare industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in the healthcare industry and, in turn, impair our ability to timely collect principal and interest payments owed to us and adversely affect the value of these portfolio companies.

**Our investments in Internet and software companies are subject to many risks, including regulatory concerns, litigation risks and intense competition.**

Our investments in Internet and software companies are subject to substantial risks. For example, our portfolio companies face intense competition since their businesses are rapidly evolving and intensely competitive, and are subject to changing technology, shifting user needs, and frequent introductions of new products and services. Internet and software companies have many competitors in different industries, including general purpose search engines,

vertical search engines and e-commerce sites, social networking sites, traditional media companies, and providers of online products and services. Potential competitors to our portfolio companies in the Internet and software industries range from large and established companies to emerging start-ups. Further, such companies are subject to laws that were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. The laws that do reference the Internet are being interpreted by the courts, but their applicability and scope remain uncertain. For example, the laws relating to the liability of providers of online services are currently unsettled both within the U.S. and abroad. Claims have been threatened and



TABLE OF CONTENTS

filed under both U.S. and foreign laws for defamation, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted by a company's users, a company's products and services, or content generated by a company's users.

Further, the growth of Internet and software companies into a variety of new fields implicate a variety of new regulatory issues and may subject such companies to increased regulatory scrutiny, particularly in the U.S. and Europe. As a result, these portfolio company investments face considerable risk. This could, in turn, materially adversely affect the value of the Internet and software companies in our portfolio.

**Our base management fee may induce OFS Advisor to cause us to incur leverage.**

Our base management fee is payable based upon our total assets, other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity. This fee structure may encourage OFS Advisor to cause us to borrow money to finance additional investments. Under certain circumstances, the use of borrowed money may increase the likelihood of default, which would disfavor holders of our common stock. Given the subjective nature of the investment decisions made by OFS Advisor on our behalf, our board of directors may not be able to monitor this potential conflict of interest effectively.

**Our incentive fee may induce OFS Advisor to make certain investments, including speculative investments.**

The incentive fee payable by us to OFS Advisor may create an incentive for OFS Advisor to make investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement.

The way in which the incentive fee payable to OFS Advisor is determined may encourage OFS Advisor to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor our shareholders.

OFS Advisor receives an incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, OFS Advisor may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to OFS Advisor with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each of our shareholders will bear his or her share of the management and incentive fee of OFS Advisor as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest. For example, by virtue of our investment in OFS Capital WM, our shareholders indirectly incur management fees payable to the loan manager of the OFS Capital WM portfolio prior to the May 28, 2015, sale of senior secured debt investments with an aggregate principal balance of approximately \$67.8 million by the Company and OFS Capital WM to Madison Capital Funding LLC ( "Madison" ) (the "WM Asset Sale" ) (see "Financial Condition, Liquidity and Capital Resources - WM Asset Sale and Related Transactions" ).

Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interests associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate.

TABLE OF CONTENTS

**OFS Advisor's liability is limited under the Investment Advisory Agreement, and we have agreed to indemnify OFS Advisor against certain liabilities, which may lead OFS Advisor to act in a riskier manner on our behalf than it would when acting for its own account.**

Under the Investment Advisory Agreement, OFS Advisor will not assume any responsibility to us other than to render the services called for under that agreement, and it will not be responsible for any action of our board of directors in following or declining to follow OFS Advisor's advice or recommendations. Under the terms of the Investment Advisory Agreement, OFS Advisor and its affiliates' respective officers, directors, members, managers, shareholders and employees will not be liable to us, any subsidiary of ours, our directors, our shareholders or any subsidiary's shareholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Advisory Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Advisory Agreement. In addition, we have agreed to indemnify OFS Advisor and its affiliates' respective officers, directors, members, managers, shareholders and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Advisory Agreement. These protections may lead OFS Advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

**We may be subject to additional risks if we engage in hedging transactions and/or invest in foreign securities.**

The 1940 Act generally requires that 70% of our investments be in issuers each of whom is organized under the laws of, and has its principal place of business in, any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands or any other possession of the United States. Our investment strategy does not presently contemplate investments in securities of non-U.S. companies. We expect that these investments would focus on the same junior debt securities investments that we make in U.S. middle-market companies and accordingly would be complementary to our overall strategy and enhance the diversity of our holdings. Investing in securities of emerging market issuers involves many risks, including economic, social, political, financial, tax and security conditions in the emerging market, potential inflationary economic environments, regulation by foreign governments, different accounting standards and political uncertainties. Economic, social, political, financial, tax and security conditions also could negatively affect the value of emerging market companies. These factors could include changes in the emerging market government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to the emerging market companies or investments in their securities and the possibility of fluctuations in the rate of exchange between currencies.

Engaging in either hedging transactions or investing in foreign securities would entail additional risks to our shareholders. We could, for example, use instruments such as interest rate swaps, caps, collars and floors and, if we were to invest in foreign securities, we could use instruments such as forward contracts or currency options and borrow under a credit facility in currencies selected to minimize our foreign currency exposure. In each such case, we generally would seek to hedge against fluctuations of the relative values of our portfolio positions from changes in market interest rates or currency exchange rates. Hedging against a decline in the values of our portfolio positions would not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of the positions declined. However, such hedging could establish other positions designed to gain from those same

developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions could also limit the opportunity for gain if the values of the underlying portfolio positions increased. Moreover, it might not be possible to hedge against an exchange rate or interest rate fluctuation that was so generally anticipated that we would not be able to enter into a hedging transaction at an acceptable price.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates could result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in

TABLE OF CONTENTS

the portfolio positions being hedged could vary. Moreover, for a variety of reasons, we might not seek to establish a perfect correlation between the hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation could prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it might not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities would likely fluctuate as a result of factors not related to currency fluctuations.

**We may not realize gains from our equity investments.**

When we invest in senior secured, unitranche, second-lien and mezzanine loans, we may acquire warrants or other equity securities of portfolio companies as well. We also invest in equity securities directly. To the extent we hold equity investments, except as described below, we will attempt to dispose of them and realize gains upon our disposition of them. However, the equity interests we receive may not appreciate in value and may decline in value.

As a result, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. In the case of SBIC I LP, our wholly-owned subsidiary, we will not receive direct benefits from the sale of assets in their portfolios. Rather, our return on our investment in such assets will depend on the ability of SBIC I LP's portfolio to generate cash flow in excess of payments required, as appropriate, to be made to other parties under the terms of the SBA debentures, and distribution, subject to SBA regulation, of the excess to us.

**Uncertainty relating to the London Interbank Offered Rate ( LIBOR ) calculation process may adversely affect the value of our portfolio of LIBOR-indexed, floating-rate debt securities.**

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ( BBA ) in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

**Risks Related to Our Securities**

**Shareholders may not receive distributions or that our distributions may not grow over time and a portion of our distributions may be a return of capital.**

We have made distributions on a quarterly basis to our shareholders out of assets legally available for distribution. We cannot assure shareholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by the impact of one or more of the risk factors described in this Registration Statement. Due to the asset coverage test applicable to us under the 1940 Act as a BDC, we may be limited in our ability to make distributions.

When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor's basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain. A return of capital is a return to shareholders of a portion of their original investment in us rather than income or capital gains. A return of capital reduces the basis that the investor has in the Company's shares, which may result in

TABLE OF CONTENTS

an increase in the amount of any taxable gain or a reduction in any deductible loss upon a subsequent sale of such shares. See Material U.S. Federal Income Tax Considerations.

**The market price of our common stock may fluctuate significantly.**

As with any stock, the market price of our common stock will fluctuate with market conditions and other factors. The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;  
exclusion of our common stock from certain market indices, such as the Russell 2000 Financial Services Index, which could reduce the ability of certain investment funds to own our common stock and put short-term selling pressure on our common stock;  
    changes in regulatory policies or tax guidelines, particularly with respect to RICs, SBICs or BDCs;  
        loss of RIC or BDC status;  
        failure of SBIC I LP to maintain its status as an SBIC;  
    changes or perceived changes in earnings or variations in operating results;  
    changes or perceived changes in the value of our portfolio of investments;  
    changes in accounting guidelines governing valuation of our investments;  
any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;  
    departure of OFS Advisor s, OFSC s or any of their affiliates key personnel;  
    operating performance of companies comparable to us;  
    general economic trends and other external factors; and  
    loss of a major funding source.

**Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.**

The shares of our common stock beneficially owned by our principal shareholders are generally available for resale, subject to the provisions of Rule 144 promulgated under the Securities Act. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

**Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.**

The Delaware General Corporation Law, our certificate of incorporation and our bylaws contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our articles of incorporation dividing our board of directors into three classes with the term of one class expiring at each annual meeting of shareholders. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common

stock.



TABLE OF CONTENTS

**Our common stock may trade below its net asset value per share, which limits our ability to raise additional equity capital.**

If our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our shareholders and our independent directors. Shares of BDCs, including shares of our common stock, have traded at discounts to their net asset values. As of March 31, 2016, our net asset value per share was \$14.65. The daily average closing price of our shares on the NASDAQ Global Select Market for the three months ended March 31, 2016 was \$11.36. If our common stock trades below net asset value, the higher the cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

**If we issue preferred stock, debt securities or convertible debt securities, the net asset value and market value of our common stock may become more volatile.**

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. If we do not maintain our required asset coverage ratios, we may not be permitted to declare dividends. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

**Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.**

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred shareholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

TABLE OF CONTENTS

**Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.**

In the event we issue subscription rights, shareholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our shareholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

**The trading market or market value of our publicly issued debt securities may fluctuate.**

Our publicly issued debt securities may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities.

This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

**Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.**

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition,

**Our credit ratings may not reflect all risks of an investment in our debt securities.**

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

TABLE OF CONTENTS

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

In addition to factors previously identified elsewhere in this prospectus, including the Risks section of this prospectus, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our investment adviser;
  - the impact of increased competition;
  - the impact of future acquisitions and divestitures;
  - the unfavorable resolution of legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or OFS Advisors;
- the ability of OFS Advisors to identify suitable investments for us and to monitor and administer our investments;
  - our contractual arrangements and relationships with third parties;
  - any future financings by us;
- the ability of OFS Advisors to attract and retain highly talented professionals;
- fluctuations in foreign currency exchange rates; and
- the impact of changes to tax legislation and, generally, our tax position.

This prospectus and any prospectus supplement, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, potential, outlook, maintain, sustain, seek, achieve and similar expressions, or future or conditional verbs such as will, would, could, may or similar expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the Securities Act or Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

TABLE OF CONTENTS

## **USE OF PROCEEDS**

We intend to use the net proceeds from the sale of our securities for general corporate purposes, which include investing in debt and equity securities, repayment of any outstanding indebtedness, acquisitions and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within twelve months, but in no event longer than two years, depending on the availability of attractive opportunities and market conditions. However, there can be no assurance that we will be able to achieve this goal.

Pending such uses and investments, we will invest the remaining net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. The management fee payable by us to our investment adviser will not be reduced while our assets are invested in such securities. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of any offering, pending full investment, are held in lower yielding short-term instruments.

TABLE OF CONTENTS**PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock, traded on the NASDAQ Global Select Market under the symbol OFS, began trading on November 8, 2012. The following table sets forth the range of high and low sales prices of our common stock as reported on the NASDAQ Global Market, the sales price as a percentage of net asset value and the distributions declared by us for each fiscal quarter. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

	NAV <sup>(1)</sup>	Closing Price Range		Premium or Discount of High Sales Price to NAV <sup>(2)</sup>	Premium or Discount of Low Sales Price to NAV <sup>(2)</sup>	Cash Distributions per Share <sup>(3)</sup>
		High	Low			
Fiscal 2016						
Second Quarter (through June 28, 2016)	*	\$ 13.75	\$ 11.83	*	*	\$ 0.34
First Quarter	14.65	13.07	9.98	-10.8 %	-31.9 %	0.34
Fiscal 2015						
Fourth Quarter	\$ 14.76	\$ 11.72	\$ 10.11	-20.6 %	-31.5 %	\$ 0.34
Third Quarter	14.46	12.17	10.00	-15.8 %	-30.8 %	0.34
Second Quarter	14.66	12.50	11.75	-14.7 %	-19.8 %	0.34
First Quarter	14.24	12.44	11.20	-12.6 %	-21.3 %	0.34
Fiscal 2014						
Fourth Quarter	14.24	12.45	11.26	-12.6 %	-20.9 %	0.34
Third Quarter	14.22	13.11	12.07	-7.8 %	-15.1 %	0.34
Second Quarter	14.17	13.00	12.30	-8.3 %	-13.2 %	0.34
First Quarter	14.45	13.37	11.92	-7.5 %	-17.5 %	0.34

NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per (1) share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low sales price divided by NAV.

The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If the (3) tax characteristics of our distributions paid during 2016 were determined as of March 31, 2016, approximately \$0.04 per share would represent a return of capital. The return of capital portion of each distribution as of December 31, 2015 and 2014 was \$0.23 and \$0.72, respectively. The tax attribute of our distribution declared during the second quarter of 2016 has not been determined.

\*

NAV for this period has not been determined.

The last reported price for our common stock on June 28, 2016 was \$12.83 per share. We were added to the NASDAQ Global Select Market beginning January 2, 2014. As of June 28, 2016, there were two holders of record of the common stock, one of which was OFSAM. The other holder of record does not identify shareholders for whom shares are held beneficially in nominee or street name.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. At times, our shares of common stock have traded at a premium to net asset value and at times our shares of common stock have traded at a discount to the net assets attributable to those shares. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.



TABLE OF CONTENTS

**Distributions**

We are taxed as a RIC under the Code. Generally, a RIC is entitled to deduct distributions it pays to its shareholders from its income to determine taxable income. Taxable income includes our taxable interest, distribution 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 and may include passive gains and losses from certain portfolio companies. 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 result 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 PIK dividends, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest or PIK dividends generally occur at the end of the term of a loan or an equity security. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation, and amortization expense.

Our board of directors will maintain a variable distribution policy with the objective of distributing four quarterly distributions in an amount that approximates at least 90% 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 distribution, or fifth distribution, 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.

TABLE OF CONTENTS

The following table summarizes our distributions declared and paid on all shares to date (amount in thousands except per share data):

Date Declared	Record Date	Payment Date	Amount Per Share <sup>(2)</sup>	Total Amount
Fiscal 2016				
May 2, 2016	June 16, 2016	June 30, 2016	\$ 0.34	\$ 3,295
March 7, 2016	March 17, 2016	March 31, 2016	0.34	3,295
Fiscal 2015				
December 2, 2015	December 17, 2015	December 31, 2015	\$ 0.34	\$ 3,295
August 6, 2015	September 16, 2015	September 30, 2015	0.34	3,289
May 4, 2015	June 16, 2015	June 30, 2015	0.34	3,286
March 4, 2015	March 17, 2015	March 31, 2015	0.34	3,281
Fiscal 2014				
November 4, 2014	December 17, 2014	December 31, 2014	\$ 0.34	\$ 3,278
August 7, 2014	September 16, 2014	September 30, 2014	0.34	3,276
May 7, 2014	June 16, 2014	June 30, 2014	0.34	3,275
January 21, 2014	January 31, 2014	February 14, 2014	0.34	3,274
Fiscal 2013				
September 25, 2013	October 17, 2013	October 31, 2013	\$ 0.34	\$ 3,273
June 25, 2013	July 17, 2013	July 31, 2013	0.34	3,272
March 26, 2013	April 17, 2013	April 30, 2013	0.34	3,269
Fiscal 2012				
November 26, 2012 <sup>(1)</sup>	January 17, 2013	January 31, 2013	\$ 0.17	\$ 1,628

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

The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If the (2) tax characteristics of our distributions paid during 2016 were determined as of March 31, 2016, approximately \$0.04 per share would represent a return of capital. The return of capital portion of distributions for the years ended December 31, 2015, 2014, and 2013 (which includes the distribution declared on November 26, 2012) was \$0.23, \$0.72, and \$0.40, respectively.

TABLE OF CONTENTS

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

Distributions in excess of our current and accumulated earnings and profits generally are treated first as a return of capital to the extent of the shareholder's tax basis, and any remaining distributions are treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year; therefore, a determination made on a quarterly basis may not be representative of the tax attributes of our annual distributions to shareholders. For the distribution paid during the year ended December 31, 2015, out of the approximately \$13.2 million in distribution, approximately 83% represented ordinary income and 17% represented a return of capital.

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

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

TABLE OF CONTENTS

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The information contained in this section should be read in conjunction with the Selected Consolidated Financial Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Special Note Regarding Forward-Looking Statements appearing elsewhere herein.*

## Overview

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

As of March 31, 2016, our investment portfolio consisted of outstanding loans of approximately \$218.3 million in aggregate principal amount in 35 portfolio companies and equity investments of approximately \$32.5 million, at fair value. As of March 31, 2016, 61% of our investment portfolio was comprised of senior secured loans, 26% of subordinated loans and 13% of equity investments, at fair value.

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

Our investment strategy includes OFS SBIC I LP ( "SBIC I LP" ), which received a license under the U.S. Small Business Administration ( "SBA" ) Small Business Investment Company program, in May 2012. 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 Regulation Small Business Investment Company Regulations.

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

On a stand-alone basis, SBIC I LP held approximately \$249.6 million and \$245.1 million in assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of our total consolidated assets at March 31, 2016 and December 31, 2015, respectively.

Our investment activities are managed by OFS Capital Management, LLC ( OFS Advisor ) and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its

## TABLE OF CONTENTS

affiliates. Under the investment advisory agreement between us and OFS Advisor (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 and cash equivalents 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. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC ( SBIC I GP ) on December 4, 2013. We have also entered into an administration agreement ( Administration Agreement ) with OFS Capital Services, LLC ( OFS Services ). Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.

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

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

We have elected to be treated for tax purposes as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended ( Code ). To qualify as a RIC, we must, among other things, meet certain source-of-income and assets diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income we distribute to our shareholders.

## **Critical Accounting Policies**

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

We have identified the following items as critical accounting policies:

### **Valuation of Portfolio Investments.**

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

Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 820. At March 31, 2016, all of our investments in portfolio companies that are valued at fair value by our board of directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily

available and (ii) for all other securities and assets, fair value as determined in good faith by the board of directors. Our debt and equity securities are primarily comprised of investments in middle market companies whose securities are not publicly traded. Our investments in these portfolio companies are generally considered Level 3 assets under ASC Topic 820 because the inputs used to value the investments are generally unobservable. As such, we value substantially all of our investments at fair value as determined in good faith by our board of directors pursuant to a consistent valuation policy in

TABLE OF CONTENTS

accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our board of directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

***Revenue Recognition.*** Our revenue recognition policies are as follows:

***Interest Income:*** Interest income is recorded on an accrual basis. Recognized interest income, if payable monthly or quarterly, is reported as interest receivable until collected. Recognized interest income due at maturity or at another stipulated date ( PIK interest ) is recorded as an adjustment to the cost basis of the investment. We accrue interest income until events occur that place a loan into a non-accrual status (see below). Loan origination fees, original issue discount ( OID ), market discount or premium, and loan amendment fees (collectively, net loan origination fees ) are capitalized, and we accrete or amortize such amounts as additional interest income over the life of the loan using a method that approximates the effective interest method. Unamortized OID is recorded as an adjustment to the cost basis of the investment and unamortized loan amendment fees are reported as deferred loan fee revenue. When we receive a loan principal payment, the unamortized OID related to the paid principal is accelerated and recognized in interest income. All other interest income is recognized as contractually earned. Further, in connection with our debt investments, we may receive warrants or similar equity-related securities ( Warrants ). We determine the cost basis of Warrants based upon their fair values on the date of receipt relative to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

Unamortized net loan origination fees on debt investments were \$2.4 million and \$1.9 million as of March 31, 2016 and December 31, 2015, respectively. We recognized net loan origination fee income of \$0.4 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively. We recognized PIK interest income of \$0.3 million and \$0.3 million for the three months ended March 31, 2016 and 2015, respectively. To maintain its status as a RIC, we include non-cash interest income in the determination of distributable income.

***Dividend Income:*** Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity securities is accrued as earned. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared ( PIK dividends ) are recorded as an adjustment to the cost basis of the investment. We discontinue accrual of dividends on preferred equity securities when we determine that the dividend may not be collectible. We assess the collectability of the preferred dividends based on factors including the fair value of the preferred equity security, the valuation of the portfolio company's enterprise value, and proceeds expected to be received over the life of the investment. Distributions received from common or preferred equity securities that do not qualify as dividend income are recorded as return of capital and a reduction in the cost basis of the investment. In addition, we may receive cash distributions from portfolio companies that are taxed as flow-through entities. Each distribution is evaluated to determine whether it should be recorded as income or as a return of capital. Distributions classified as a returns of capital are recorded as reductions in the cost basis of the investments. We recognized preferred dividend income of \$0.5 million and \$0.3 million, of which \$0.3 million and \$0.3 million, respectively, was contractually earned but not declared for the three months ended March 31, 2016 and 2015. We recognized common stock dividends of \$43 thousand for the three months ended March 31, 2016. We did not recognize common stock dividends during the three months ended March 31, 2015.

***Fee Income:*** We generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services



are rendered. Prepayment penalties for debt instruments repaid prior to their stated maturity are recorded as income upon receipt.

TABLE OF CONTENTS

*Net Realized and Unrealized Gain or Loss on Investments:* Investment transactions are reported on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the cost basis of the investment, without regard to unrealized gains or losses as of the date of disposition. Investments are reported at fair value as determined by our Board. After recording all appropriate interest, dividend, and other income, some of which is recorded as an adjustment to the cost basis of the investment as described above, we report changes in the fair value of investments as a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

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

## Portfolio Composition and Investment Activity

### Portfolio Composition

The total fair value of our investments was \$245.4 million and \$257.3 million at March 31, 2016 and December 31, 2015, respectively. Our investment portfolio as of March 31, 2016 consisted of outstanding loans to 35 portfolio companies, totaling approximately \$218.3 million in aggregate principal amount, of which 70% were senior secured loans, 30% were subordinated loans, and approximately \$32.5 million were equity investments, at fair value, in 16 portfolio companies in which it also held debt investments and one portfolio company in which it solely held an equity investment. Our investment portfolio encompassed a broad range of geographical regions within the United States and industries. We had unfunded commitments of \$5.3 million and \$3.8 million to four portfolio companies and three portfolio companies at March 31, 2016 and December 31, 2015, respectively. Set forth in the tables below is selected information with respect to our portfolio as of March 31, 2016 and December 31, 2015.

The following table summarizes the composition of our investment portfolio as of March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
	Commitment	Outstanding Principal	Fair Value	Commitment	Outstanding Principal	Fair Value
	(Dollar amounts in thousands)			(Dollar amounts in thousands)		
Senior secured term loan	\$155,138	\$153,688	\$149,202	\$163,398	\$163,398	\$160,473
Subordinated term loan	66,983	64,605	63,779	67,751	65,373	64,240
Senior secured revolver	1,094		(30 )	1,094		(36 )
Equity investments (at fair value)	32,820	N/A	32,456	32,983	N/A	32,619

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	\$265,035	\$218,293	\$245,407	\$265,226	\$228,771	\$257,296
Total number of obligors	35	35	35	38	38	38

---

57

TABLE OF CONTENTS

The following table summarizes our combined debt commitments and equity investments (at fair value) portfolio by industry as of March 31, 2016 and December 31, 2015.

	March 31, 2016		December 31, 2015	
	Commitment	Percent	Commitment	Percent
	(Dollar		(Dollar	
	amounts		amounts	
	in		in	
	thousands)		thousands)	
Administrative and Support and Waste Management and Remediation Services				
Other Travel Arrangement and Reservation Services	\$10,362	4.0 %	\$10,250	3.9 %
Security Systems Services (except Locksmiths)	5,203	2.0	5,000	1.9
Tour Operators	3,235	1.3	3,208	1.2
Education Services				
Colleges, Universities, and Professional Schools	5,095	2.0	5,026	1.9
Finance and Insurance				
Insurance Agencies and Brokerages	11,814	4.6	11,826	4.5
Health Care and Social Assistance				
Medical Laboratories	4,124	1.6	4,104	1.5
Other Outpatient Care Centers	14,250	5.5	15,250	5.7
Outpatient Mental Health and Substance Abuse Centers	6,722	2.6	6,672	2.5
Information				
Other Information Services	2,554	1.0	2,578	1.0
Other Telecommunications	3,562	1.4	3,826	1.4
Software Publishers			7,310	2.8
Manufacturing				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,495	1.8	4,551	1.7
Communications Equipment Manufacturing			2,257	0.9
Other Aircraft Parts and Auxiliary Equipment Manufacturing	13,114	5.1	12,766	4.8
Other Basic Inorganic Chemical Manufacturing	4,727	1.8	4,791	1.8
Packaging Machinery Manufacturing	2,000	0.8	2,000	0.8
Pharmaceutical Preparation Manufacturing	6,406	2.5	5,672	2.1
Pump and Pumping Equipment Manufacturing	12,867	5.0	13,061	4.9
Soap and Other Detergent Manufacturing	939	0.4	939	0.4
Travel Trailer and Camper Manufacturing	13,447	5.3	13,717	5.2
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	13,204	5.2	13,934	5.3
Professional, Scientific, and Technical Services				
Administrative Management and General Management Consulting	9,640	3.8	10,000	3.8
Computer Systems Design and Related Services	3,000	1.2	3,000	1.1
Custom Computer Programming Services	7,520	2.9	7,667	2.9
Other Accounting Services	8,858	3.5	9,113	3.4

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Other Computer Related Services	11,850	4.6	11,850	4.5
Other Professional, Scientific, and Technical Services	30,703	12.0	31,907	12.0
Real Estate and Rental and Leasing				
Home Health Equipment Rental	1,681	0.7	1,951	0.7
Office Machinery and Equipment Rental and Leasing	8,685	3.4	8,566	3.2
Offices of Real Estate Appraisers	10,000	3.9	10,000	3.8
Wholesale Trade				
Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	4,334	1.7	4,316	1.6
Metal Service Centers and Other Metal Merchant Wholesalers	13,887	5.4	10,159	3.8
Sporting and Recreational Goods and Supplies Merchant Wholesalers	7,757	3.0	7,959	3.0
	\$256,035	100.0%	\$265,226	100.0 %

58

TABLE OF CONTENTS

The following table provides a regional breakdown of our debt investment portfolio as of March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
	Commitment	Percent		Commitment	Percent	
	(Dollar amounts in thousands)					
South	\$ 95,035	42.6	%	\$ 93,810	40.3	%
Northeast	74,887	33.5		77,480	33.4	
West	41,517	18.6		46,840	20.2	
Midwest	11,776	5.3		14,113	6.1	
Total	\$ 223,215	100.0	%	\$ 232,243	100.0	%

The following table provides a breakdown of our debt investment portfolio by portfolio company investment size as of March 31, 2016 and December 31, 2015.

Debt Investment Size (in millions)	As of March 31, 2016			As of December 31, 2015				
	Commitment	Percent	Number	Commitment	Percent	Number		
	(Dollar amounts in thousands)							
\$0 \$3	\$ 18,659	8.4	%	8	\$ 22,004	9.5	%	10
\$3 \$4	14,680	6.6		4	11,614	5.0		3
\$4 \$5	32,331	14.5		7	32,324	13.9		7
\$5 \$10	70,699	31.6		9	92,125	39.7		12
>\$10	86,846	38.9		7	74,176	31.9		6
	\$ 223,215	100.0	%	35	\$ 232,243	100.0	%	38

The following table provides a breakdown of our debt investment portfolio by yield to fair value as of March 31, 2016 and December 31, 2015.

Yield to Fair Value	March 31, 2016		December 31, 2015	
	Senior Secured Debt	Subordinated Debt	Senior Secured Debt	Subordinated Debt
Less than 6				
6 7	%	%	%	%
8 10	11.6		12.4	
Greater than 10	16.8		27.0	
Total	71.6	100.0	60.6	100.0
Weighted average yield	100.0 %	100.0 %	100.0 %	100.0 %
	11.57 %	14.16 %	11.37 %	13.60 %

The weighted average yield to fair value of our debt investment portfolio was 12.34% and 12.01% at March 31, 2016 and December 31, 2015, respectively. The weighted average yield on debt investments at fair value is computed as (a) total annual stated interest on accruing loans plus the annualized accretion of OID and amortization of deferred loan fees divided by (b) total debt investments at fair value excluding assets on non-accrual basis. The weighted average yield on debt investments at fair value is computed as of the balance sheet date.

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As of March 31, 2016 and December 31, 2015, floating rate loans comprised 61% and 59% of our debt investment portfolio, respectively, and fixed rate loans comprised 39% and 41% of our debt investment portfolio, respectively, as a percent of fair value.

TABLE OF CONTENTS**Investment Activity**

The following is a summary of our investment activity, presented on a principal (or cost for equity investments) basis, for the three months ended March 31, 2016 and 2015 (in millions).

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Investments in new portfolio companies	\$	\$	\$16.0	\$ 2.0
Investments in existing portfolio companies				
Follow-on investments	3.3	<sup>(1)</sup>	6.5	
Refinanced investments	3.4			
Delayed draw funding			0.3	
Total investments in existing portfolio companies	6.7		6.8	
Total investments in new and existing portfolio companies	\$6.7	\$	\$22.8	\$ 2.0
Number of new portfolio company investments			2	1
Number of existing portfolio company investments	2		2	
Proceeds/distributions from principal payments/equity investments	15.9		11.0	
Proceeds from investments sold or redeemed		2.1	18.3 <sup>(2)</sup>	
Total proceeds from principal payments, equity distributions and investments sold	\$15.9	\$ 2.1	\$29.3	\$

(1) Received LLC membership interest in connection with a follow-on debt investment in an existing portfolio company valued at \$0.3 million.

(2) Includes \$7.2 million of proceeds pertaining to a debt investment we sold in December 2014.

During the three months ended March 31, 2016, we converted a \$1.8 million portion of a subordinated debt investment with a principal amount of \$1.8 million into equity units and warrants valued at \$1.8 million. In addition, we received equity in a portfolio company as consideration for an amendment to a senior secured debt investment in the same portfolio company with a fair value of \$0.2 million.

The following is a summary of our investment activity, presented on a principal (or cost for equity investments) basis, for the years ended December 31, 2015 and 2014 (in millions).

	Year ended December 31, 2015		Year ended December 31, 2014	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Investments in new portfolio companies	\$67.3	\$ 12.1	\$142.2 <sup>(4)</sup>	\$ 6.1
Investments in existing portfolio companies				
Follow-on investments	7.2		5.3	0.5
Refinanced investments	38.1		9.4	
Delayed draw funding	0.3		0.3	
Total investments in existing portfolio companies	45.6		15.0	0.5



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60 Total investments in nex and existing portfolio companies \$112.9 \$ 12.1 \$157.2 \$ 6.6

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TABLE OF CONTENTS

	Year ended December 31, 2015		Year ended December 31, 2014	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Number of new portfolio company investments	12	5	19	4
Number of existing portfolio company investments	7		5	2
Proceeds/distributions from principal payments/equity investments	96.1 <sup>(1)</sup>	0.2	79.6 <sup>(5)</sup>	
Proceeds from investments sold or redeemed	93.3 <sup>(2)</sup>	5.6 <sup>(3)</sup>	9.5 <sup>(6)</sup>	
Total proceeds from principal payments, equity distributions and investments sold	\$ 189.4	\$ 5.8	\$ 89.1	\$

(1) Includes a cash payment of \$0.1 million received in connection with the settlement of our Strata loan investment.

(2) Includes \$7.2 million of proceeds pertaining to a debt investment we sold in December 2014 and \$67.3 million of proceeds pertaining to the WM Asset Sale.

(3) Includes the sale or redemption of our equity interest in six portfolio companies which we realized a capital gain of approximately \$2.3 million.

(4) Received warrants and LLC membership interest in connection with three new debt investments valued at approximately \$1.1 million.

(5) Includes a \$2.9 million principal payment received in connection with the Tangible Restructuring in December 2014 (see below for more details)

(6) Includes approximately \$4.9 million of proceeds received in connection with the partial sale of two debt investments and approximately \$4.5 million for a debt investment sold in 2013. In addition, we sold a debt investment in December 2014 for approximately \$7.2 million which was collected in January 2015.

On December 17, 2014, we restructured our investment in Tangible Software, Inc. ( Tangible ), a portfolio company in which we held a controlling interest prior to the restructuring ( Tangible Restructuring ). As a result of the restructuring, we received a cash payment of approximately \$2.9 million, a new note with a fair value of approximately \$2.5 million on the restructuring date, and a minority share of common stock in Tangible valued at zero on the restructuring date.

In connection with the Tangible Restructuring, we recognized a realized loss of approximately \$3.6 million. The post-restructured debt investment was deemed an accrual loan as of December 31, 2014 and categorized as an affiliate investment on our December 31, 2014 consolidated schedule of investments.

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.

TABLE OF CONTENTS**Portfolio Credit Ratings**

We categorize debt investments 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 The Company Portfolio Review/Risk Monitoring.

The following table shows the classification of our debt investments portfolio by credit rating as of March 31, 2016 and December 31, 2015:

Credit Rating	March 31, 2016		December 31, 2015	
	Debt Investments, at Fair Value (Dollar amounts in thousands)	% of Debt Investments	Debt Investments, at Fair Value	% of Debt Investments
1	\$	%	\$	%
2	10,928	5.1	15,755	7.0
3	171,665	80.7	187,276	83.4
4	29,615	13.9	17,171	7.6
5	743	0.3	4,475	2.0
6				
7				
	\$ 212,951	100.0 %	\$ 224,677	100.0 %

At March 31, 2016 and December 31, 2015, we had one non-accrual loan (Phoenix Brands LLC) with a fair value of approximately \$0.7 million and \$0.8 million, respectively.

**Results of Operations****Key Financial Measures**

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

**Revenues.** We generate revenue in the form of interest income on debt investments, capital gains, and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of March 31, 2016, floating rate and fixed rate loans comprised 61% and 39%, respectively, of our current debt investment portfolio; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will increase. In some cases, our investments will provide for deferred interest or dividend payment, PIK interest, or PIK dividend, respectively, (meaning interest or dividend paid in the form of additional principal amount of the loan or equity security instead of in cash). In addition, we may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Loan origination fees, OID, market discount or premium, and loan amendment fees are capitalized, and we accrete or amortize such amounts over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its carrying value, we will also record the excess principal payment as income.

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;

62

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TABLE OF CONTENTS

out-of-pocket fees and expenses associated with marketing efforts;  
federal and state registration fees and any stock exchange listing fees;  
U.S. federal, state and local taxes;  
independent directors' fees and expenses;  
brokerage commissions;  
fidelity bond, directors' and officers' liability insurance and other insurance premiums;  
direct costs, such as printing, mailing and long-distance telephone;  
fees and expenses associated with independent audits and outside legal costs;  
costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S.  
federal and state securities laws; and  
other expenses incurred by either OFS Services or us in connection with administering our business, including  
payments under the Administration Agreement that will be based upon our allocable portion (subject to policies  
reviewed and approved by our board of directors) of overhead.

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

**Comparison of the three months ended March 31, 2016 and 2015**

Consolidated operating results for the three months ended March 31, 2016 and 2015, are as follows:

	Three Months Ended March 31,	
	2016	2015
	(Amounts in thousands)	
Total investment income	\$ 7,843	\$ 7,621
Total expenses	4,188	4,872
Net investment income	3,655	2,749
Net gain (loss) on investments	(1,376 )	483
Net increase in net assets resulting from operations	\$ 2,279	\$ 3,232

**Investment Income**

	Three Months Ended March 31,	
	2016	2015
	(Amounts in thousands)	
Interest income		
Senior secured term loan	\$ 4,501	\$ 5,360
Subordinated term loan	2,262	1,798

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Total interest income	6,763	7,158
Dividend income	557	329
Fee income	523	134
Total investment income	\$ 7,843	\$ 7,621

Interest income decreased by \$0.4 million, or 6%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The \$0.4 million decrease was primarily due to a \$1.4 million

TABLE OF CONTENTS

increase in interest income due to a 26% increase in our average portfolio yield offset by a decrease of approximately \$1.8 million due to a 27% decrease in the weighted average principal balance of investments outstanding during the three months ended March 31, 2016.

We generated dividend income of \$0.6 million and \$0.3 million for the three months ended March 31, 2016 and 2015, respectively. The increase of \$0.3 million was due to an increase in cash dividends received from our equity investments.

We generated fee income of \$0.5 million and \$0.1 million for the three months ended March 31, 2016 and 2015, respectively. The increase of \$0.4 million was primarily due to an increase in prepayment fees received which are earned when a portfolio company repays its debt obligation prior to maturity.

**Expenses**

	Three Months Ended March 31,	
	2016	2015
	(Amount in thousands)	
Interest expense	\$ 1,308	\$ 1,777
Management fees	1,115	1,555
Incentive fee	733	375
Professional fees	314	315
Administration fee	428	541
General and administrative expenses	290	309
Total expenses	\$ 4,188	\$ 4,872

We incur significant expenses which involve transactions with related parties, specifically management fees, the incentive fee, and the administrative fee. See Item 2 Related Party Transactions and Item 1 Unaudited Financial Statements Note 5 .

Total expenses decreased by \$0.7 million, or 14%, for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015.

Interest expense decreased by \$0.5 million for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The \$0.5 million decrease was primarily due to an increase of \$0.5 million in interest expense incurred on our SBA debentures, which was offset by a decrease of \$0.5 million in interest expense on our WM Credit Facility and a \$0.4 million write-off of deferred debt issuance costs in connection with our March 2015 permanent reduction of the WM Credit Facility from \$100.0 million to \$75.0 million. Interest expense on our SBA debentures increased by \$0.5 million due to an increase of \$21.5 million in the weighted average debentures outstanding and an increase in the weighted average interest rate of approximately 1% during the three months ended March 31, 2016 compared to the three months ended March 31, 2015, which resulted in an increase in interest expense of \$0.3 million and \$0.2 million, respectively. The decrease of \$0.5 million of interest expense on the WM Credit Facility was due the termination of the facility on May 28, 2015.

Management fee expense was \$1.1 million and \$1.6 million for the three months ended March 31, 2016 and 2015, respectively. The decrease of \$0.5 million was primarily due to a decrease in the base management fee incurred to OFS Advisor as a result of a decrease in the average total assets subject to the base management fee.

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For the three months ended March 31, 2016, we incurred \$0.7 million of incentive fee expense to OFS Advisor compared to incentive fee expense of \$0.4 million incurred for the three months ended March 31, 2015. The increase of approximately \$0.3 million was primarily due to an increase in our pre-incentive fee net investment income for the three months ended March 31, 2016, as compared with the three months ended March 31, 2015.



TABLE OF CONTENTS

Administrative fee expense decreased by \$0.1 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015, primarily due to a decrease in the allocable amount of the salary and incentives of our officers and their respective staffs, which OFS Services passed along to us under our administration agreement.

**Net Gain (Loss) on Investments**

	Three Months Ended March 31,	
	2016	2015
	(Amounts in thousands)	
Senior secured debt	\$ (1,382 )	\$ (481 )
Subordinated debt	313	(12 )
Equity	(307 )	976
Net gain (loss) on investments	\$ (1,376 )	\$ 483

Net gain (loss) on investments consist of aggregate (a) realized gains and losses from the sale of debt or equity securities, or the redemption of equity securities; and (b) changes in net unrealized appreciation/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 previously recognized unrealized appreciation or depreciation, and the net gain recognized in that period will generally be smaller. The 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 on unrealized appreciation or depreciation will be reported as a net loss or gain, respectively, and will be partially offset by the acceleration of premium or discount on the debt security, if any, in interest income.

Three months ended March 31, 2016

We recognized net losses of \$1.4 million on senior secured debt primarily as a result of the impact of widening spreads in second lien loan indices and other interest rate market factors on our discount rates, and the pay-off of debt investments, partially offset by the net impact of company-specific and other factors on our valuations.

We recognized net gains of \$0.3 million on subordinated debt principally as a result of the pay-off of debt investments and the net impact of company-specific and other factors, partially offset by the impact of widening spreads in second lien loan indices and other interest rate market factors on our discount rates.

Net losses on equity investments of \$0.3 million were primarily attributable to company-specific factors, partially offset by the impact of exit-event assumptions and other factors on our valuations.

During the three months ended March 31, 2016, we realized gains of \$2.6 million principally from the redemption of an equity investment. We held this investment from the first quarter of 2014 and recognized unrealized gains of \$2,062 and \$498 during the years ended December 31, 2015 and 2014, respectively. There was no net gain during the three months ended March 31, 2016, on this transaction.

Three months ended March 31, 2015

We recognized net losses of \$0.5 million on senior secured debt primarily as a result of the impact of widening spreads in middle market and second lien loan indices, and other interest rate market factors on our discount rates, partially offset by the pay-off of debt investments and the net impact of company-specific factors on our valuations.

Net gains on equity investments of \$1.0 million were attributable to the effect of improvements in company-specific factors on our valuations.

TABLE OF CONTENTS**Comparison of years ended December 31, 2015, 2014, and 2013**

Consolidated operating results for the years ended December 31, 2015, 2014, and 2013 are as follows:

	2015	2014	2013
	(Amounts in thousands)		
Total investment income	\$ 32,264	\$ 22,820	\$ 17,070
Total expenses	18,853	13,685	11,352
Net investment income	13,411	9,135	5,718
Net gain on investments	4,820	805	1,957
Net increase in net assets resulting from operations	\$ 18,231	\$ 9,940	\$ 7,675

**Investment Income**

	2015	2014	2013
	(Amounts in thousands)		
Interest income			
Senior secured term loan	\$ 20,038	\$ 18,410	\$ 16,822
Subordinated term loan	8,932	2,926	105
Total interest income	28,970	21,336	16,927
Dividend income	1,361	570	9
Fee income	1,933	914	134
Total investment income	\$ 32,264	\$ 22,820	\$ 17,070

Comparison of Investment Income for the Years Ended December 31, 2015 and 2014:Interest Income:

Interest income increased by \$7.6 million, or 36%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to the increase in our average portfolio yield.

Dividend Income:

We generated dividend income of \$1.4 million and \$0.6 million for the years ended December 31, 2015 and 2014, respectively. The increase of \$0.8 million was primarily due to a full year recognition of PIK dividends in 2015 from equity investments purchased in 2014.

Fee Income:

We generated fee income of \$1.9 million and \$0.9 million for the years ended December 31, 2015 and 2014, respectively. The increase of \$1.0 million was primarily due to an increase in prepayment fees received which are earned when a portfolio company repays its debt obligation prior to maturity. We did not recognize any prepayment fees during the year ended December 31, 2014.

Comparison of Investment Income for the Years Ended December 31, 2014 and 2013:Interest Income:

Interest income increased by \$4.4 million, or 26%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase is due to the inclusion of interest income for SBIC I LP for the full year of 2014 compared to the period December 5, 2013 to December 31, 2013 in 2013. See Notes to Consolidated Financial Statements Note 5. On a pro forma basis that includes SBIC I LP's income for the year ended December 31, 2013, in the 2013 results of the Company, interest income increased by \$731 thousand or 4%.

*Dividend Income:*

We generated dividend income of \$0.6 million and \$9 thousand for the year ended December 31, 2014 and 2013, respectively. The increase of \$0.6 million was primarily due to an increase in PIK dividend income earned but not declared. While not consolidated with us from January 1, 2013 through December 4, 2013, SBIC I LP had dividend income of approximately \$0.1 million for that period.

TABLE OF CONTENTSFee Income:

We generated fee income of \$0.9 million and \$0.1 million for the year ended December 31, 2014 and 2013, respectively. The increase of \$0.8 million was primarily due to an increase in structuring fees recognized in connection with the closing of certain of our investments. While not consolidated with us from January 1, 2013 through December 4, 2013, SBIC I LP had fee income of approximately \$0.2 million for that period recognized in connection with providing managerial assistance to certain of its portfolio companies.

**Expenses**

	2015	2014	2013
	(Amounts in thousands)		
Interest expense	\$ 4,842	\$ 4,224	\$ 3,384
Amortization and write-off of deferred financing closing costs	2,117	1,354	965
Amortization of intangible asset	195	209	
Management fees	5,225	2,916	3,435
Incentive fee	2,627	1,253	
Professional fees	1,114	1,517	1,639
Administration fee	1,637	1,245	938
General and administrative expenses	1,096	967	991
Total expenses	\$ 18,853	\$ 13,685	\$ 11,352

Significant expenses incurred by the Company involve transactions with related parties, specifically management fees, the incentive fee, and the administrative fee. See Management and Other Agreements and Notes to Consolidated Financial Statements Note 6 .

Comparison of Expenses for the Years Ended December 31, 2015 and 2014:

Total expenses increased by \$5.2 million, or 38%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Interest expense increased by \$0.6 million for the year ended December 31, 2015, compared to the year ended December 31, 2014. The \$0.6 million increase was due to an increase of \$2.7 million in interest expense incurred on our SBA debentures, which was due to an increase of \$99.5 million in the weighted average SBA debentures outstanding during 2015 compared to 2014. The increase in interest on our SBA debentures was offset by a decrease of approximately \$2.1 million in interest expense on the WM Credit Facility, due to a decrease of approximately \$66.9 million in weighted average borrowings on the facility in 2015 compared to 2014 driven by repayments throughout 2015, including termination of the facility on May 28, 2015.

Amortization and write-off of deferred financing closing costs increased by \$0.8 million for the year ended December 31, 2015, compared to the year ended December 31, 2014. The increase was due to increased write-offs of \$1.0 million in deferred financing closing costs in connection with permanent reductions of the WM Credit Facility, an increase of \$0.2 million in amortization on the deferred financing closing costs incurred upon the draw of SBA debentures, offset by a decrease of \$0.4 million in amortization of deferred financing closing costs on the WM Credit Facility due to a lower average balance of deferred financing closing costs in 2015 as a result of the permanent reductions made to the WM Credit Facility in 2015.

Management fee expense of \$5.2 million for the year ended December 31, 2015, consisted of \$4.9 million of base management fee expense we incurred to OFS Advisor and \$0.3 million of loan management fee charged by MCF Capital Management, LLC, the loan manager for OFS Capital WM (see OFS Capital WM Credit Facility section below for more details). Management fee expense totaled \$2.9 million for the year ended December 31, 2014, consisting of \$2.2 million of base management fee expense we incurred to OFS Advisor and \$0.7 million of loan management fee charged by MCF Capital Management, LLC. The base management fee to OFS Advisor increased by approximately \$2.7 million, of which approximately \$0.5 million was due to an increase in our average total assets during the year ended December 31, 2015 as compared to our average total assets during the year ended December 31, 2014 and

TABLE OF CONTENTS

approximately \$2.2 million was due to the reset of our base management fee to 0.4375% per quarter effective January 1, 2015 as compared with 0.145833% effective April 1, 2014. The decrease of approximately \$0.4 million of loan management fee charged by MCF Capital Management, LLC was due to a decreased amount of portfolio investments subject to the loan management fee during 2015 and the termination of the WM Credit Facility on May 28, 2015.

For the year ended December 31, 2015, we incurred an incentive fee expense to OFS Advisor in the amount of approximately \$2.6 million, compared to the incentive fee expense of \$1.3 million incurred for the year ended December 31, 2014. The increase of approximately \$1.4 million was primarily a result of an increase in our pre-incentive fee net investment income for the applicable quarters during the year ended December 31, 2015, as compared with the year ended December 31, 2014.

Administrative fee expense increased by \$0.4 million for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to an increase in the allocable amount of the salary and incentives of our officers and their respective staffs, which OFS Services passed along to us under our administration agreement.

Comparison of Expenses for the Years Ended December 31, 2014 and 2013:

Total expenses increased by approximately \$2.3 million, or 21%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Interest expense increased by \$0.8 million for the year ended December 31, 2014, compared to the year ended December 31, 2013, primarily due to \$1.3 million of 2014 interest expense incurred on our SBA debentures (which we assumed in the December 2013 SBIC Acquisitions), offset by a 2014 decrease of \$0.5 million in interest expense on the OFS Capital WM Credit Facility, due to a reduction in the interest rate and lower borrowings on the facility pursuant to the amendment to the OFS Capital WM Credit Facility in November 2013.

Amortization and write-off of deferred financing closing costs increased by \$0.4 million for the year ended December 31, 2014, compared to the year ended December 31, 2013, primarily due to write-offs of deferred financing closing costs of \$0.7 million in connection with our July and November 2014 amendments to the OFS Capital WM Credit Facility, versus a write-off of deferred financing closing costs of \$0.3 million as a result of the termination of the Class B loan facility of OFS Capital WM in January 2013.

For the year ended December 31, 2014, we recorded \$0.2 million of amortization expense of intangible asset related to the SBIC license, which was recognized by SBIC I LP upon closing of the SBIC Acquisitions. We are amortizing this intangible asset over its estimated useful life, which was determined to be approximately 13 years.

Management fee expense totaled \$2.9 million for the year ended December 31, 2014, consisting of \$2.2 million of base management fee expense we incurred to OFS Advisor and \$0.7 million of loan management fee charged by MCF Capital Management, LLC, the loan manager for OFS Capital WM (see OFS Capital WM Credit Facility section below for more details). Management fee expense totaled \$3.4 million for the year ended December 31, 2013, consisting of \$2.4 million of base management fee expense we incurred to OFS Advisor and \$1.0 million of loan management fee charged by the loan manager for OFS Capital WM. The base management fee to OFS Advisor decreased by approximately \$0.2 million due to a lower combined base management fee rate of 0.875% (0.4375% for the first quarter of 2014 and 0.145833% for each of the second, third, and fourth quarter of 2014) for the year ended December 31, 2014, compared with the combined base management fee rate of 1.020833% for the year ended December 31, 2013 (0.875% per annum for the period January 1, 2013 through October 31, 2013, and 1.75% per annum for the period November 1, 2013 through December 31, 2013), partially offset by a higher asset base in 2014. The loan management fee charged by MCF Capital Management, LLC decreased by \$0.2 million due to a decrease in

portfolio investments subject to the loan management fee in 2014 as compared with 2013.

For the year ended December 31, 2014. We incurred an incentive fee expense to OFS Advisor in the amount of \$1.2 million. We did not incur an incentive fee expense in 2013 because pre-incentive fee net investment income did not exceed the hurdle rate.



TABLE OF CONTENTS

Administrative fee expense increased by approximately \$0.3 million for the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to an increase in the allocable amount of the salary and incentives of our officers and their respective staffs, corresponding with the growth of our business, which OFS Services passed along to us during the years ended December 31, 2014 and 2013.

**Net Gain on Investments**

	2015	2014	2013
	(Amounts in thousands)		
Net realized gain (loss) on investments	\$ (1,562 )	\$ (3,359 )	\$ 87
Realized gain from SBIC Acquisitions			2,742
Net change in unrealized appreciation/depreciation on investments	6,382	4,164	(872 )
Net gain on investments	\$ 4,820	\$ 805	\$ 1,957

We recorded net realized losses of \$1.6 million and net unrealized appreciation of \$6.4 million on our investments for the year ended December 31, 2015. The most significant net gains and losses and cumulative changes in unrealized appreciation/depreciation for the year ended December 31, 2015 are described below.

In connection with the Strata settlement, we recognized a realized loss of \$3.9 million and reversed \$3.2 million of previously recognized cumulative unrealized depreciation. We sold five debt investments and recognized a realized gain of \$0.1 million. We recorded a realized gain of \$2.3 million from equity investments that we sold or were redeemed by the underlying portfolio company and reversed \$0.6 million of previously recognized unrealized appreciation. In addition, we recorded \$3.2 million of net unrealized appreciation on investments that we currently hold on our balance sheet as of December 31, 2015. The \$3.2 million net unrealized appreciation was due to an increase of \$5.5 million from our equity investments primarily due to the positive performance of the applicable underlying portfolio companies offset by a decrease of \$2.3 from our debt investments in which we do not also hold an equity investment primarily due to widening market spreads and negative performance of the applicable underlying portfolio companies.

We recorded a net realized loss of \$3.4 million and net unrealized appreciation of \$4.2 million on our investments for the year ended December 31, 2014. The most significant realized gains and losses and cumulative changes in unrealized appreciation/depreciation for the year ended December 31, 2014 are described below.

In connection with the Tangible Restructuring, we recorded a \$3.6 million realized loss. The \$3.6 million realized loss reflected a reversal of (1) approximately \$1.8 million of unrealized losses recorded on this investment during the year ended December 31, 2013, (2) approximately \$1.7 million of additional unrealized losses recorded from January 1, 2014 through December 17, 2014, the Tangible Restructuring date, and (3) approximately \$0.1 million of additional losses we recognized on the Tangible Restructuring date, which represented the difference between the fair value of consideration we received in connection with the Tangible Restructuring and the fair value of the pre-restructured investments on the restructuring date. In addition, we recorded \$2.5 million of additional net unrealized appreciation on investments we held at December 31, 2014 and reversed \$0.1 million of previously recognized unrealized appreciation associated with investments paid off or sold during 2014.

We recorded a net realized gain of \$2.8 million, which includes a \$2.7 million gain recorded in connection with the SBIC Acquisitions, and net unrealized depreciation of \$0.9 million on our investments for the year ended December 31, 2013. The most significant realized gains and losses and cumulative changes in unrealized appreciation/depreciation for the year ended December 31, 2013 are described below.

We recorded a \$2.7 million realized gain as result of the SBIC Acquisitions (see Note 5 of our December 31, 2015 consolidated financial statements for more details). We recorded net unrealized depreciation of \$2.3 million on our investment in Strata Pathology Services, Inc. and \$1.8 million in unrealized depreciation our investment in Tangible. In addition, we recorded \$2.3 million of other unrealized appreciation associated with our debt and equity investments held at December 31, 2013, and \$0.9 million of reversal of previously recorded net unrealized depreciation associated with investments paid off or sold during 2013.

TABLE OF CONTENTS**Liquidity and Capital Resources****Sources and Uses of Cash and Cash Equivalents**

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. 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 status. We will not make a final determination regarding the tax character of our distributions until January 2017, however if the tax characteristics of the distributions paid during the first quarter of 2016 were determined as of March 31, 2016, we estimate that approximately \$375 thousand would represent a return of capital. The Company distributions for the years ended December 31, 2015, 2014 and 2013, resulted in a distribution in excess of taxable income. We have no history of net taxable gains, but in the first quarter of 2016 we effectively exhausted our net capital loss carryforward. We also obtain and use cash in the net borrowing of funds from the SBA and commercial sources of debt. These principal sources and uses of cash and liquidity for the three months ended March 31, 2016 and 2015 are presented below (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cash from net investment income	\$ 1,315	\$ 2,354
Sales and repayments - net of purchases, of portfolio investments	11,481	4,655
Net cash provided by operating activities	12,796	7,009
Cash dividends and distributions paid	(3,280 )	(3,133 )
Net borrowings		5,321

At March 31, 2016, we held cash and cash equivalents of \$42.2 million, an increase of \$9.5 million from December 31, 2015. During the three months ended March 31, 2016, sales and repayments of portfolio investments were primarily due to \$2.1 million of cash collected from the redemption of a warrant investment and \$15.9 million of cash we received from principal payments on our portfolio investments. These cash receipts were offset by \$6.5 million of cash we used to purchase portfolio investments.

Net cash from net investment income was \$1.3 million, or \$1.1 million less than the corresponding quarter in 2015. The decline in cash collected from net investment income was principally due to higher management and incentive fees paid and higher cash paid for interest. Cash used to pay base management fees in the first quarter of 2016 were \$1.0 million greater than the first quarter of 2015 due to adjustments in the base management fee rate and the timing of management fees settlement. On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. The annualized base fee rate for second, third, and fourth quarters of 2014 was lowered, such that the full year affect for 2014 was a base management fee annual rate of 0.875% which resumed to its 1.75% annual rate on January 1, 2015. As management fees are settled a quarter in arrears, the management fees paid in the first quarter of 2015 were at the lower management fee rate.

Cash paid for interest increased \$0.5 million in the first quarter of 2016 compared to the corresponding quarter in 2015, as a result of higher payments on a SBA debentures, partially offset by lower payments on the WM Credit Facility. We are required to make interest payments on our SBA debentures semi-annually in March and September through maturity. The weighted average outstanding balance on our SBA debentures, excluding debt issuance costs, increased from \$103.8 million for the six months ended March 31, 2015, to \$149.8 million for the for the six months

ended March 31, 2016. Additionally, \$42.5 million of the weighted average outstanding balance for the six months ended March 31, 2015, carried interest at a lower pre-pooling, short-term rate. Consequently, we paid cash interest of \$2.3 million on our SBA debentures for the three months ended March 31, 2016 compared to \$1.2 million for the three months ended March 31, 2015. This increase was partially offset by a decline in cash paid for interest on our WM Credit Facility from \$0.6 million in the first quarter of 2015 to \$ 0 in 2016 due to the retirement of that facility.

The increases in management fees paid and cash paid for interest for the three months ended March 31, 2016, over the comparable quarter in 2015 were partially offset by an increase in investment income collected.

TABLE OF CONTENTS

During the three months ended March 31, 2015, sales and repayments of portfolio investments were primarily due to \$11.0 million of cash we received from principal payments on our portfolio investments, cash collections of \$18.3 million from the sale of our portfolio investments, including \$7.2 million of cash collection from an investment we sold in December 2014. These cash receipts were offset by \$24.6 million of cash we used to purchase portfolio investments.

Cash from net investment income for the three months ended March 31, 2015, was \$0.7 million greater than the corresponding quarter in 2014 due to greater investment income collected from 35% increase in average investments, at fair value, partially offset by greater interest paid as a result of higher average outstanding borrowings.

Net borrowings of \$5.3 million for the three months ended March 31, 2015 was primarily attributable to \$13.3 million of draws from our SBA debentures (net of the fees), offset by \$8.3 million of net repayments on the WM Credit Facility.

The principal sources and uses of cash and liquidity for the years ended December 31, 2015, 2014, and 2013 are presented below (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Cash from net investment income	\$ 12,541	\$ 8,522	\$ 7,051
Sales and repayments net of purchases (net purchases) of portfolio investments	71,197	(73,731)	22,127
Net cash provided by (used in) operating activities	83,738	(65,209)	29,178
Cash dividends and distributions paid	(12,690)	(12,847)	(10,724 )
Net borrowings (repayments)	(50,027)	64,952	9,731

At December 31, 2015, we held cash and cash equivalents of \$32.7 million. During the year ended December 31, 2015, net repayments of portfolio investments were primarily due to cash collections of \$98.9 million from sale and redemption of our portfolio investments, including \$7.2 million of cash collection from an investment we sold in December 2014, \$67.3 million from the WM Asset Sale, and \$5.6 million from the sale (including partial-sale) and redemption of our equity interests in six portfolio companies; and \$96.1 million of cash we received from principal payments on our portfolio investments. These cash receipts were offset by \$124.0 million of cash we used to purchase portfolio investments. These funds were principally used to pay-down debt.

Net repayment of borrowings of \$50.0 million for the year ended December 31, 2015 is primarily attributable to the \$73.8 million of net repayments on the WM Credit Facility which was paid in full and retired on May 28, 2015 offset by \$22.6 million of draws from our SBA debentures (net of the fees).

At December 31, 2014, we held cash and cash equivalents of \$12.4 million. During the year ended December 31, 2014, we made net purchases of portfolio investments of \$73.7 million, primarily due to \$162.8 million of cash we used to purchase portfolio investments, offset by net proceeds of \$79.6 million we received from principal payments on our portfolio investments, and cash collections of \$9.5 million from sale of our portfolio investments.

Net borrowings of \$65.0 million for the year ended December 31, 2014 is primarily attributable to \$101.3 million of draws from our SBA debentures (net of the fees), offset by the \$36.3 million of net repayments on the OFS Capital WM Credit Facility.

## **SBA Debentures**

As a result of the SBIC Acquisitions, SBIC I LP became our wholly-owned subsidiary effective December 4, 2013.

SBIC I LP has 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 OFS Capital, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate is fixed at the first pooling date after issuance, which is 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 to up to a

## TABLE OF CONTENTS

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 March 31, 2016, SBIC I LP had fully drawn the \$149.9 million of leverage commitments from the SBA. The SBA debentures do not amortize and are due in full at maturity between September 2022 and September 2025.

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

On a stand-alone basis, SBIC I LP held approximately \$249.6 million and \$245.1 million in assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of our total consolidated assets at March 31, 2016 and December 31, 2015, 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. In addition, SBIC I LP may also be limited in its ability to make distributions to OFS Capital if it does not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would in turn, negatively affect OFS Capital.

## **PWB Credit Facility**

On November 5, 2015, we, as borrower, entered into a Business Loan Agreement ( BLA ) with Pacific Western Bank, as lender, to provide OFS Capital with a \$15.0 million senior secured revolving credit facility ( PWB Credit Facility ) for general corporate purposes, including investment funding. The maximum availability under the PWB Credit Facility is equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base and otherwise specified in the BLA. The PWB Credit Facility is guaranteed by OFS Capital WM and secured by all of our current and future assets excluding assets held by SBIC I LP and our SBIC I LP and SBIC I GP partnership interests. The PWB Credit Facility matures on November 7, 2017. Advances under the facility will bear interest at a fixed rate per annum equal to 4.75%. We paid a \$150 thousand commitment fee in connection with the closing of the PWB Credit Facility. There have been no advances under the PWB Credit Facility as of March 31, 2016.

The PWB Credit Facility 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 PWB Credit Facility 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.

## **WM Asset Sale and Related Transactions**

On May 28, 2015, OFS Capital Corporation and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison, a Delaware limited liability company, pursuant to which OFS Capital WM sold a portfolio of 20 senior secured debt investments with an aggregate principal balance of approximately \$67.8 million as of May 28, 2015 to

Madison. Madison is an affiliated entity of MCF Capital Management, LLC ( MCF ), which was the loan manager for OFS Capital WM prior to the WM Asset Sale under a Loan and Security Agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, each of the Lenders from time to time party thereto, and Wells Fargo Delaware Trust Company, N.A. (the Loan and Security Agreement ).

As a result of the WM Asset Sale, the Company received cash proceeds of approximately \$67.3 million. On May 28, 2015, the total fair value of the debt investments sold, applying the Company's March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was



## TABLE OF CONTENTS

approximately \$66.7 million. The determination of the fair value of the Company's investments is subject to the good faith determination by the Company's board of directors, which is conducted no less frequently than quarterly, pursuant to the Company's valuation policies and accounting principles generally accepted in the United States.

On May 28, 2015, pursuant to the Loan and Security Agreement, the Company applied approximately \$52.4 million from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM's secured revolving credit facility with the WM Credit Facility. As a result of the termination of the WM Credit Facility, the Company wrote-off the remaining related unamortized deferred financing closing costs of \$1.2 million on the revolving line of credit.

In connection with the WM Asset Sale, on May 28, 2015, OFS Capital WM and the Company entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to the remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter.

### **Other Liquidity Matters**

We expect to fund the growth of our investment portfolio utilizing borrowings under SBA debentures, future equity offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act. We cannot assure shareholders that our plans to raise capital will be successful. In addition, we intend to distribute to our shareholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments or make additional investments in our portfolio companies. 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 March 31, 2016), of at least 200%. We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the statutory 200% asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

### **Contractual Obligations**

The following table shows our contractual obligations as of March 31, 2016:

Contractual Obligations <sup>(1)</sup>	Payments due by period				
	Total	Less than 1 year	1 - 3 years <sup>(2)</sup>	3 - 5 years	After 5 years <sup>(2)</sup>
	(Amounts in thousands)				
PWB Credit Facility	\$	\$	\$	\$	\$
SBA Debentures	149,880				149,880

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Total	\$ 149,880	\$	\$	\$	\$ 149,880
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(1) Excludes commitments to extend credit to our portfolio companies.

(2) The PWB Credit Facility is undrawn at March 31, 2016 and is scheduled to mature on November 7, 2017.  
The SBA debentures are scheduled to mature between September 2022 and 2025.

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

73

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TABLE OF CONTENTS

## **Commitments and Contingencies**

We had \$5.3 million and \$3.8 million of total unfunded commitments to four and three portfolio companies at March 31, 2016 and December 31 2015, respectively. See Notes to Unaudited Consolidated Financial Statements Note 9.

## **Distributions**

We are taxed as a RIC under the Code. Generally, a RIC is entitled to deduct distributions it pays to its shareholders from its income to determine taxable income. Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income 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 and may include passive gains and losses from certain portfolio companies. 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 distribution 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 distribution, or fifth distribution, 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.

## **Related Party Transactions**

### **Investment Advisory Agreement**

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

interests in SBIC I LP and SBIC I GP on December 4, 2013.

On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. Specifically, OFS Advisor agreed to reduce its base management fee from 0.4375% per quarter to 0.145833% per quarter for the second, third, and fourth quarters of 2014. Accordingly, the effective annual base management fee for the 2014 fiscal year will be equal to 50% of the 1.75% required by our Advisory Agreement with OFS Advisor, or not greater than 0.875%. OFS Advisor informed us that this reduction was being made for the benefit of our shareholders to

TABLE OF CONTENTS

take into account unforeseen delays in completing the SBIC Acquisitions. The base management fee resumed to its 1.75% annual rate on January 1, 2015.

The base management fee is payable quarterly in arrears. The base management fee expense was approximately \$1.1 million and \$1.4 million for the three months ended March 31, 2016 and 2015, respectively.

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

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

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

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

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

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

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

The second part of the incentive fee (the Capital Gains Fee) is determined and payable in arrears as of the end of each calendar year (or upon termination of the Advisory Agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and our aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains. If such amount is

positive at the end of such year, then the Capital Gains Fee for such

75

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## TABLE OF CONTENTS

year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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

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

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

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

We incurred incentive fee expense of \$0.7 million for the three months ended March 31, 2016. Incentive fees for the three months ended March 31, 2016, consisted of part one incentive fees (based on net investment income) of \$0.8 million and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(0.1) million, which represents the reversal of the part two incentive fee accrued at December 31, 2015. Incentive fees were \$0.4 million for the three months ended March 31, 2015, which consisted entirely of part one incentive fees.

## **License Agreement**

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

## **Administration Agreement**

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

chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary, and their respective staffs. The administrative fee is payable quarterly in arrears. For the three months ended March 31, 2016 and 2015, we incurred and administration fee expense of \$0.4 million and \$0.5 million, respectively.

## **Staffing Agreement**

OFS Advisor has entered into a Staffing Agreement with Orchard First Source Capital, Inc., or OFSC, which is a wholly owned subsidiary of OFSAM. Under this agreement, OFSC makes available to OFS Advisor experienced investment professionals and access to the senior investment personnel and other resources of OFSC and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow



TABLE OF CONTENTS

generated by the professionals of OFSC and its affiliates and commits the members of the Advisor Investment Committee to serve in that capacity. OFS Advisor capitalizes on the significant deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFSC's investment professionals.

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

## Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. At March 31, 2016, 61% of our debt investments bore interest at floating interest rates and 39% of our debt investments bore fixed interest rates. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current rates on a periodic basis. Substantially all of the debt investments bearing floating interest rates in our portfolio as of March 31, 2016 had interest rate floors, which have effectively converted those debt investments to fixed rate debt investments until LIBOR exceeds the interest rate floor.

Assuming that our consolidated balance sheet as of March 31, 2016 was to remain constant, and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

Basis point increase <sup>(1)</sup>	Interest income	Interest expense	Net increase (decrease)
	(Amounts in thousands)		
50	\$ 124	\$	\$ 124
100	638		638
150	1,260		1,260
200	1,939		1,939
250	2,617		2,617

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

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

## **Management's Report on Internal Control Over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the receipts and expenditures of the company are

TABLE OF CONTENTS

being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management (with the participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2015, management identified a material weakness related to reconciliation of components of distributions in the statement of changes in net assets and net assets within the balance sheet.

The Company discovered the error through the implementation of a new control during its fourth quarter close as described below. Because of this material weakness, management concluded that the Company did not maintain effective control over financial reporting as of December 31, 2015.

As of March 31, 2016, we addressed the underlying causes of the material weakness as described further in Remediation Efforts. Accordingly, we believe that the unaudited consolidated financial statements included in this prospectus do fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

## **Remediation Efforts**

We are currently in the process of remediating the material weakness in our internal control over financial reporting as described above and are taking the necessary steps that we believe will address the underlying causes of the material weakness. We have completed the development and formal documentation of our policies and procedures relating to our internal control over financial reporting, but we have not completed the testing of these formalized controls. The identified material weakness in internal control will not be considered fully remediated until sufficient time has elapsed to provide evidence that the new controls have been implemented and are operating effectively. We implemented the following remediation steps to address the material weakness discussed above and to improve our internal control over financial reporting:

Our account reconciliation process for components of net assets and distributions was enhanced (1) to ensure the proper reclassification entries are recorded to account for the tax character of, and basis differences between tax and GAAP and (2) to ensure the beginning of the quarter and normal, recurring elements of changes in net assets appropriate to the account, equal the reconciled balance at the end of the quarter for components of net assets and distributions.

TABLE OF CONTENTS

## THE COMPANY

### Overview

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

As of March 31, 2016, our investment portfolio consisted of outstanding loans of approximately \$218.3 million in aggregate principal amount in 35 portfolio companies and equity investments of approximately \$32.5 million, at fair value. As of March 31, 2016, 61% of our investment portfolio was comprised of senior secured loans, 26% of subordinated loans and 13% of equity investments, at fair value.

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

Our investment strategy includes OFS SBIC I LP ( "SBIC I LP" ), which received a license under the U.S. Small Business Administration ( "SBA" ) Small Business Investment Company program, in May 2012. 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 "Regulation Small Business Investment Company Regulations."

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

On a stand-alone basis, SBIC I LP held approximately \$249.6 million and \$245.1 million in assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of our total consolidated assets at March 31, 2016 and December 31, 2015, respectively.

Our investment activities are managed by OFS Capital Management, LLC ( OFS Advisor ) and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the investment advisory agreement between us and OFS Advisor (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 and cash equivalents 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. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013. We

79

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## TABLE OF CONTENTS

have also entered into an administration agreement ( Administration Agreement ) with OFS Capital Services, LLC ( OFS Services ). Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.

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

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

We have elected to be treated for tax purposes as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended ( Code ). To qualify as a RIC, we must, among other things, meet certain source-of-income and assets diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income we distribute to our shareholders.

## **About OFS and Our Advisor**

OFS (which refers to the collective activities and operations of Orchard First Source Asset Management, LLC ( OFSAM ) and its subsidiaries and certain affiliates) is an established investment platform focused on meeting the capital needs of middle-market companies.

As of March 31, 2016, OFS had 41 full-time employees. OFS is headquartered in Chicago, Illinois and has additional offices in New York, New York and Los Angeles, California.

Our investment activities are managed by OFS Advisor, our investment adviser. OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of OFSAM, our parent company prior to the completion of our initial public offering ( IPO ), and is a registered investment adviser under the Investment Advisers Act of 1940 (the Advisers Act ).

Our relationship with OFS Advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. OFS Advisor provides us with advisory services in exchange for a base management fee and incentive fee; see Management and Other Agreements Investment Advisory Agreement . The base management fee is based on our total assets (other than cash and cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisitions; but including assets purchased with borrowed amounts, and including assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and

other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance.

OFS Advisor has entered into a Staffing Agreement with Orchard First Source Capital, Inc. ( OFSC ) a wholly-owned subsidiary of OFSAM. Under the Staffing Agreement, OFSC makes experienced investment professionals available to OFS Advisor and provides access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its

## TABLE OF CONTENTS

affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment adviser, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

OFS Advisor capitalizes on the deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFS's professionals. The senior management team of OFS, including Bilal Rashid, Jeff Cerny and Mark Hauser, provides services to OFS Advisor. These managers have developed a broad network of contacts within the investment community, averaging over 20 years of experience investing in debt and equity securities of middle-market companies. In addition, these managers have gained extensive experience investing in assets that will constitute our primary focus and have expertise in investing across all levels of the capital structure of middle-market companies.

## **Our Administrator**

OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and recordkeeping services at such facilities. OFS Services oversees our financial reporting as well as prepares our reports to shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. OFS Services also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services may retain third parties to assist in providing administrative services to us. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions at cost on a direct basis, to OFS Services.

## **Market Opportunity**

Our investment strategy is focused primarily on investments in middle-market companies in the United States. We find the middle-market attractive for the following reasons:

***Large Target Market.*** According to the U.S. Census Bureau in its 2012 economic census, there were approximately 197,000 companies in the United States with annual revenues between \$10 million and \$2.5 billion, compared with approximately 1,300 companies with revenues greater than \$2.5 billion. 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 vast bulk of OFS's portfolio companies since its inception, and constituted the vast bulk of our portfolio as of December 31, 2015. We believe that this market segment will continue to produce significant investment opportunities for us.

***Specialized Lending Requirements with High Barriers to Entry.*** We believe that several factors render many U.S. financial institutions ill-suited to lend to U.S. middle-market companies. For example, based on the experience of our management team, lending to private middle-market companies in the United States (a) is generally more labor-intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies, (b) requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle-market and (c) may also require more extensive ongoing monitoring by the lender. As a result, middle-market companies historically have been served by a limited segment of the lending community. As a result of the unique challenges facing lenders to middle-market companies, there are high barriers to entry that a new lender must overcome.



***Robust Demand for Debt Capital.*** We believe that private equity firms have significant committed but uncalled capital, a large portion of which is still available for investment in the United States. Subject to market conditions, we expect the large amount of unfunded buyout commitments will drive demand for leveraged buyouts over the next several years, which should, in turn, create leveraged lending opportunities for us.

TABLE OF CONTENTS

## **Competitive Strengths and Core Competencies**

***Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure.*** We are managed by OFS Advisor, which has access through the Staffing Agreement with OFSC to the resources and expertise of OFS's investment professionals. As of March 31, 2016, OFS's credit and investment professionals (including all investment committee members) employed by OFSC had an average of over 20 years of investment experience with strong institutional backgrounds including General Electric Capital Corporation, Merrill Lynch, Sanwa Business Credit Corporation and Canadian Imperial Bank of Commerce. Moreover, OFS's investment professionals specialize in the acquisition, origination and sourcing, underwriting and asset management of our specific targeted class of portfolio companies and have experience in investing at all levels of the capital structure. OFS's senior managers have gained extensive workout experience during multiple business cycles. OFS's credit and investment professionals are supported by additional administrative and back-office personnel that focus on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. The expertise of OFS's senior managers extends beyond just loan origination and sourcing to significant experience with distressed debt and workouts.

***Significant Investment Capacity.*** The net proceeds of equity and debt offerings and borrowing capacity under our credit facilities, will provide us with a substantial amount of capital available for deployment into new investment opportunities in our targeted asset class.

***Scalable Infrastructure Supporting the Entire Investment Cycle.*** We believe that our loan acquisition, origination and sourcing, underwriting, administration and management platform is highly scalable (that is, it can be expanded on a cost efficient basis within a timeframe that meets the demands of business growth). We believe that with limited incremental investment in personnel and back-office functions, our existing loan platform could accommodate operations significantly in excess of our current loan volume. Because OFS Advisor will be compensated in part on a fixed percentage of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), it will have an incentive to leverage that platform and put our capital to work.

Our platform extends beyond origination and sourcing and includes a regimented credit monitoring system. We believe that our careful approach, which involves ongoing review and analysis by an experienced team of professionals, should enable us to identify problems early and to assist borrowers before they face difficult liquidity constraints. The expertise of OFS's senior managers extends beyond just loan origination and sourcing to significant experience with distressed debt and workouts, which the senior managers have managed separately or as a team through multiple business cycles. We believe that this experience will enable us to prepare for possible negative contingencies in order to address them promptly should they arise.

***Extensive Loan Sourcing Capabilities.*** OFS Advisor gives us access to the deal flow of OFS. We believe OFS's 20-year history as a middle-market lending platform and its market position make it a leading lender to many sponsors and other deal sources, especially in the currently under-served lending environment, and we have extensive relationships with potential borrowers and other lenders.

***Structuring with a High Level of Service and Operational Orientation.*** We provide client-specific and creative financing structures to our portfolio companies. Based on our experience in lending to and investing in middle-market companies, we believe that the middle-market companies we target, as well as sponsor groups we may pursue, require a higher level of service, creativity and knowledge than has historically been provided by other service providers more accustomed to participating in commodity-like loan transactions. We believe the broad expertise of the investment

professionals of OFS Advisor will enable us to identify, assess and structure investments successfully across all levels of a company's capital structure and to manage potential risk and return at all stages of the economic cycle. We do not expect to be subject to many of the regulatory limitations that govern traditional lending institutions such as banks. As a result, we will be flexible in selecting and structuring investments, adjusting investment criteria, transaction structures and, in some cases, the types of securities in which we invest. This approach will enable OFS Advisor to identify attractive investment opportunities throughout the economic cycle so that we can make investments consistent with our stated objective even during turbulent periods in the capital markets.

TABLE OF CONTENTS

***Rigorous Credit Analysis and Approval Procedures.*** OFS Advisor utilizes the established, disciplined investment process of OFS for reviewing lending opportunities, structuring transactions and monitoring investments. Using OFS's disciplined approach to lending, OFS Advisor seeks to minimize credit losses through effective underwriting, comprehensive due diligence investigations, structuring and, where appropriate, the implementation of restrictive debt covenants. We expect that OFS Advisor will select borrowers whose businesses will retain significant enterprise value, even in a depressed market. We intend to use our capital resources to help our portfolio companies maintain sufficient liquidity to avoid the need for a distressed sale. While emphasizing thorough credit analysis, we intend to maintain strong relationships with sponsors and other deal sources by offering rapid initial feedback, from the member of the OFS Advisor investment committee leading the applicable deal team, to each investment opportunity shown to us.

## **Investment Criteria/Guidelines**

Our investment objective is to generate current income and capital appreciation by investing primarily in middle-market companies in the United States. We will continue to focus on investments in senior secured loans, including first lien, second lien, and unitranche loans, as well as subordinated loans and, to a lesser extent, warrants and other equity securities. In particular, we believe that structured equity debt investments (i.e., typically senior secured unitranche loans, often with warrant coverage, and often in companies with no financial sponsor) represent a strong relative value opportunity offering the borrower the convenience of dealing with one lender, which may result in a higher blended rate of interest to us than we might expect to receive under a traditional multi-tranche structure. We expect that our investments in the equity securities of portfolio companies, such as warrants, preferred stock, common stock and other equity interests, will principally be made in conjunction with our debt investments. Generally, we do not expect to make investments in companies or securities that OFS Advisor determines to be distressed investments (such as discounted debt instruments that have either experienced a default or have a significant potential for default), other than follow-on investments in portfolio companies of ours. We intend to continue to generate strong risk-adjusted net returns by assembling a diversified portfolio of investments across a broad range of industries.

We target U.S. middle-market companies through OFS's access to a network of financial institutions, private equity sponsors, investment banks, consultants and attorneys, and our proprietary database of borrowers developed over OFS's more than 20 years in lending to middle-market companies. A typical targeted borrower will exhibit certain of the following characteristics:

- number of employees less than 2,000;
- revenues between \$15 million and \$300 million;
- annual EBITDA between \$3 million and \$50 million;
- generally, private companies owned by private equity firms or owners/operators;
- enterprise value between \$10 million and \$500 million;
- effective and experienced management teams;
- defensible market share;
- solid historical financial performance, including a steady stream of cash flow;
- high degree of recurring revenue;
- diversity of customers, markets, products and geography; and
- differentiated products or services.

While we believe that the characteristics listed above are important in identifying and investing in prospective portfolio companies, not all of these criteria will be met by each prospective portfolio company.

## **Due Diligence and Investment Process Overview**

We employ a thorough and disciplined underwriting and due diligence process that is conducted in accordance with established credit policies and procedures, and that is focused on investment recovery. Our

83

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## TABLE OF CONTENTS

process involves a comprehensive analysis of a prospective portfolio company's market, operational, financial, and legal position, as well as its future prospects. In addition to our own analysis, we may use the services of third parties for environmental reviews, quality of earnings reports, industry surveys, background checks on key managers, and insurance reviews.

We seek to invest in companies that have experienced and incentivized management teams, that have stable and predictable cash flows, and that have defensible market positions. We underwrite our investments with the expectation that we will hold them for a number of years, and we structure and document our investments accordingly.

Our due diligence and underwriting process typically addresses the following elements (although certain elements may not be included in every due diligence undertaking):

***Prospective Portfolio Company Characteristics:*** focusing on primary drivers of the company's revenues and cash flows, including its key products and services; customer and supplier concentrations, and contractual relationships; depth, breadth, and quality of company management, as well as the extent to which the management team is appropriately compensated with equity incentives; and any regulatory, labor, or litigation matters impacting the company.

***Industry and Competitive Overview:*** including industry size and the company's position within it; growth potential and barriers to entry; governmental, regulatory, or technological issues potentially affecting the industry; and cyclical or seasonality risks associated with the industry.

***Financial Analysis:*** involving an understanding of the company's historical financial results, focusing on actual operating trends experienced over time, in order to forecast future performance, including in various sensitized performance scenarios; attention to projected cash flows, debt service coverage, and leverage multiples under such scenarios; and an assessment of enterprise valuations and debt repayment/investment recovery prospects given such sensitized performance scenarios.

***Investment Documentation:*** focusing on obtaining the best legal protections available to us given our position within the capital structure, including, as appropriate, financial covenants; collateral liens and stock pledges; review of loan documents of other of the prospective portfolio company's creditors; and negotiation of inter-creditor agreements.

## **Portfolio Review/Risk Monitoring**

We view active portfolio monitoring as a vital part of our investment process, and we benefit from a portfolio management system developed by OFS that includes daily, weekly, monthly, and quarterly components, and that involves comprehensive review of the performance of each of our portfolio companies. As part of the portfolio management process, OFS Advisor performs ongoing risk assessment on each of our investments and assigns each debt investment a credit rating based on OFS's internal ratings scale.

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

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

**2 (Below Average Risk)** A risk rated 2, or Below Average Risk, credit is a credit that has acceptable asset quality, moderate excess liquidity, modest leverage capacity. It could have some financial/non-financial weaknesses which are

offset by strengths; however, the credit demonstrates an ample current cash flow from operations. The trends and outlook for the credit's operations, balance sheet, and industry are generally positive or neutral to somewhat negative. Collateral, if appropriate, has maintained value and would be capable of being liquidated successfully on a timely basis.

3 (Average) A risk rated 3, or Average, credit is a credit that has acceptable asset quality, somewhat strained liquidity, minimal leverage capacity. It is at times characterized by just acceptable cash flows from

## TABLE OF CONTENTS

operations. Under adverse market conditions, carrying the current debt service could pose difficulties for the borrower. The trends and conditions of the credit's operations and balance sheet are neutral to slightly negative.

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

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

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

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

As of March 31, 2016, we had debt investments in 35 portfolio companies, totaling \$212.9 million at fair value, of which \$10.9 million, \$171.7 million, \$29.6 million, and \$0.7 million were rated 2, 3, 4, and 5, respectively.

## **Investment Committees**

The purpose of our investment committees is to evaluate and approve our prospective investments, subject at all times to the oversight of our board of directors.

OFS Advisor's investment committee ( Advisor Investment Committee ), which is comprised of Richard Ressler (Chairman), Jeffrey Cerny, Mark Hauser, and Bilal Rashid, is primarily responsible for the day-to-day management of the portfolio, including our overall asset allocation decisions, as well as approval of all of investments made by us directly or through our wholly-owned subsidiaries. Certain members of the Advisor Investment Committee perform a similar role for other investments managed by OFS and its affiliates.

The investment committee for SBIC I LP ( SBIC Investment Committee ), which is comprised of Mark Hauser and Bilal Rashid, (and, together with the Advisor Investment Committee, the Investment Committees ), is responsible for approval of all of investments made by SBIC I LP. Any investment decision on the part of SBIC I LP requires the unanimous approval of the SBIC Investment Committee.



The process employed by the Investment Committees is intended to bring the diverse experience and perspectives of the committees' members to the investment process. The Investment Committees serve to provide investment consistency and adherence to our core investment philosophy and policies. The Investment Committees also determine appropriate investment sizing and implement ongoing monitoring requirements.

In certain instances, management may seek the approval of our board of directors prior to the making of an investment. In addition to reviewing investments, Investment Committees' meetings serve as a forum to discuss credit views and outlooks. Potential transactions and deal flow are reviewed on a regular basis.

## TABLE OF CONTENTS

Members of the investment team are encouraged to share information and views on credits with members of the Investment Committees early in their analysis. We believe this process improves the quality of the analysis and assists the deal team members in working efficiently.

## **Structure of Investments**

We anticipate that our loan portfolio will continue to contain investments of the following types with the following typical characteristics:

***Senior Secured First-Lien Loans.*** First-lien senior secured loans comprise, and will continue to comprise, a significant portion of our investment portfolio. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans (in certain cases, subject to a payment waterfall). The collateral takes the form of first-priority liens on specified assets of the portfolio company borrower and, typically, first-priority pledges of the ownership interests in the borrower. Our first lien loans may provide for moderate loan amortization in the early years of the loan, with the majority of the amortization deferred until loan maturity.

***Senior Secured Unitranche Loans.*** Unitranche loans are loans that combine both senior and subordinated debt into one loan under which the borrower pays a single blended interest rate that is intended to reflect the relative risk of the secured and unsecured components. We typically structure our unitranche loans as senior secured loans. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans. This collateral takes the form of first-priority liens on the assets of a portfolio company and, typically, first-priority pledges of the ownership interests in the company. We believe that unitranche lending represents a significant growth opportunity for us, offering the borrower the convenience of dealing with one lender, which may result in a higher blended rate of interest to us than we might realize in a traditional multi-tranche structure. Unitranche loans typically provide for moderate loan amortization in the initial years of the facility, with the majority of the amortization deferred until loan maturity. Unitranche loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. In many cases, we will be the sole lender, or we, together with our affiliates, will be the sole lender, of unitranche loans, which can afford us additional influence with a borrower in terms of monitoring and, if necessary, remediation in the event of underperformance.

***Senior Secured Second-lien Loans.*** We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of such loans. This collateral typically takes the form of second-priority liens on the assets of a portfolio company, and we may enter into an inter-creditor agreement with the holders of the portfolio company's first-lien senior secured debt. These loans typically provide for no contractual loan amortization in the initial years of the facility, with all amortization deferred until loan maturity.

***Subordinated ( Mezzanine ) Loans.*** We typically structure these investments as unsecured, subordinated loans that typically provide for relatively high, fixed interest rates that provide us with significant current interest income. These loans typically will have interest-only payments (often representing a combination of cash pay and payment-in-kind ( PIK ) interest) in the early years, with amortization of principal deferred to maturity. Mezzanine loans generally allow the borrower to make a large lump sum payment of principal at the end of the loan term, and there is a risk of loss if the borrower is unable to pay the lump sum or refinance the amount owed at maturity. Mezzanine investments are generally more volatile than secured loans and may involve a greater risk of loss of principal. Mezzanine loans often include a PIK feature (meaning a feature allowing for the payment of interest in the form of additional principal amount of the loan instead of in cash), which effectively operates as negative amortization of loan principal, thereby increasing credit risk exposure over the life of the loan.

***Warrants and Other Equity Securities.*** In some cases, we will also acquire an equity interest in the portfolio company in connection with making a loan, or receive nominally priced warrants or options to buy a minority equity interest in the portfolio company in connection with a loan. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure such warrants to include provisions protecting our rights as a minority-interest holder, as well as a put, or right to sell such securities back to the issuer, upon the occurrence of specified events. In many

## TABLE OF CONTENTS

cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

***General Structuring Considerations.*** We tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its operating results.

We seek to limit the downside potential of our investments by:

selecting investments that we believe have a very low probability of loss; requiring a total return on our investments (including both interest and potential equity appreciation) that we believe will compensate us appropriately for credit risk; and negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or rights to a seat on the board of directors under some circumstances. We expect to hold most of our investments to maturity or repayment, but we may sell some of our investments earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

## **Investments**

We pursue an investment strategy focused primarily on investments in middle-market companies in the United States.

We focus on investments in loans, in which OFS Advisor's investment professionals have expertise, including investments in first-lien, unitranche, second-lien, and mezzanine loans and, to a lesser extent, on warrants and other equity securities. We seek to create a diverse portfolio by making investments in the securities of middle-market companies that we expect to range generally from \$3.0 million to \$25.0 million each, although we expect this investment size will vary proportionately with the size of our capital base.

## **Competition**

Our primary competitors include public and private funds, other business development companies, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity and hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical, and marketing resources than we do. Some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Further, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC, or to the distribution and other requirements we must satisfy to maintain our RIC status.

We expect to continue to use the expertise of the investment professionals of OFS and its affiliates to which we have access, to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we expect that the relationships of the senior members of OFS and its affiliates will enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see Risk Factors Risks Related to our Business and Structure We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.

## **Administration**

We do not have any direct employees, and our day-to-day investment operations are managed by OFS Advisor. We have a chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary and, to the extent necessary, our board of directors may elect to appoint additional officers going forward.

Our officers are employees of OFSC, an affiliate of OFS Advisor, and a portion of the compensation paid to our officers are paid by us pursuant to the Administration Agreement. All of our executive officers are also officers of OFS Advisor. See Management and Other Agreements.

TABLE OF CONTENTS

## **Properties**

We do not own or lease any real estate or other physical properties material to our operation. Our headquarters are located at 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, and are provided by OFS Services pursuant to the Administration Agreement. Additional operations are conducted from offices in New York, New York and Los Angeles, California, which are also provided by OFS Services pursuant to the Administration Agreement. We believe that our office facilities are suitable and adequate for our business as we contemplate continuing to conduct it.

## **Legal Proceedings**

We, OFS Advisor and OFS Services, are not currently subject to any material pending legal proceedings threatened against us as of March 31, 2016. 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.

TABLE OF CONTENTS**SENIOR SECURITIES**

Information about our senior securities (including preferred stock, debt securities and other indebtedness) is shown in the following tables as of December 31, 2015, 2014, 2013 and 2012. The report of our independent registered public accounting firm, BDO USA, LLP, on the senior securities table as of December 31, 2015 and 2014 is attached as an exhibit to the registration statement of which this prospectus is a part. The indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

(dollar amounts in thousands, except per unit data)

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities <sup>(1)</sup>	Asset Coverage Per Unit <sup>(2)</sup>	Involuntary Liquidating Preference Per Unit <sup>(3)</sup>	Average Market Value Per Unit <sup>(4)</sup>
PWB Credit Facility				
December 31, 2015	\$	\$		N/A
WM Credit Facility				
December 31, 2014	\$ 72,612	\$ 2,847		N/A
December 31, 2013	\$ 108,955	\$ 2,256		N/A
December 31, 2012	\$ 99,224	\$ 2,429		N/A
Small Business Administration Debentures (SBIC I LP) <sup>(5)</sup>				
December 31, 2015	\$ 149,880	\$		N/A
December 31, 2014	\$ 127,295	\$		N/A
December 31, 2013	\$ 26,000	\$		N/A
December 31, 2012	\$	\$		N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) 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. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The indicates information which the Securities and Exchange Commission expressly does not require to be disclosed for certain types of senior securities.

(4) Not applicable because senior securities are not registered for public trading.

(5) 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.

TABLE OF CONTENTS

## **PORTFOLIO COMPANIES**

The following tables set forth certain information as of March 31, 2016 regarding each portfolio company in which we had a debt or equity investment. The general terms of our loans and other investments are described in The Company. We offer to make available significant managerial assistance to our portfolio companies. In addition, we may receive rights to participate in or observe the board of directors meetings of our portfolio companies.

90

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TABLE OF CONTENTS

91

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TABLE OF CONTENTS

92

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TABLE OF CONTENTS

93

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TABLE OF CONTENTS

(1) The majority of investments bear interest at a variable rate that is indexed to the London Interbank Offered Rate ( LIBOR ) (L) or Prime (P), and are reset monthly or quarterly. Substantially all of the Company s LIBOR referenced investments are subject to an interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at March 31, 2016. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.

(2) The negative fair value is the result of the unfunded commitment being valued below par.  
 (3) Investments held by SBIC I LP. SBIC I LP held \$249,567 or 85% of the Company s consolidated assets as of March 31, 2016. All other investments pledged as collateral under the PWB Credit Facility.

(4) Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 ( 1940 Act ), as amended. Qualifying assets must represent at least 70% of the Company s assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of March 31, 2016, 98.4% of the Company s assets were qualifying assets.

(5) Non-accrual loan.

(6) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the reported interest rate of 12.85% at March 31, 2016 includes interest of 3.60% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

(7) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to C7 Data Centers, Inc., the reported interest rate of 13.16% at March 31, 2016 includes interest of 3.66% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

(8) 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.

(9) The interest rate includes a 1.5% 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.

(10) The interest rate includes a 2.5% 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.

(11) The interest rate includes a 2.0% 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.

(12) Non-income producing.

TABLE OF CONTENTS**MANAGEMENT****Board of Directors**

Under our certificate of incorporation and bylaws, our board of directors is divided into three classes. At each annual meeting, directors are elected for staggered terms of three years (other than the initial terms, which extend for up to three years), with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualified.

**Directors**

Information regarding the board of directors is as follows:

Name	Age	Position	Director Since	Term Expires
Interested Directors				
Bilal Rashid	45	Chairman and Chief Executive Officer	2010	2017
Jeffrey Cerny	53	Chief Financial Officer and Director	2015	2018
Independent Directors				
Elaine E. Healy	54	Director	2011	2019
Marc Abrams	70	Director	2011	2018
Robert J. Cresci	72	Director	2011	2017

The address for each of our directors is c/o OFS Capital Corporation, 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606.

**Officers Who Are Not Directors**

Information regarding our executive officers who are not directors is as follows:

Name	Age	Position
Eric P. Rubenfeld	45	Chief Compliance Officer
Linda S. VanDenburgh	59	Corporate Secretary
Jeffery S. Owen	51	Chief Accounting Officer

The address for each of our executive officers is c/o OFS Capital Corporation, 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606.

**Biographical Information**

For purposes of this presentation, our directors have been divided into two groups – independent directors and interested directors. Interested directors are interested persons as defined in the 1940 Act.

## Independent Directors

*Marc Abrams* is the founder and leader (on a semi-retired status) of the public company business sector of SingerLewak LLP, a certified public accounting firm founded in 1995. He has over 40 years of public accounting experience. Mr. Abrams' expertise includes audits of publicly held companies, initial public offerings, private offerings, corporate reorganizations and acquisitions, evaluating business plans and litigation support. Additionally, Mr. Abrams' broad practice includes expertise in several industries including technology, life sciences, real estate, retail and franchise, hotels and casinos, and manufacturing.

He currently serves on the board of Hancock Park Corporate Income, Inc., another BDC managed by OFS Advisor ( Hancock Park ) and previously served on the board of UnifiedOnline, Inc. (f/k/a IceWEB, Inc.). Mr. Abrams graduated from American University in 1967 with a Bachelor of Science in Accounting. Through 2011, he was an active member of AICPA, the California Society of CPAs and the Los Angeles Venture Association. Mr. Abrams brings to our board of directors extensive accounting experience and expertise, which is invaluable to our company.

TABLE OF CONTENTS

**Robert J. Cresci** has been a managing director of Pecks Management Partners Ltd., an investment management firm, since 1990. He currently serves on the boards of directors of j2 Global, Inc., Luminex Corporation, CIM Commercial Trust Corporation, Presbia PLC, and Hancock Park.

Mr. Cresci holds an undergraduate degree in Engineering from the United States Military Academy at West Point and holds a M.B.A. in Finance from the Columbia University Graduate School of Business. By virtue of his time with Pecks Management Partners and the other business entities mentioned, Mr. Cresci brings to our board of directors his broad expertise and experience in investment strategies, accounting issues, and public company matters.

**Elaine E. Healy** is the co-founder, president, and chief operating officer of Accel Networks, a Sierra Wireless business, a fixed cellular wireless broadband service provider founded in November 2002. She is a senior executive with a broad investment background in operating companies ranging from start-ups to emerging growth to publicly traded entities. Ms. Healy has more than 10 years of experience operating in an entrepreneurial environment and as a director of companies in a wide range of industries. Throughout her career, she has participated in or been responsible for the periodic valuation of both debt and equity portfolios.

Ms. Healy graduated from The Florida State University in 1984 with a Bachelor of Science in Finance. Ms. Healy brings to our board an invaluable perspective on the building blocks for a successful enterprise and extensive experience with a wide range of investment vehicles, including closed end funds, SBICs, business development companies and both limited and general partnerships.

## Interested Directors

**Bilal Rashid** is the Chairman of the board of directors, the Chief Executive Officer and President of OFS Capital and Hancock Park, President and a Senior Managing Director of OFSC and OFS Advisor, Chief Executive Officer of OFSAM and a member of the investment and executive committees of OFSAM. Prior to joining OFSC in 2008, Mr. Rashid was a managing director in the global markets and investment banking division at Merrill Lynch. Mr. Rashid has more than 20 years of experience in investment banking, debt capital markets and investing as it relates to structured credit and corporate credit. Over the years, he has advised and arranged financing for investment management companies and commercial finance companies including business development companies. Before joining Merrill Lynch in 2005, he was a vice president at Natixis Capital Markets, which he joined as part of a large team move from Canadian Imperial Bank of Commerce ( CIBC ). Prior to CIBC, he worked as an investment analyst in the project finance area at the International Finance Corporation, which is part of the World Bank. Prior to that, Mr. Rashid was a financial analyst at Lehman Brothers. Mr. Rashid has a B.S. in Electrical Engineering from Carnegie Mellon University and an MBA from Columbia University. Mr. Rashid brings to our board of directors invaluable experience in investments and debt capital markets.

**Jeffrey A. Cerny** is the Chief Financial Officer and Treasurer of OFS Capital and Hancock Park. Mr. Cerny also serves as Treasurer and a Senior Managing Director of OFSC and OFS Advisor, as a Vice President of OFSAM, and as a member of OFSAM's investment and executive committees. Mr. Cerny oversees the finance and accounting functions of OFS Capital as well as underwriting, credit monitoring, CLO portfolio compliance and loan administration for OFS Advisor's syndicated senior loan business. Prior to joining OFSC in 1999, Mr. Cerny held various positions at Sanwa Business Credit Corporation, American National Bank and Trust Company of Chicago and Charter Bank Group, a multi-bank holding company. Mr. Cerny holds a B.S. in Finance from Northern Illinois University, a Masters of Management in Finance and Economics from Northwestern University's J.L. Kellogg School of Management, and a J.D. from DePaul University's School of Law. Mr. Cerny brings to our Board extensive accounting and financial experience and expertise, as well as investing experience, including lending, structuring and

workouts.



TABLE OF CONTENTS**Officers Who Are Not Directors**

**Jeffery S. Owen** currently serves as the Chief Accounting Officer of OFS Capital and Hancock Park. Mr. Owen also serves as the Chief Accounting Officer and Controller of OFSC and OFS Advisor. Mr. Owen has over 25 years of experience in public and private accounting. Prior to joining OFSC in November of 2015, Mr. Owen served as Senior Vice President of Corporate Accounting for Northern Trust Corporation. Before joining Northern Trust Corporation in 2010, he held various positions at Aon Corporation, Web Street, Inc., CNA Financial Corporation, and Ernst & Young LLP, a national public accounting firm. Mr. Owen holds a Bachelor of Accountancy from the University of Oklahoma and a Masters of Business Administration, *cum laude*, from The University of Chicago Graduate School of Business.

Mr. Owen is also a Certified Public Accountant and a CFA charterholder.

**Eric P. Rubinfeld** currently serves as the Chief Compliance Officer of OFS Capital and Hancock Park, and Chief Legal Officer and Chief Compliance Officer of OFSC and OFS Advisor, in which capacity he oversees the legal, compliance, risk management, and human resources, functions of OFSC and OFS Advisor. Mr. Rubinfeld has over 20 years of experience advising investment advisers, insurance companies, investment banks and other financial institutions. Prior to joining OFSC, Mr. Rubinfeld was the General Counsel and Chief Compliance Officer of GSC Group, an SEC registered investment adviser specializing in middle market corporate credit, and also served as Chief Compliance Officer of GSC Capital Corp, an externally managed, closed end, publicly listed BDC. From 2004 to 2006, Mr. Rubinfeld was Director and Counsel at Assured Guaranty Corp. From 1995 to 2004, Mr. Rubinfeld worked as an attorney in private practice in New York and Washington, D.C. Mr. Rubinfeld received his J.D., *cum laude*, from Harvard Law School in 1995 and his B.A., *magna cum laude*, in Economics and History from UCLA in 1991.

**Linda S. VanDenburgh** currently serves as Corporate Secretary of OFS Capital and Hancock Park, and Corporate Secretary, Vice President, General Counsel and Deputy Compliance Officer of OFSC and OFS Advisor. Ms. VanDenburgh has over 30 years of experience advising investment advisers, banks, investment companies and other financial institutions. Prior to joining OFSC in 2013, Ms. VanDenburgh acted as a Senior Attorney at BMO Harris Bank N.A., a Chicago-based bank owned by the Bank of Montreal. Prior to joining BMO in 2010, Ms. VanDenburgh held various positions with Northern Trust Corporation, Stein Roe Investment Counsel, and Van Kampen Investments, and worked as an attorney in private practice in Chicago. Ms. VanDenburgh received her J.D., *magna cum laude*, from the University of Pennsylvania Law School in 1983 and her B.A., *magna cum laude*, in Psychology from Brown University in 1979.

**Compensation of Directors**

The following table shows information regarding the compensation received by our independent directors for the fiscal year ended December 31, 2015.

Name	Aggregate Compensation from OFS Capital Corporation	Pension or Retirement Benefits Accrued as Part of Our Expenses <sup>(1)</sup>	Total Compensation from OFS Capital Corporation Paid to Director
Independent Directors			

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Marc Abrams	\$ 100,000	\$ 100,000
Robert J. Cresci	\$ 100,000	\$ 100,000
Elaine E. Healy	\$ 100,000	\$ 100,000
Interested Directors		
Bilal Rashid		
Jeffrey Cerny		

(1) We do not have a profit-sharing or retirement plan, and directors do not receive any pension or retirement benefits. The independent directors receive an annual fee of \$90,000. In addition, the chairman of each committee receives an annual fee of \$10,000 for his or her additional services in this capacity. We have obtained directors and officers liability insurance on behalf of our directors and officers. Independent directors will have the option of having their directors fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is paid to directors who are interested persons.

97

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TABLE OF CONTENTS

## **CORPORATE GOVERNANCE**

### **Board Leadership Structure**

Our board of directors monitors and performs an oversight role with respect to our business and affairs, including with respect to investment practices and performance, compliance with regulatory requirements and the services, expenses and performance of service providers to us. Among other things, our board of directors approves the appointment of our investment adviser and our officers, reviews and monitors the services and activities performed by our investment adviser and our executive officers, and approves the engagement, and reviews the performance of, our independent registered public accounting firm.

#### **Chairman and Chief Executive Officer**

The board of directors currently combines the role of Chairman of the Board with the role of Chief Executive Officer ( CEO ), coupled with a Lead Independent Director position to further strengthen the governance structure. The Board believes this provides an efficient and effective leadership model for the Company. Combining the Chairman and CEO roles fosters clear accountability, effective decision-making, and alignment on corporate strategy.

No single leadership model is right for all companies at all times. The board of directors recognizes that, depending on the circumstances, other leadership models, such as a separate independent chairman of the board, might be appropriate. Accordingly, the board of directors periodically reviews its leadership structure.

Moreover, the board of directors believes that its governance practices provide adequate safeguards against any potential risks that might be associated with having a combined Chairman and CEO. Specifically:

- Three of the five current directors of the Company are independent directors;
- All of the members of the Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee are independent directors;
- The board of directors and its committees regularly conduct scheduled meetings in executive session, out of the presence of our Chief Executive Officer and other members of management;
- The board of directors and its committees regularly conduct meetings that specifically include our Chief Executive Officers; and
- The board of directors and its committees remain in close contact with, and receive reports on various aspects of the Company's management and enterprise risk directly from, the Company's senior management and independent auditors.

#### **Lead Independent Director**

The board of directors has instituted the Lead Independent Director position to provide an additional measure of balance, ensure the board of directors' independence, and enhance its ability to fulfill its management oversight responsibilities. Robert J. Cresci currently serves as the Lead Independent Director. The Lead Independent Director:

Presides over all meetings of the directors at which the Chairman is not present, including executive sessions of the independent directors;

- Frequently consults with the Chairman and CEO about strategic policies;

- Provides the Chairman and CEO with input regarding Board meetings;

- Serves as a liaison between the Chairman and CEO and the independent directors; and

Otherwise assumes such responsibilities as may be assigned to him by the independent directors. Having a combined Chairman and CEO, coupled with a substantial majority of independent, experienced directors who evaluate the board of directors and themselves at least annually, including a Lead Independent Director with specified responsibilities on behalf of the independent directors, provides the right leadership structure for the Company and is best for the Company and its shareholders at this time.

TABLE OF CONTENTS

## **Board's Role in Risk Oversight**

Our board of directors performs its risk oversight function primarily through (i) its standing committees, which report to the entire board of directors and are comprised solely of independent directors, and (ii) active monitoring of our Chief Compliance Officer and our compliance policies and procedures. For example, management of cyber security risk is the responsibility of the full board of directors.

Oversight of our investment activities extends to oversight of the risk management processes employed by OFS Advisor as part of its day-to-day management of our investment activities. The board of directors anticipates reviewing risk management processes at both regular and special board meetings throughout the year, consulting with appropriate representatives of OFS Advisor as necessary and periodically requesting the production of risk management reports or presentations. The goal of the board of directors' risk oversight function is to ensure that the risks associated with our investment activities are accurately identified, thoroughly investigated and responsibly addressed. Investors should note, however, that the board of directors' oversight function cannot eliminate all risks or ensure that particular events do not adversely affect the value of investments.

We believe that the role of our board of directors in risk oversight is effective and appropriate given the extensive regulation to which we are already subject as a BDC. As a BDC, we are required to comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, we are limited in our ability to enter into transactions with our affiliates, including investing in any portfolio company in which one of our affiliates currently has an investment.

## **Review, Approval or Ratification of Transactions with Related Persons**

The Audit Committee of our Board is required to review and approve any transactions with related persons (as such term is defined in Item 404 of Regulation S-K).

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Pursuant to Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the SEC and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4 and 5 filed by such persons and information provided by the Company's directors and officers, the Company believes that during the fiscal year ended December 31, 2015, all Section 16(a) filing requirements applicable to such persons were met in a timely manner.

## **Corporate Governance Documents**

We maintain a corporate governance webpage at the [Governance Documents](#) link under the [Investor Relations](#) link at [www.ofscapital.com](http://www.ofscapital.com).

Our Code of Business Conduct and Board Committee charters are available at our corporate governance webpage at [www.ofscapital.com](http://www.ofscapital.com) and are also available to any shareholder who requests them by writing to our Chief Compliance

Officer, Eric P. Rubinfeld, at OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606,  
Attention: Chief Compliance Officer.

## Director Independence

In accordance with rules of The NASDAQ Global Select Market, the board of directors annually determines the independence of each director. No director is considered independent unless the board of directors has determined that he or she has no material relationship with the Company. The Company monitors the status of its directors and officers through the activities of the Company's Nominating and Corporate Governance Committee and through a questionnaire completed by each director no less frequently than annually, with updates periodically if information provided in the most recent questionnaire has changed.

In order to evaluate the materiality of any such relationship, the board of directors uses the definition of director independence set forth in The NASDAQ Global Select Market rules. The NASDAQ Global Select Market rules provides that a director of a BDC shall be considered to be independent if he or she is not an

## TABLE OF CONTENTS

interested person of the Company, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an interested person to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with the Company.

The board of directors has determined that each of the following directors and director nominees are independent and have no relationship with the Company, except as director of the Company: Messrs. Abrams and Cresci and Ms. Healy.

## **Annual Evaluation**

Our directors perform an evaluation, at least annually, of the effectiveness of the Board and its committees. This evaluation includes an annual questionnaire and Board committee discussion.

## **Communications with Directors**

Shareholders and other interested parties may contact any member (or all members) of the board of directors by mail.

To communicate with the board of directors, any individual directors or any group or committee of directors, correspondence should be addressed to the board of directors or any such individual directors or group or committee of directors by either name or title. All such correspondence should be sent to OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606, Attention: Chief Compliance Officer. Any communication to report potential issues regarding accounting, internal controls and other auditing matters will be directed to the Audit Committee. Appropriate OFS Capital Corporation personnel will review and sort through communications before forwarding them to the addressee(s).

## **Board Meetings and Committees**

The board of directors has established a (i) standing audit committee, (ii) a standing nominating and corporate governance committee and (iii) standing compensation committee. The board of directors met ten times during the fiscal year ended December 31, 2015. Each director attended at least 75% of the aggregate of: (i) all regular meetings of the board of directors held during the fiscal year ended December 31, 2015; and (ii) all committees on which the director served that were held while the director was a member. The board of directors' standing committees are set forth below. We require each director to make a diligent effort to attend all board of directors and committee meetings, as well as each Annual Meeting of Shareholders. All directors attended the 2015 Annual meeting of shareholders.

## **Audit Committee**

The Audit Committee is presently composed of three persons, Messrs. Abrams and Cresci and Ms. Healy, each of whom meets the independence standards established by the SEC and NASDAQ for audit committees and is independent for purposes of the 1940 Act. Mr. Abrams serves as chairman of the audit committee. Our board of directors has determined that each of Messrs. Abrams and Cresci and Ms. Healy is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K of the Exchange Act.

The Audit Committee operates pursuant to a charter approved by our board of directors. The charter sets forth the responsibilities of the Audit Committee. The audit committee is responsible for selecting, engaging and discharging our independent accountants, reviewing the plans, scope and results of the audit engagement with our independent

accountants, approving professional services provided by our independent accountants (including compensation therefor), reviewing the independence of our independent accountants and reviewing the adequacy of our internal controls over financial reporting. The audit committee also establishes guidelines and makes recommendations to our board of directors regarding the valuation of our loans and other investments. The Audit Committee met ten times during the fiscal year ended December 31, 2015.

A charter of the Audit Committee is available in print to any shareholder who requests it and it is also available on the Company's website at [www.ofscapital.com](http://www.ofscapital.com).

## **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee consists of three members, Messrs. Abrams and Cresci and Ms. Healy, each of whom meets the independence standards established by NASDAQ and is independent for purposes of the 1940 Act. Mr. Cresci serves as chairman of the Nominating and Corporate



## TABLE OF CONTENTS

Governance Committee. The Nominating and Corporate Governance Committee operates pursuant to a charter approved by our board of directors. The charter sets forth the responsibilities of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for selecting, researching and nominating directors for election by our shareholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors and overseeing the evaluation of the board of directors and our management.

The Nominating and Corporate Governance Committee will consider nominees to the board of directors recommended by a shareholder, if such shareholder complies with the advance notice provisions of our bylaws. Our bylaws provide that a shareholder who wishes to nominate a person for election as a director at a meeting of shareholders must deliver written notice to our Corporate Secretary. This notice must contain, as to each nominee, all of the information relating to such person as would be required to be disclosed in a proxy statement meeting the requirements of Regulation 14A under the Exchange Act, and certain other information set forth in the bylaws. In order to be eligible to be a nominee for election as a director by a shareholder, such potential nominee must deliver to our Corporate Secretary a written questionnaire providing the requested information about the background and qualifications of such person and a written representation and agreement that such person is not and will not become a party to any voting agreements, any agreement or understanding with any person with respect to any compensation or indemnification in connection with service on the board of directors, and would be in compliance with all of our publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines. The Nominating and Corporate Governance Committee met once during the fiscal year ended December 31, 2015.

A charter of the Nominating and Corporate Governance Committee is available in print to any shareholder who requests it, and it is also available on the Company's website at [www.ofscapital.com](http://www.ofscapital.com).

## **Compensation Committee**

The Compensation Committee consists of three members, Messrs. Abrams and Cresci and Ms. Healy, each of whom meets the independence standards established by the SEC and NASDAQ and is independent for purposes of the 1940 Act. Ms. Healy serves as chairman of the Compensation Committee. The Compensation Committee operates pursuant to a charter approved by our Board. Currently none of the Company's executive officers are directly compensated by the Company. However, the Company reimburses its administrator for the allocable portion of overhead and other expenses incurred by the administrator in performing its obligations under an administration agreement, including an allocable share of the compensation of certain of the Company's executive officers with finance and compliance responsibilities. The Compensation Committee met once during the fiscal year ended December 31, 2015.

A charter of the Compensation Committee is available in print to any shareholder who requests it, and it is also available on the Company's website at [www.ofscapital.com](http://www.ofscapital.com).

## **Code of Business Conduct**

We have adopted a Code of Business Conduct that applies to, among others, our executive officers, including our Principal Executive Officer and Principal Financial Officer, as well as every officer, director and employee of the Company. Requests for copies should be sent in writing to our Chief Compliance Officer, Eric P. Rubinfeld, at OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606. The Company's Code of Business Conduct is also available on our website at [www.ofscapital.com](http://www.ofscapital.com).

If we make any substantive amendment to, or grant a waiver from, a provision of our Code of Business Conduct, we will promptly disclose the nature of the amendment or waiver on our website at [www.ofscapital.com](http://www.ofscapital.com) as well as file a Form 8-K with the SEC.

## **Compensation of Executive Officers**

None of our officers receives direct compensation from us. Mr. Rashid, our Chief Executive Officer, Mr. Cerny, our Chief Financial Officer, Mr. Owen, our Chief Accounting Officer, and Mr. Rubinfeld, our Chief Compliance Officer, are paid by OFSC, subject to reimbursement by us, pursuant to the Administration Agreement, for an allocable portion of such compensation for services rendered by such persons to us. To the extent that OFS Services outsources any of its functions under the Administration Agreement to OFSC under the Staffing Agreement, we will pay the fees associated with such functions at cost, on a direct basis.

TABLE OF CONTENTS

## PORTFOLIO MANAGEMENT

Investment opportunities require approval through the Advisor Investment Committee. Follow-on investments in existing portfolio companies require the Advisor Investment Committee's approval processes. The members of the Advisor Investment Committee are our portfolio managers who are primarily responsible for the day-to-day management of the portfolio. The Advisor Investment Committee is supported by a team of analysts and investment professionals.

All of the Advisor Investment Committee members have ownership and financial interests in, and may receive compensation and/or profit distributions from, OFSAM, the parent company of OFS Advisor, and/or its subsidiaries. None of the members of the Advisor Investment Committee are employed by us or receive any direct compensation from us. These individuals receive compensation from OFS Advisor that includes an annual base salary, an annual discretionary bonus and a portion of the distributions made by OFS Advisor, a portion of which relates to the incentive fee or carried interest earned by OFS Advisor in connection with its services to us. See **Control Persons and Principal Shareholders** for additional information about equity interests held by certain of these individuals.

Messrs. Rashid and Cerny also perform a similar role for four other pooled investment vehicles, with a total amount of approximately \$1.0 billion of assets under management as of March 31, 2016, from which OFS Advisor and OFSAM may receive incentive fees. See **Related-Party Transactions and Certain Relationships** for a description of OFS Advisor's allocation policy governing allocations of investments among us and other investment vehicles with similar or overlapping strategies, as well as a description of certain other relationships between us and OFS Advisor. See **Prospectus Summary Conflicts of Interest and Risk Factors** We have potential conflicts of interest related to obligations that OFS Advisor or its affiliates may have to other clients for a discussion of potential conflicts of interests.

### Advisor Investment Committee

The Advisor Investment Committee meets regularly to consider our investments, direct our strategic initiatives and supervise the actions taken by OFS Advisor on our behalf. In addition, the Advisor Investment Committee reviews and determines whether to make prospective investments identified by OFS Advisor and monitors the performance of our investment portfolio.

Information regarding members of the Advisor Investment Committee is as follows:

Name <sup>(1)</sup>	Age	Position
Richard S. Ressler	57	Chairman of OFSAM, Chairman of the Advisor Investment Committee
Bilal Rashid	45	Senior Managing Director of OFSC and OFS Advisor
Jeffrey A. Cerny	53	Senior Managing Director of OFSC and OFS Advisor
Mark Hauser	58	Senior Managing Director of OFSC and OFS Advisor

<sup>(1)</sup> The address for each member of the Advisor Investment Committee is c/o OFS Capital Corporation, 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606. None of these individuals beneficially own any of our equity securities.

## Members of the Advisor Investment Committee Who Are Not Our Directors or Executive Officers

**Richard S. Ressler** is a Co-Founder and Chairman of the executive committee of OFSAM, serving as Chairman pursuant to a consulting agreement between OFSAM and Orchard Capital. Mr. Ressler is the founder and President of Orchard Capital, a firm that provides investment capital and advice to companies (including OFSAM) in which Orchard Capital or its affiliates invest. He has been President of Orchard Capital since 1994. Through his affiliation with Orchard Capital, Mr. Ressler also serves in various senior capacities with, among others, CIM Group, L.P., (together with its affiliates, CIM ), a real estate investment and management company. Mr. Ressler also serves as a board member for various public and private companies in which Orchard Capital or its affiliates invest, including j2 Global, Inc. ( JCOM ). Mr. Ressler co-founded CIM in 1994 and, through an agreement with Orchard Capital, currently chairs its investment and asset management committees. CIM is a full service urban real estate and infrastructure fund manager with in-house

102

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TABLE OF CONTENTS

research, acquisition, investment, development, finance, leasing and management capabilities. Among CIM's investors are U.S. and international pension funds, endowments, multinational corporations and other private investors.

Mr. Ressler served as Chairman and CEO of JCOM from 1997 to 2000 and, through an agreement with Orchard Capital, currently serves as its non-executive Chairman. JCOM provides cloud services to businesses of all sizes, from individuals to enterprises and offers online fax, virtual phone systems, hosted email, email marketing, online backup and customer relationship management services under a variety of brand names. Mr. Ressler holds a B.A. from Brown University, and J.D. and MBA degrees from Columbia University.

**Mark S. Hauser** is a Senior Managing Director of OFSC and OFS Advisor and serves as a member of OFSAM's executive committee. Mr. Hauser co-founded SBIC I LP in 2009 and the predecessor to Tamarix Capital Corporation, an unaffiliated investment firm ( Tamarix Capital ), in the early 1990s, and currently serves as the Managing Director of Tamarix Capital. Prior thereto, he was a Senior Managing Director at Sandell Asset Management, an international multi-strategy alternative asset manager, where he founded and was global head of the firm's private equity practice as well as a member of its investment committee. Prior to joining Sandell, he was a Managing Director at FdG Associates, a New York-based middle-market private equity fund focused on investing in family owned businesses. Previously, he was a Managing Director at Ocean Capital Corporation, a private international investment banking firm.

Mr. Hauser has served as an officer and on the boards of directors of various private and public portfolio companies, both in the U.S. and abroad, and continues to serve on the board of directors of MOKO Social Media Limited, an Australian public company. He began his career as a corporate attorney, practicing in New York, Sydney and London.

Mr. Hauser holds a Bachelor of Economics Degree and a Bachelor of Law Degree from Sydney University and a Master of Law Degree from the London School of Economics & Political Science.

The table below shows the dollar range of shares of our common stock to be beneficially owned by the members of the Investment Committee and our investment team.

Name of Portfolio Manager/Investment Support Team	Dollar Range of Equity Securities Beneficially Owned <sup>(1)(2)(3)</sup>
Richard Ressler	None
Bilal Rashid	None
Jeffrey A. Cerny	None
Mark Hauser	None

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, or the Exchange Act.

(2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of \$12.83 on June 28, 2016 on The NASDAQ Global Select Market.

(3) The dollar range of equity securities beneficially owned are: none, \$1 - \$10,000, \$10,001 - \$50,000, \$50,001 - \$100,000, \$100,001 - \$500,000, \$500,001 - \$1,000,000, or over \$1,000,000.

TABLE OF CONTENTS

## **MANAGEMENT AND OTHER AGREEMENTS**

OFS Advisor is registered as an investment adviser under the Advisers Act. OFS Advisor is a wholly owned subsidiary of OFSAM. Subject to the overall supervision of our board of directors and in accordance with the 1940 Act, OFS Advisor manages our day-to-day operations and provides investment advisory services to us. Under the terms of the Investment Advisory Agreement, OFS Advisor:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

executes, closes, services and monitors the investments we make.

assists us in determining what securities we purchase, retain or sell; identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and

executes, closes, services and monitors the investments we make.

Certain personnel of OFS conduct activities on our behalf directly through, and under the supervision of, OFS Advisor. OFS Advisor's services under the Investment Advisory Agreement are not exclusive to us. Pursuant to a Staffing Agreement between OFSC and OFS Advisor, OFSC has agreed to provide OFS Advisor with the resources to fulfill its obligations under the Investment Advisory Agreement. These resources include staffing by experienced investment professionals and access to the senior investment personnel of OFSC, pursuant to which each member of the Advisor Investment Committee has committed to serve in such capacity (including Mr. Ressler, who is currently the Chairman of the Advisor Investment Committee). These personnel services are provided under the Staffing Agreement on a direct cost reimbursement basis to OFS Advisor.

### **Investment Advisory Agreement**

#### **Management and Incentive Fee**

Pursuant to the Investment Advisory Agreement with and subject to the overall supervision of our board of directors and in accordance with the 1940 Act, OFS Advisor provides investment advisory services to us. For providing these services, OFS Advisor receives a fee from us, consisting of two components—a base management fee and an incentive fee. From the completion of our IPO through October 31, 2013, the base management fee was calculated at an annual rate of 0.875% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), adjusted for stock issuances and stock purchases, at the end of the two most recently completed calendar quarters. Beginning on

November 1, 2013 and through March 31, 2014, pursuant to the Investment Advisory Agreement the base management fee was calculated at an annual rate of 1.75% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), adjusted for stock issuances and stock purchases, at the end of the two most recently completed calendar quarters. We have excluded from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013. The base management fee is payable quarterly in arrears.

Base management fees for any partial quarter are prorated based on the number of days in the quarter.

On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. Specifically, OFS Advisor agreed to reduce its base management fee from 0.4375% per quarter to 0.145833% per quarter for the second, third, and fourth quarters of 2014. Accordingly, the effective annual base management fee for the 2014 fiscal year will be equal to or less than

50% of the 1.75% required by our Investment Advisory Agreement with OFS Advisor, or not greater than 0.875%.

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

The base management fee expense was approximately \$1.1 million and \$1.4 million for the three months ended March 31, 2016 and 2015, respectively.

TABLE OF CONTENTS

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

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

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

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

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

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

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

105



TABLE OF CONTENTS

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

**Quarterly Incentive Fee Based on Net Investment Income**

**Pre-incentive fee net investment income (expressed as a percentage of the net value of net assets)**

**Percentage of pre-incentive fee net investment income allocated to income-related portion of incentive fee**

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

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

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

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investments. Unrealized capital appreciation is accrued, but not paid until said appreciation is realized. We accrue the Capital Gains Fee if, on a cumulative basis, the sum of the net realized capital gains (and losses) plus net unrealized appreciation (and depreciation) is positive. OFS Advisor has excluded from the Capital Gains Fee calculation the realized gain with respect to the step acquisitions resulting from the SBIC Acquisition. The Capital Gains Fee for any partial year is prorated based on the number of days in such year.

We incurred incentive fee expense of \$0.7 million for the three months ended March 31, 2016. Incentive fees for the three months ended March 31, 2016, consisted of part one incentive fees (based on net investment income) of \$0.8 million and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(0.1) million, which represents the reversal of the part two incentive fee accrued at December 31, 2015. Incentive fees were \$0.4 million for the three months ended March 31, 2015, which consisted entirely of part one incentive fees.

## **Examples of Incentive Fee Calculation**

### **Example 1 Income Related Portion of Incentive Fee:**

**Assumptions**

Hurdle rate<sup>(1)</sup> = 2.0%

Management fee = 0.44%

Other estimated expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(2)</sup> = 0.20%

(1) Represents a quarter of the 8.0% annualized hurdle rate.

TABLE OF CONTENTS

(2) Excludes estimated offering expenses.

## Alternative 1

### Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Pre-incentive fee net investment income (investment income (management fee + other expenses)) = 0.61%

Pre-incentive fee net investment income does not exceed the hurdle rate, therefore there is no incentive fee.

## Alternative 2

### Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.80%

Pre-incentive fee net investment income (investment income (management fee + other expenses)) = 2.16%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

$$\begin{aligned}
 &= \\
 \text{Incentive Fee} &= 100\% \times \text{Catch-Up} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net} \\
 &\text{investment income } 2.5\%)) \\
 &= \\
 &= (100\% \times (2.16\% - 2.0\%)) + 0\% \\
 &= \\
 &= 100\% \times 0.16\% \\
 &= \\
 &= 0.16\%
 \end{aligned}$$

## Alternative 3

### Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income (investment income (management fee + other expenses)) = 2.86%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

$$\begin{aligned}
 &= \\
 \text{Incentive Fee} &= 100\% \times \text{Catch-Up} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net} \\
 &\text{investment income } 2.5\%)) \\
 &=
 \end{aligned}$$

$$(100\% \times (2.5\% - 2.0\%)) + (20\% \times (2.86\% - 2.5\%))$$

=

$$0.5\% + (20\% \times 0.36\%)$$

=

$$0.5\% + 0.07\%$$

=

$$0.57\%$$

## **Example 2 Capital Gains Portion of Incentive Fee:**

### **Alternative 1**

#### **Assumptions**

Year 1: \$20 million investment made in Company A ( Investment A ), and \$30 million investment made in Company B ( Investment B )

Year 2: Investment A is sold for \$50 million and fair market value ( FMV ) of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

107

---

## TABLE OF CONTENTS

Year 4: Investment B sold for \$31 million  
The capital gains portion of the incentive fee, if any, would be:

Year 1: None (no sales transactions)

Year 2: \$6 million (20% multiplied by \$30 million realized capital gains on sale of Investment A)

Year 3: None; \$5 million (20% multiplied by \$30 million cumulative realized capital gains less \$5 million cumulative unrealized capital depreciation) less \$6 million (Capital Gains Fee paid in Year 2)

Year 4: \$200,000; \$6.2 million (20% multiplied by \$31 million cumulative realized capital gains) less \$6 million (Capital Gains Fee paid in Year 2)

## **Alternative 2**

### **Assumptions**

Year 1: \$20 million investment made in Company A ( Investment A ), \$30 million investment made in Company B ( Investment B ) and \$25 million investment made in Company C ( Investment C )

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FMV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (no sales transactions)

Year 2: \$5 million (20% multiplied by \$30 million realized capital gains on Investment A less \$5 million unrealized capital depreciation on Investment B)

Year 3: \$1.4 million; \$6.4 million (20% multiplied by \$32 million (\$35 million cumulative realized capital gains on Investment A and Investment C less \$3 million cumulative unrealized capital depreciation on Investment B)) less \$5 million (Capital Gains Fee paid in Year 2)

Year 4: \$0.6 million; \$7 million (20% multiplied by \$35 million (cumulative realized capital gains on Investment A and Investment C)) less \$6.4 million (cumulative Capital Gains Fee paid in all prior years)

Year 5: None; \$5 million (20% multiplied by \$25 million (\$35 million cumulative realized capital gains on Investments A and C less \$10 million realized capital losses on Investment B)) less \$7 million (cumulative Capital Gains Fee paid in all prior years))

### **Payment of Our Expenses**

Our primary operating expenses include interest expense due under the SBA debentures, the payment of fees to OFS Advisor under the Investment Advisory Agreement, professional fees, and 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 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;



## TABLE OF CONTENTS

transfer agent and custodial fees;  
out-of-pocket fees and expenses associated with marketing efforts;  
federal and state registration fees and any stock exchange listing fees;  
U.S. federal, state and local taxes;  
independent directors' fees and expenses;  
brokerage commissions;  
fidelity bond, directors' and officers' liability insurance and other insurance premiums;  
direct costs, such as printing, mailing and long-distance telephone;  
fees and expenses associated with independent audits and outside legal costs;  
costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S.  
federal and state securities laws; and  
other expenses incurred by either OFS Services or us in connection with administering our business, including  
payments under the Administration Agreement that will be based upon our allocable portion (subject to the review  
and approval of our board of directors) of overhead.

### **Duration and Termination**

Unless terminated earlier as described below, the Investment Advisory Agreement will remain in effect from year to year if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, and, in either case, if also approved by a majority of our directors who are not interested persons as defined in the 1940 Act. The Investment Advisory Agreement automatically terminates in the event of its assignment, as defined in the 1940 Act, by OFS Advisor and may be terminated by either party without penalty upon not less than 60 days' written notice to the other. The holders of a majority of our outstanding voting securities may also terminate the Investment Advisory Agreement without penalty upon not less than 60 days' written notice. See Risk Factors - Risks Related to our Business and Structure - We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates.

### **Indemnification**

The Investment Advisory Agreement provides that OFS Advisor and its affiliates and its affiliates' respective officers, directors, members, managers, shareholders and employees are entitled to indemnification from us from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement, except where attributable to willful misfeasance, bad faith or gross negligence in the performance of such person's duties, or reckless disregard of such person's obligations and duties under the Investment Advisory Agreement.

### **Board Approval of the Investment Advisory Agreement**

Our board, including our independent directors, approved the Investment Advisory Agreement at a meeting held on April 7, 2016. In reaching a decision to approve the Investment Advisory Agreement, the board of directors reviewed a significant amount of information and considered, among other things:

the nature, quality and extent of the advisory and other services to be provided to us by OFS Advisors;  
the fee structures of comparable externally managed business development companies that engage in similar investing activities;  
our projected operating expenses and expense ratio compared to business development companies with similar investment objectives;

any existing and potential sources of indirect income to OFS Advisors from its relationship with us and the profitability of that relationship, including through the Investment Advisory Agreement;  
109

---



## TABLE OF CONTENTS

information about the services to be performed and the personnel performing such services under the Investment Advisory Agreement; and

the organizational capability and financial condition of OFS Advisor and its affiliates.

Based on the information reviewed and the discussion thereof, the board of directors, including a majority of the non-interested directors, concluded that the investment advisory fee rates are reasonable in relation to the services to be provided and approved the Investment Advisory Agreement as being in the best interests of our shareholders.

## **Administration Agreement**

Pursuant to the Administration Agreement, OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our shareholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, OFS Services would provide managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent, information technology, and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary, and their respective staffs. The Administration Agreement may be renewed annually with the approval of our board of directors, including a majority of our directors who are not interested persons. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions at cost, on a direct basis.

For the three months ended March 31, 2016 and 2015, we incurred administration fee expense of \$0.4 million and \$0.5 million, respectively.

## **Indemnification**

The Administration Agreement provides that OFS Services and its affiliates' respective officers, directors, members, managers, shareholders and employees are entitled to indemnification from us from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Administration Agreement, except where attributable to willful misfeasance, bad faith or gross negligence in the performance of such person's duties or reckless disregard of such person's obligations and duties under the Administration Agreement.

## **Board Approval of the Administration Agreement**

Our board reviewed the services provided under the Administration Agreement, and approved its renewal at the April 7, 2016 meeting.

## **Staffing Agreement**

We do not have any internal management capacity or employees. We depend on the diligence, skill and network of business contacts of the OFS senior professionals to achieve our investment objective. OFS Advisor is a subsidiary of OFSAM and depends upon access to the investment professionals and other resources of OFSAM and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. OFS Advisor also depends upon OFSAM to obtain access to deal flow generated by the professionals of OFSAM and its affiliates. Under the Staffing Agreement between OFSC and OFS Advisor, OFSC provides

110

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TABLE OF CONTENTS

OFS Advisor with the resources necessary to fulfill these obligations. The Staffing Agreement provides that OFSC make available to OFS Advisor experienced investment professionals and access to the senior investment personnel of OFSC for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. The Staffing Agreement also includes a commitment that the members of the Advisor Investment Committee serve in such capacity (including Mr. Ressler, who is currently the Chairman of the Advisor Investment Committee).

The Staffing Agreement is renewable by the parties thereto on an annual basis. Services under the Staffing Agreement are provided to OFS Advisor on a direct cost reimbursement basis, and such fees are not our obligation.

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

## **License Agreement**

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

TABLE OF CONTENTS

## **RELATED-PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS**

We have entered into agreements with OFS Advisor and its affiliates in which certain members of our senior management have ownership and financial interests. OFS Advisor and its affiliates manage other assets and funds and may manage other entities in the future, including other BDCs, and these other funds and entities may have similar or overlapping investment strategies. The members of our investment committees serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds or other investment vehicles managed by OFS Advisor or its affiliates. Similarly, OFS Advisor and/or its affiliates may have other clients with similar, different or competing investment objectives. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our shareholders. OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy so that we are not disadvantaged in relation to any other client. See Risk Factors Risks Related to Our Business and Structure We have potential conflicts of interest related to obligations that OFS Advisor or its affiliates may have to other clients. An investment opportunity that is suitable for multiple clients of OFS Advisor and its affiliates may not be capable of being shared among some or all of such clients and affiliates due to the limited scale of the opportunity or other factors, including regulatory restrictions imposed by the 1940 Act (see discussion below). There can be no assurance that OFS Advisor's or its affiliates' efforts to allocate any particular investment opportunity fairly and equitably among all clients for whom such opportunity is appropriate will result in an allocation of all or part of such opportunity to us. Not all conflicts of interest can be expected to be resolved in our favor. As a result, we may not be given the opportunity to participate in certain investments made by investment funds, accounts or other investment vehicles managed by OFS Advisor and its affiliates or by members of our investment committees.

Because we have elected to be treated as a BDC under the 1940 Act, we are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Those transactions include purchases and sales, and so-called joint transactions, in which we and one or more of our affiliates are engaging together in certain types of profit-making activities. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we are generally prohibited from engaging in purchases or sales of assets or joint transactions with such affiliates, absent the prior approval of our independent directors. Additionally, without the approval of the SEC, we are prohibited from engaging in purchases or sales of assets or joint transactions with the following affiliated persons: (a) our officers, directors, and employees; (b) OFS Advisor and its affiliates; and (c) OFSAM or its affiliates.

We may, however, invest alongside OFSAM and its affiliates or their respective other clients in certain circumstances where doing so is consistent with current law and SEC staff interpretations. For example, we may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that OFS Advisor, acting on our behalf and on behalf of other clients, negotiates no term other than price. Co-investment with such other accounts is not permitted or appropriate under this guidance when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between our interests and those of other accounts. Moreover, except in certain circumstances, this guidance does not permit us to invest in any issuer in which OFSAM and its affiliates or a fund managed by OFSAM or its affiliates has previously invested.

With the exception of investments specifically permitted by current law or regulatory guidance, we will not be permitted to co-invest with other funds managed by OFSAM or its affiliates unless we receive exemptive relief from the SEC permitting us to do so. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;

risk and return profile of the investment vehicles;

112

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TABLE OF CONTENTS

suitability/priority of a particular investment for the investment vehicles;  
if applicable, the targeted position size of the investment for the investment vehicles;  
level of available cash for investment with respect to the investment vehicles;  
total amount of funds committed to the investment vehicles; and

the age of the investment vehicles and the remaining term of their respective investment periods, if any.

In situations where co-investment with other accounts is not permitted or appropriate, OFS Advisor will need to decide which account will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. These restrictions, and similar restrictions that limit our ability to transact business with our officers or directors or their affiliates, may limit the scope of investment opportunities that would otherwise be available to us.

We have in the past co-invested and expect in the future to co-invest on a concurrent basis with OFSAM and its other affiliates, unless doing so is impermissible under existing regulatory guidance, applicable regulations and OFS Advisor's allocation policy. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that we will obtain any such order. See Regulation. On January 15, 2016, we filed an exemptive application with the SEC to permit us to co-invest with funds or entities managed by OFS Advisor in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. Any such order, if granted by the SEC, will be subject to certain terms and conditions. There can be no assurance when or if such exemptive relief will be granted by the SEC. If such relief is granted, then we will be permitted to co-invest with our affiliates if a required majority (as defined in Section 57(o) of the 1940 Act) or our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transactions, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching by 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.

Our senior management, members of OFS Advisor's investment committee, members of OFS SBIC I, LP's investment committee and other investment professionals from OFSAM or its other affiliates may serve as directors of, or in a similar capacity with, companies in which we invest or in which we are considering making an investment. Through these and other relationships with a company, these individuals may obtain material non-public information that might restrict our ability to buy or sell the securities of such company under the policies of the company or applicable law.

We have entered into an Investment Advisory Agreement with OFS Advisor and will pay OFS Advisor a base management fee and incentive fee. The incentive fee will be computed and paid on income that we may not yet have received in cash. This fee structure may create an incentive for OFS Advisor to invest in certain types of securities.

Additionally, we rely on investment professionals from OFS Advisor to assist our board of directors with the valuation of our portfolio investments. OFS Advisor's base management fee and incentive fee are based on the value of our investments and there may be a conflict of interest when personnel of OFS Advisor are involved in the valuation process for our portfolio investments. This could incentivize OFS Advisor to cause us to make more speculative investments or increase our debt outstanding in an effort to receive additional advisory compensation.

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

We have entered into an Administration Agreement, pursuant to which OFS Services furnishes us with office facilities, equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under our Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required

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to be filed with the SEC or any other regulatory authority.

113

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TABLE OF CONTENTS

OFS Advisor is an affiliate of OFSC, with which it has entered into a Staffing and Corporate Services Agreement (the Staffing Agreement ). Under this agreement, OFSC makes available to OFS Advisor experienced investment professionals and access to the senior investment personnel and other resources of OFSC and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by the professionals of OFSC and its affiliates and commits the members of OFS Advisor's investment committee to serve in that capacity. OFS Advisor capitalizes on the significant deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFSC's investment professionals.

OFSC also has entered into a Staffing and Corporate Services Agreement with OFS Services. Under this agreement, OFS Services makes available to OFSC the administrative resources of OFS Services.

114

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TABLE OF CONTENTS**CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS**

The following table sets forth, as of June 28, 2016, the beneficial ownership of the nominees for director, the Company's executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group. Percentage of beneficial ownership is based on 9,692,324 shares of common stock outstanding as of June 28, 2016.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon information furnished by the Company's transfer agent and other information obtained from such persons, if available.

Unless otherwise indicated, the Company believes that each beneficial owner set forth in the table has sole voting and investment power and has the same address as the Company. The Company's directors are divided into two groups interested directors and independent directors. Interested directors are interested persons of OFS Capital Corporation as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act). Unless otherwise indicated, the address of all executive officers and directors is c/o OFS Capital Corporation, 10 South Wacker Drive, Suite 2500, Chicago, Illinois 60606.

Name and Address of Beneficial Owner	Number of Shares Owned Beneficially	Percentage of Class
Other		
Orchard First Source Asset Management, LLC ( OFSAM <sup>(1)</sup> )	2,946,474	30.4 %
Advisors Asset Management, Inc. <sup>(2)</sup>	511,515	5.3 %
Interested Directors		
Bilal Rashid	None	None
Jeffrey A. Cerny	None	None
Independent Directors		
Marc Abrams	2,000	*
Robert J. Cresci	None	None
Elaine E. Healy	None	None
Officers Who Are Not Directors		
Eric P. Rubenfeld	None	None
Linda S. VanDenburgh	None	None
Jeffery S. Owen	None	None
Officers and Directors as a group (8 persons)	2,000	*

\*

Less than 1.0%.

OFSAM is owned by Bilal Rashid, Jeffrey A. Cerny and other officers of OFS Capital Management, LLC ( OFS Advisor ), the Company's investment adviser and its affiliates. OFSAM votes its shares of the Company's stock as (1) determined by OFSAM's Executive Committee, which is comprised of Richard Ressler and Mark Hauser, as well as Messrs. Rashid and Cerny. Neither of Messrs. Rashid or Cerny is a beneficial owner of the Company's shares held by OFSAM for purposes of Section 13(d).

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Based on information included in the Schedule 13F filed by Advisors Asset Management, Inc. on May 16, 2016, as of March 31, 2016, Advisors Asset Management, Inc. had beneficial ownership and sole voting and dispositive (2) power over 511,515 shares of the Company's common stock. The address for Advisors Asset Management, Inc. included in its Schedule 13F is 18925 Base Camp Road, Monument, Colorado 80132.

115

---

TABLE OF CONTENTS

## DOLLAR RANGE OF MARKET VALUE OF SECURITIES BENEFICIALLY OWNED BY DIRECTORS

Set forth in the table below is the dollar range of equity securities beneficially owned by each director as of June 28, 2016.

Name of Director	Dollar Range of Equity Securities in the Company <sup>(1)(2)</sup>
Independent Directors	
Marc Abrams	\$10,001 - \$50,000
Robert J. Cresci	None
Elaine E. Healy	None
Interested Directors	
Bilal Rashid	None
Jeffrey A. Cerny	None

(1) The dollar ranges are as follows: none, \$1 - \$10,000, \$10,001 - \$50,000, \$50,001 - \$100,000 or over \$100,000.

(2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.

TABLE OF CONTENTS

## **DETERMINATION OF NET ASSET VALUE**

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares of common stock outstanding at the date as of which the determination is made.

In calculating the value of our total assets each quarter, we will assess whether a sufficient number of market quotations are available or whether a sufficient number of indicative prices from pricing services or brokers or dealers have been received. Investments for which sufficient market quotations are available will be valued at such market quotations. Otherwise we undertake, on a quarterly basis, a valuation process as described below:

For each debt investment, a basic credit rating review process is completed. The risk rating on every credit facility is reviewed and either reaffirmed or revised by the Advisor Investment Committee.

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

Preliminary valuation conclusions are documented and then submitted to the Advisor Investment Committee for ratification.

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

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

Our board of directors will discuss valuations and determine the fair value of each investment in the portfolio in good faith based on the input of OFS Advisors and, where appropriate, the respective independent valuation firms.

See **Risks** A substantial portion of our portfolio investments may be recorded at fair value as determined in good faith by or under the direction of our board of directors and, as a result, there may be uncertainty regarding the value of our portfolio investments.

We follow ASC Topic 820 for measuring fair value. 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 has the ability to access at the measurement date.

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

**Level 2:** 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.



TABLE OF CONTENTS

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

The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our 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.

We assess the levels of the investments at each measurement date, and transfers between levels are recognized on the measurement date. There were no transfers among Level 1, 2 and 3 for the three months ended March 31, 2016 or 2015. The following sections describe the valuation techniques used to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.

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

Due to the inherent uncertainty of determining the fair value of Level 3 investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we might realize significantly less than the value at which such investment had previously been recorded.

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

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

## **Determinations in connection with offerings**

In connection with future offering of shares of our common stock, our board of directors or an authorized committee thereof will be required to make a good faith determination that it is not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the

118

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TABLE OF CONTENTS

sale is made. Our board of directors or an authorized committee thereof will consider the following factors, among others, in making such determination:

the net asset value per share of our common stock disclosed in the most recent periodic report that we filed with the SEC;

our management's assessment of whether any material change in the net asset value per share of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recently disclosed net asset value per share of our common stock and ending as of a time within 48 hours (excluding Sundays and holidays) of the sale of our common stock; and

the magnitude of the difference between (i) a value that our board of directors or an authorized committee thereof has determined reflects the current (as of a time within 48 hours, excluding Sundays and holidays) net asset value of our common stock, which is based upon the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC, as adjusted to reflect our management's assessment of any material change in the net asset value of our common stock since the date of the most recently disclosed net asset value of our common stock, and (ii) the offering price of the shares of our common stock in the proposed offering.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our common stock at a price per share below the then current net asset value per share of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we provide in certain registration statements we file with the SEC) to suspend the offering of shares of our common stock if the net asset value per share of our common stock fluctuates by certain amounts in certain circumstances until the prospectus is amended, our board of directors will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine the net asset value per share of our common stock within two days prior to any such sale to ensure that such sale will not be below our then current net asset value per share, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine the net asset value per share of our common stock to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records that we are required to maintain under the 1940 Act.



TABLE OF CONTENTS

## **DISTRIBUTION REINVESTMENT PLAN**

We have adopted a distribution reinvestment plan that provides for reinvestment of our distributions and other distributions on behalf of our shareholders, unless a shareholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash distribution, then our shareholders who have not opted out of our distribution reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of a registered shareholder to have their cash distribution reinvested in shares of our common stock. A registered shareholder may elect to receive an entire distribution in cash by notifying American Stock Transfer & Trust Company, LLC, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than 10 days prior to the record date for distributions to shareholders. The plan administrator will set up an account for shares acquired through the plan for each shareholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a shareholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those shareholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We will use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to direct the plan administrator to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a shareholder is determined by dividing the total dollar amount of the distribution payable to such shareholder by the market price per share of our common stock at the close of regular trading on the NASDAQ Global Select Market on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on the NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our shareholders have been tabulated.

There will be no brokerage charges or other charges to shareholders who participate in the plan. The plan administrator's fees will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commission from the proceeds.

Shareholders who receive distributions in the form of stock are subject to the same U.S. federal tax consequences as are shareholders who elect to receive their distributions in cash; however, since their cash distributions will be reinvested, such shareholders will not receive cash with which to pay any applicable taxes on reinvested distributions. A shareholder's basis for determining gain or loss upon the sale of stock received in a distribution from us will be equal to the total dollar amount of the distribution payable to the shareholder. Any stock received in a distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. shareholder's account.



TABLE OF CONTENTS

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at *www.amstock.com*, by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator. Such termination will be effective immediately if the participant's notice is received by the plan administrator not less than 10 days prior to any distribution record date; otherwise, such termination will be effective only with respect to any subsequent distribution. The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any distribution by us. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, LLC, P.O. Box 922, Wall Street Station, New York, New York 10269, or by the plan administrator's Interactive Voice Response System at (888) 777-0324.

If you withdraw or the plan is terminated, you will receive the number of whole shares in your account under the plan and a cash payment for any fraction of a share in your account.

If you hold your common stock with a brokerage firm that does not participate in the plan, you will not be able to participate in the plan and any distribution reinvestment may be effected on different terms than those described above. Consult your financial advisor for more information.

TABLE OF CONTENTS**DESCRIPTION OF OUR CAPITAL STOCK**

*The following description is based on relevant portions of the DGCL and on our certificate of incorporation and bylaws. This summary is not necessarily complete, and we refer you to the DGCL and our certificate of incorporation and bylaws for a more detailed description of the provisions summarized below.*

**General**

On November 7, 2012, OFS Capital, LLC converted from a limited liability company to a Delaware Corporation. Under the terms of our certificate of incorporation, our authorized stock consists of 100,000,000 shares of common stock, par value \$0.01 per share, and 2,000,000 shares of preferred stock, par value \$0.01 per share. Our common stock is quoted on The NASDAQ Global Select Market under the symbol OFS. The table below sets forth our capital stock as of June 28, 2016:

Title of Class	Amount Authorized	Amount Held by Company for its Account	Amount Outstanding
Common Stock, \$0.01 par value per share	100,000,000		9,692,324
Preferred Stock, \$0.01 par value per share	2,000,000		

**Common Stock**

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except when their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of shareholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will not be able to elect any directors.

**Preferred Stock**

Our certificate of incorporation authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Delaware law and by our certificate of incorporation to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the

1940 Act. The 1940 Act requires that (a) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, our asset coverage ratio, as defined in the 1940 Act, must equal at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities (which include all of our borrowings and any preferred stock), and (b) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more. Some matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a business development company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions, although we have no present intent to issue any shares of preferred stock.

TABLE OF CONTENTS

## **Provisions of the DGCL and Our Certificate of Incorporation and Bylaws**

### **Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses**

The indemnification of our officers and directors is governed by Section 145 of the DGCL, our certificate of incorporation and bylaws. Our certificate of incorporation provides that our directors will not be liable to us or our shareholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the current DGCL or as the DGCL may hereafter be amended. DGCL Section 102(b)(7) provides that the personal liability of a director to a corporation or its shareholders for breach of fiduciary duty as a director may be eliminated except for liability (a) for any breach of the director's duty of loyalty to the registrant or its shareholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL, relating to unlawful payment of distributions or unlawful stock purchases or redemption of stock or (d) for any transaction from which the director derives an improper personal benefit.

Our bylaws provide for the indemnification of any person to the full extent permitted by law as currently in effect or as may hereafter be amended. In addition, we have entered into indemnification agreements with each of our directors and officers in order to effect the foregoing.

### **Delaware Anti-Takeover Law**

The DGCL and our certificate of incorporation and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. These measures may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our shareholders. We believe, however, that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because the negotiation of such proposals may improve their terms.

### **Classified Board of Directors**

Our board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors helps to ensure the continuity and stability of our management and policies.

### **Number of Directors; Removal; Vacancies**

Our certificate of incorporation provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. Under our certificate of incorporation and bylaws, any vacancy on the board of directors, including a vacancy resulting from an enlargement of the board of directors, may be filled only by vote of a majority of the directors then in office. The limitations on the ability of our shareholders to fill vacancies

could make it more difficult for a third party to acquire, or discourage a third-party from seeking to acquire, control of us.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

123

---

TABLE OF CONTENTS

**Advance Notice Provisions for Shareholder Nominations and Shareholder Proposals**

Our bylaws provide that with respect to an annual meeting of shareholders, nominations of persons for election to the board of directors and the proposal of business to be considered by shareholders may be made only (a) by or at the direction of the board of directors, (b) pursuant to our notice of meeting or (c) by a shareholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. Nominations of persons for election to the board of directors at a special meeting may be made only by or at the direction of the board of directors, and provided that the board of directors has determined that directors will be elected at the meeting, by a shareholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring shareholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform shareholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of shareholders. Although our bylaws do not give our board of directors any power to disapprove shareholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of shareholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our shareholders.

**Action by Shareholders**

Under the DGCL, shareholder action can be taken only at an annual or special meeting of shareholders or by unanimous written consent in lieu of a meeting, unless the certificate of incorporation provides for shareholder action by less than unanimous written consent (which our certificate of incorporation does not). These provisions, combined with the requirements of our bylaws regarding the calling of a shareholder-requested special meeting of shareholders discussed below, may have the effect of delaying consideration of a shareholder proposed until the next annual meeting.

**Shareholder Meetings**

Our certificate of incorporation and bylaws provide that, except as otherwise required by law, special meetings of the shareholders can only be called by the chairman of the board, the vice chairman of the board, the president, the board of directors or shareholders who own of record a majority of the outstanding shares of each class of stock entitled to vote at the meeting. In addition, our bylaws establish an advance notice procedure for shareholder proposals to be brought before an annual meeting of shareholders, including proposed nominations of candidates for election to the board of directors. Shareholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors, or by a shareholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to the secretary of the shareholder's intention to bring such business before the meeting. These provisions could have the effect of delaying until the next shareholder meeting shareholder actions that are favored by the holders of a majority of our outstanding voting securities.



## **Conflict with 1940 Act**

Our bylaws provide that, if and to the extent that any provision of the DGCL or any provision of our certificate of incorporation or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

124

---

TABLE OF CONTENTS

## DESCRIPTION OF OUR PREFERRED STOCK

In addition to shares of common stock, our certificate of incorporation authorizes the issuance of preferred stock. We may issue preferred stock from time to time in one or more classes or series, without shareholder approval. Prior to issuance of shares of each class or series, our board of directors is required by Delaware law and by our certificate of incorporation to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any such an issuance must adhere to the requirements of the 1940 Act, Delaware law and any other limitations imposed by law.

The 1940 Act currently requires that (i) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such distribution or purchase price, as the case may be, (ii) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on the preferred stock are in arrears by two years or more. Some matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a business development company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

For any series of preferred stock that we may issue, our board of directors will determine and the articles supplementary and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends or other distributions will be paid on shares of such series, as well as whether such dividends or other distributions are participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series, including adjustments to the conversion price of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other relative powers, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which dividends or other distributions, if any, thereon will be cumulative. To the extent we issue preferred stock, the payment of dividends to holders of our preferred stock will take priority over payment of distributions to our common shareholders.



TABLE OF CONTENTS

## DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

*The following is a general description of the terms of the subscription rights we may issue from time to time. Particular terms of any subscription rights we offer will be described in the prospectus supplement relating to such subscription rights.*

We may issue subscription rights to our shareholders to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to our shareholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our shareholders on the record date that we set for receiving subscription rights in such subscription rights offering.

A prospectus supplement will describe the particular terms of any subscription rights we may issue, including the following:

the period of time the offering would remain open (which shall be open a minimum number of days such that all record holders would be eligible to participate in the offering and shall not be open longer than 120 days);  
the title and aggregate number of such subscription rights;  
the exercise price for such subscription rights (or method of calculation thereof);  
the currency or currencies, including composite currencies, in which the price of such subscription rights may be payable;  
if applicable, the designation and terms of the securities with which the subscription rights are issued and the number of subscription rights issued with each such security or each principal amount of such security;  
the ratio of the offering (which, in the case of transferable rights, will require a minimum of three shares to be held of record before a person is entitled to purchase an additional share);  
the number of such subscription rights issued to each shareholder;  
the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;  
the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);  
if applicable, the minimum or maximum number of subscription rights that may be exercised at one time;  
the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;  
any termination right we may have in connection with such subscription rights offering;  
the terms of any rights to redeem, or call such subscription rights;  
information with respect to book-entry procedures, if any;  
the terms of the securities issuable upon exercise of the subscription rights;  
the material terms of any standby underwriting, backstop or other purchase arrangement that we may enter into in connection with the subscription rights offering;  
if applicable, a discussion of certain U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights; and  
any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

126

TABLE OF CONTENTS

Each subscription right will entitle the holder of the subscription right to purchase for cash or other consideration such amount of shares of common stock at such subscription price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised as set forth in the prospectus supplement beginning on the date specified therein and continuing until the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights will become void.

Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. If less than all of the rights represented by such subscription rights certificate are exercised, a new subscription certificate will be issued for the remaining rights. Prior to exercising their subscription rights, holders of subscription rights will not have any of the rights of holders of the securities purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than shareholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

127

---

TABLE OF CONTENTS

## DESCRIPTION OF OUR WARRANTS

*The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants and will be subject to compliance with the 1940 Act.*

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common stock, preferred stock or debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title and aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire (subject to any extension);
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants that may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- the terms of any rights to redeem, or call such warrants;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and

any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

TABLE OF CONTENTS

Each warrant will entitle the holder to purchase for cash such common stock or preferred stock at the exercise price or such principal amount of debt securities as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the warrants offered thereby. Warrants may be exercised as set forth in the prospectus supplement beginning on the date specified therein and continuing until the close of business on the expiration date set forth in the prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Upon receipt of payment and a warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, forward the securities purchasable upon such exercise. If less than all of the warrants represented by such warrant certificate are exercised, a new warrant certificate will be issued for the remaining warrants. If we so indicate in the applicable prospectus supplement, holders of the warrants may surrender securities as all or part of the exercise price for warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive distributions, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (a) the warrants expire by their terms within ten years, (b) the exercise or conversion price is not less than the current market value at the date of issuance, (c) our shareholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of OFS Capital and its shareholders and (d) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities.

TABLE OF CONTENTS

## DESCRIPTION OF OUR DEBT SECURITIES

*We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.*

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an indenture. An indenture is a contract between us and U.S. Bank National Association, a financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under Events of Default Remedies if an Event of Default Occurs. Second, the trustee performs certain administrative duties for us.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. We have filed the form of the indenture with the SEC. See Available Information for information on how to obtain a copy of the indenture.

A prospectus supplement, which will accompany this prospectus, will describe the particular terms of any series of debt securities being offered, including the following:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to the City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- any Events of Default;
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- if applicable, U.S. federal income tax considerations relating to original issue discount;





## TABLE OF CONTENTS

whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);

any provisions for convertibility or exchangeability of the debt securities into or for any other securities; whether the debt securities are subject to subordination and the terms of such subordination; the listing, if any, on a securities exchange; and any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and other senior securities remain outstanding, we must make provisions to prohibit any distribution to our shareholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Related to Our Business and Structure Regulations governing our operation as a business development company affect our ability to and the way in which we raise additional capital. As a business development company, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage.

## **General**

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement ( offered debt securities ) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities ( underlying debt securities ), may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of or premium or interest, if any, on debt securities will include additional amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the indenture securities. The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See Resignation of Trustee section below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term indenture securities means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

We expect that we will usually issue debt securities in book entry only form represented by global securities.

TABLE OF CONTENTS

## **Conversion and Exchange**

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

## **Issuance of Securities in Registered Form**

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in certificated form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will usually issue debt securities in book-entry only form represented by global securities.

### **Book-Entry Holders**

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depository that will hold them on behalf of financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depository or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depository as the holder of the debt securities and we will make all payments on the debt securities to the depository. The depository will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

### **Street Name Holders**

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in street name. Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make

all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

## **Legal Holders**

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other

## TABLE OF CONTENTS

indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you in this Description of Our Debt Securities, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

### **Special Considerations for Indirect Holders**

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities;
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the debt securities are in book-entry form, how the depository's rules and procedures will affect these matters.

### **Global Securities**

As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under Termination of a Global Security. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that has an account with the depository. Thus, an investor whose security is represented by a global security will not be a holder

of the debt security, but only an indirect holder of a beneficial interest in the global security.

TABLE OF CONTENTS

**Special Considerations for Global Securities**

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below;
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under Issuance of Securities in Registered Form above;
- an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;
- an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;
- the depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;
- if we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series;
- an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee;
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds; your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security; and
- financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities; there may be more than one financial intermediary in the chain of ownership for an investor; we do not monitor and are not responsible for the actions of any of those intermediaries.

**Termination of a Global Security**

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of legal holders and street name investors under Issuance of Securities in Registered Form above.

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated,





## TABLE OF CONTENTS

only the depository, and not we or the applicable trustee, is responsible for deciding the investors in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

### **Payment and Paying Agents**

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, often approximately two weeks in advance of the interest due date, is called the record date. Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called accrued interest.

### **Payments on Global Securities**

We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants.

### **Payments on Certificated Securities**

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

### **Payment when Offices are Closed**

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

## **Events of Default**

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term **Event of Default** in respect of the debt securities of your series means any of the following (unless the prospectus supplement relating to such debt securities states otherwise):

we do not pay the principal of, or any premium on, a debt security of the series on its due date, and do not cure this default within five days;

135

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## TABLE OF CONTENTS

we do not pay interest on a debt security of the series when due, and such default is not cured within 30 days; we do not deposit any sinking fund payment in respect of debt securities of the series on its due date, and do not cure this default within five days; we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series; we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; on the last business day of each of 24 consecutive calendar months, we have an asset coverage of less than 100%; and any other Event of Default in respect of debt securities of the series described in the applicable prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

### **Remedies if an Event of Default Occurs**

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an indemnity). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

the holder must give your trustee written notice that an Event of Default has occurred and remains uncured; the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;

the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60 day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:



## TABLE OF CONTENTS

the payment of principal, any premium or interest; or  
in respect of a covenant that cannot be modified or amended without the consent of each holder.

**Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

## **Merger or Consolidation**

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We may also be permitted to sell all or substantially all of our assets to another entity. However, unless the prospectus supplement relating to certain debt securities states otherwise, we may not take any of these actions unless all the following conditions are met:

where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities;

immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing;

under the indenture, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (a) the mortgage, lien or other encumbrance could be created pursuant to the limitation on liens covenant in the indenture without equally and ratably securing the indenture securities or (b) the indenture securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance;

we must deliver certain certificates and documents to the trustee; and

we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

## **Modification or Waiver**

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

### **Changes Requiring Approval**

First, there are changes that we cannot make to debt securities without specific approval of all of the holders. The following is a list of those types of changes:

change the stated maturity of the principal of or interest on a debt security;

reduce any amounts due on a debt security;

reduce the amount of principal payable upon acceleration of the maturity of a security following a default;

adversely affect any right of repayment at the holder's option;

change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on a debt security;

impair your right to sue for payment;

adversely affect any right to convert or exchange a debt security in accordance with its terms;

modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;



## TABLE OF CONTENTS

reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;  
reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;  
modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and  
change any obligation we have to pay additional amounts.

### **Changes Not Requiring Approval**

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

### **Changes Requiring Majority Approval**

Any other change to the indenture and the debt securities would require the following approval:

if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and

if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture.

However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Changes Requiring Approval.

### **Further Details Concerning Voting**

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;

for debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement; and

for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under Defeasance Full Defeasance.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.



**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.**

138

---

TABLE OF CONTENTS

## **Defeasance**

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

### **Covenant Defeasance**

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called covenant defeasance.

In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions as described under the Indenture Provisions Subordination section below.

In order to achieve covenant defeasance, we must do the following:

if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;

we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity; and

we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

### **Full Defeasance**

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called full defeasance ) if we put in place the following other arrangements for you to be repaid:

if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit; and

we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers certificate stating that all conditions precedent to defeasance have been complied with.

139

---

## TABLE OF CONTENTS

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under Indenture Provisions Subordination.

## **Form, Exchange and Transfer of Certificated Registered Securities**

Holders may exchange their certificated securities, if any, for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities, if any, at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, if any, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

## **Resignation of Trustee**

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

## **Indenture Provisions Subordination**

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all senior indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such

subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on senior indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all senior indebtedness is paid in full, the payment or distribution must be paid over to the holders of the senior indebtedness or on their behalf for application to the payment of all the senior indebtedness remaining unpaid until all the senior indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the senior indebtedness. Subject to the payment in full of all senior indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights

TABLE OF CONTENTS

of the holders of the senior indebtedness to the extent of payments made to the holders of the senior indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities; and

renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our senior indebtedness outstanding as of a recent date.

## **The Trustee under the Indenture**

U.S. Bank National Association will serve as the trustee under the indenture.

## **Certain Considerations Relating to Foreign Currencies**

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

TABLE OF CONTENTS

## **REGULATION**

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than interested persons, as that term is defined in the 1940 Act.

In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities as defined in the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67% or more of such company's voting securities present at a meeting if more than 50% of the outstanding voting securities of such company are present or represented by proxy, or (b) more than 50% of the outstanding voting securities of such company. We do not anticipate any substantial change in the nature of our business.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, issue and sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value of our common stock if (1) our board of directors determines that such sale is in our best interests and the best interests of our shareholders, and (2) our shareholders have approved our policy and practice of making such sales within the preceding 12 months. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities.

As a BDC, we are required to meet a coverage ratio of the value of total assets to senior securities, which include all of our borrowings and any preferred stock we may issue in the future, of at least 200%. We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors who are not interested persons and, in some cases, prior approval by the SEC.

Legislation was introduced in the U.S. House of Representatives intended to revise certain regulations applicable to BDCs. The legislation provides for (i) modifying the asset coverage ratio from 200% to 150%, (ii) permitting BDCs to file registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment adviser subsidiaries. There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an underwriter as that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations. However, we may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except for registered money market funds, we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company, or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should

be noted that such investments might subject our shareholders to additional expenses as they will be indirectly responsible for the costs and expenses of such companies. None of our investment policies are fundamental and may be changed without shareholder approval.



TABLE OF CONTENTS

## Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are the following:

Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has (a) been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer that:

is organized under the laws of, and has its principal place of business in, the United States; is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

satisfies either of the following:

does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a \$250 million market capitalization maximum; or is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result, the BDC has an affiliated person who is a director of the eligible portfolio company.

(b) Securities of any eligible portfolio company which we control.

Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident to such a private transaction, if the issuer is in bankruptcy (c) and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(d) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(e) Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.

(f) Cash, cash equivalents, U.S. government securities or high-quality debt securities that mature in one year or less from the date of investment.

Control, as defined by the 1940 Act, is presumed to exist where a BDC beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

The regulations defining qualifying assets may change over time. We may adjust our investment focus as needed to comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area.

## Managerial Assistance to Portfolio Companies

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (a), (b) or (c) above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance. Where the BDC



## TABLE OF CONTENTS

purchases such securities in conjunction with one or more other persons acting together, the BDC will satisfy this test if one of the other persons in the group makes available such managerial assistance, although this may not be the sole method by which the BDC satisfies the requirement to make available managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

## **Temporary Investments**

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt investments that mature in one year or less from the date of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets or temporary investments. Typically, we invest in highly rated commercial paper, U.S. Government agency notes, U.S. Treasury bills or in repurchase agreements relating to such securities that are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. Consequently, repurchase agreements are functionally similar to loans. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, the 1940 Act and certain diversification tests in order to qualify as a RIC for federal income tax purposes typically require us to limit the amount we invest with any one counterparty. Accordingly, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. OFS Advisor monitors the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

## **Warrants and Options**

Under the 1940 Act, a BDC is subject to restrictions on the amount of warrants, options, restricted stock or rights to purchase shares of capital stock that it may have outstanding at any time. Under the 1940 Act, we may generally only offer warrants provided that (i) the warrants expire by their terms within ten years, (ii) the exercise or conversion price is not less than the current market value at the date of issuance, (iii) our shareholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of OFS Capital and its shareholders and (iv) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or rights to purchase capital stock cannot exceed 25% of the BDC's total outstanding shares of capital stock.

## **Senior Securities**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our shareholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of

our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see [Risk Factors](#) [Risks Related to our Business and Structure](#) [Regulations governing our operation as a BDC](#) affect our ability to and the way in which we raise additional capital. As a BDC, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage.

## **Codes of Ethics**

We and OFS Advisor have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel

## TABLE OF CONTENTS

subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is available, free of charge, on our website at [www.ofscapital.com](http://www.ofscapital.com). You may also read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. In addition, the code of ethics is attached as an exhibit to this registration statement and is available on the EDGAR Database on the SEC's website at <http://www.sec.gov>. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

## **Proxy Voting Policies and Procedures**

We have delegated our proxy voting responsibility to OFS Advisor. The proxy voting policies and procedures of OFS Advisor are set out below. The guidelines are reviewed periodically by OFS Advisor and our directors who are not interested persons, and, accordingly, are subject to change. For purposes of these proxy voting policies and procedures described below, we, our and us refer to OFS Advisor.

### **Introduction**

As an investment adviser registered under the Advisers Act, we have a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

### **Proxy Policies**

We vote proxies relating to our portfolio securities in what we perceive to be the best interest of our clients. We review on a case-by-case basis each proposal submitted to a shareholder vote to determine its effect on the portfolio securities held by our clients. In most cases we will vote in favor of proposals that we believe are likely to increase the economic value of the underlying portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative effect on our clients' portfolio securities, we may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions are made by those senior officers who are responsible for monitoring each of our clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that (1) anyone involved in the decision-making process disclose to our chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision-making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, we will disclose such conflicts to our client, including with respect to OFS Capital, those directors who are not interested persons and we may request guidance from such persons on how to vote such proxies for their account.

## **Proxy Voting Records**

You may obtain information about how we voted proxies for OFS Capital, free of charge, by making a written request for proxy voting information to: OFS Capital Corporation, 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, Attention: Investor Relations, or by calling OFS Capital Corporation at (847) 734-2060. The SEC also maintains a website at <http://www.sec.gov> that contains such information.

## **Privacy Principles**

We are committed to maintaining the privacy of our shareholders and to safeguarding their nonpublic personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

145

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## TABLE OF CONTENTS

Generally, we do not receive any nonpublic personal information relating to our shareholders, although certain nonpublic personal information of our shareholders may become available to us. We do not disclose any nonpublic personal information about our shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third-party administrator).

We restrict access to nonpublic personal information about our shareholders to employees of OFS Advisor and its affiliates with a legitimate business need for the information. We will maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our shareholders.

## **Compliance with the Sarbanes-Oxley Act of 2002 and The NASDAQ Global Select Market Corporate Governance Regulations**

The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ) imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

In addition, the NASDAQ Global Select Market has adopted various corporate governance requirements as part of its listing standards. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

## **Exemptive Relief**

On November 26, 2013, we received an exemptive order which allows us to exclude SBA guaranteed indebtedness from the definition of senior securities in the statutory 200% asset coverage ratio.

On January 15, 2016, we filed an exemptive application with the SEC to permit us to co-invest with funds or entities managed by OFS Advisor in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. Any such order, if granted by the SEC, will be subject to certain terms and conditions. There can be no assurance when or if such exemptive relief will be granted by the SEC. If such relief is granted, then we will be permitted to co-invest with our affiliates if a required majority (as defined in Section 57(o) of the 1940 Act) or our independent directors make 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 shareholders and do not involve overreaching by us or our shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies.

## **Small Business Investment Company Regulations**

As noted above, on December 4, 2013, we acquired the remaining general and limited partnership interests in SBIC I LP, making it a wholly-owned subsidiary. SBIC I LP is an SBIC and must maintain compliance with SBA regulations.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. 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-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid without penalty twice each year on certain dates. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that an SBIC may borrow to up to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a leverage commitment from the



## TABLE OF CONTENTS

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.

The investments of an SBIC are limited to loans to and equity securities of eligible small businesses. Under present SBA regulations, eligible small businesses generally include businesses that (together with their affiliates) have a tangible net worth not exceeding \$19.5 million and have average annual net income after U.S. federal income taxes not exceeding \$6.5 million (average net income to be computed without benefit of any carryover loss) for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to smaller concerns, as defined by the SBA. A smaller concern generally includes businesses that have a tangible net worth not exceeding \$6 million and have average annual net income after U.S. federal income taxes not exceeding \$2 million (average net income to be computed without benefit of any net carryover loss) for the two most recent fiscal years. SBA regulations also provide alternative criteria to determine eligibility, which may include, among other things, the industry in which the business is engaged, the number of employees of the business, its gross sales, and the extent to which the SBIC is proposing to participate in a change of ownership of the business. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

The SBA prohibits an SBIC from providing funds to small businesses for certain purposes, such as relending, real estate or investing in companies outside of the United States, and providing funds to businesses engaged in a few prohibited industries and to certain passive (i.e., non-operating) companies. In addition, without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC's regulatory capital in any one company and its affiliates.

The SBA requires that SBICs invest idle funds in accordance with SBA regulations. SBA regulations also include restrictions on a change of control or other transfers of limited partnership interests in an SBIC. In addition, SBIC I LP may also be limited in its ability to make distributions to us if it does not have sufficient accumulated net profit, in accordance with SBA regulations.

SBIC I LP is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of the SBIC license and an SBA leverage commitment does not assure that SBIC I LP will receive SBA guaranteed debenture funding, and such funding is dependent upon SBIC I LP's continuing to be in compliance with SBA regulations and policies.

The SBA, as a creditor, will have a superior claim to the SBIC I LP's assets over our shareholders in the event that SBIC I LP is liquidated or the SBA exercises its remedies under the SBA debentures issued by SBIC I LP in the event of a default.

## **Other**

We are subject to periodic examination by the SEC for compliance with the Exchange Act and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and OFS Advisors have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws, and will review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We and OFS Advisors have designated a chief compliance officer to be responsible for administering the policies and procedures.

We are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. The SEC has interpreted the BDC prohibition on transactions with affiliates to prohibit all joint transactions between entities that share a common investment adviser. In connection with our election to be regulated as a BDC, we will not be permitted to co-invest with other funds managed

TABLE OF CONTENTS

by OFSAM or one of its affiliates in certain types of negotiated investment transactions unless we receive exemptive relief from the SEC permitting us to do so. Although we have filed an application for such relief, there can be no assurance when or if such exemptive relief will be granted by the SEC. See Regulation Exemptive Relief . Moreover, we may be limited in our ability to make follow-on investments or liquidate our existing equity investments in such companies.

The staff of the SEC has granted no-action relief permitting purchases of a single class of privately placed securities provided that the adviser negotiates no term other than price and certain other conditions are met. As a result, we only expect to co-invest on a concurrent basis with other funds advised by OFS Advisor when each of us will own the same securities of the issuer and when no term is negotiated other than price. Any such investment would be made, subject to compliance with existing regulatory guidance, applicable regulations and OFS Advisor's allocation policy. If opportunities arise that would otherwise be appropriate for us and for another fund advised by OFS Advisor to invest in different securities of the same issuer, OFS Advisor will need to decide which fund will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which another fund advised by OFS Advisor has previously invested.

Our internet address is *www.ofscapital.com*. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statement and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

TABLE OF CONTENTS

## **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of certain material United States federal income tax considerations relating to our qualification and taxation as a RIC and the acquisition, ownership and disposition of our preferred stock or common stock, but does not purport to be a complete description of the income tax considerations relating thereto. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, including investors subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for securities holdings, persons subject to the alternative minimum tax, United States expatriates, United States persons with a functional currency other than the U.S. dollar, persons that hold notes as part of an integrated investment (including a straddle), controlled foreign corporations, passive foreign investment companies, or corporations that accumulate earnings to avoid United States federal income tax. This summary is limited to beneficial owners of our preferred stock or our common stock that will hold our preferred stock or common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, temporary and final U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date hereof and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the IRS) regarding our preferred stock or our common stock. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

This summary does not discuss the consequences of an investment in our subscription rights, debt securities or warrants representing rights to purchase shares of our preferred stock, common stock or debt securities or as units in combination with such securities. The U.S. federal income tax consequences of such an investment will be discussed in the relevant prospectus supplement. In addition, we may issue preferred stock with terms resulting in U.S. federal income taxation of holders with respect to such preferred stock in a manner different from as set forth in this summary. In such instances, such differences will be discussed in a relevant prospectus supplement.

A U.S. shareholder generally is a beneficial owner of shares of our preferred stock or common stock who is for United States federal income tax purposes:

A citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence test under Section 7701(b) of the Code;

A corporation or other entity taxable as a corporation, for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;

A trust if: (i) a court in the United States has primary supervision over its administration and one or more U.S. persons have authority to control all substantial decisions of such trust, or (ii) such trust validly elects to be treated as a U.S. person for federal income tax purposes; or

An estate, the income of which is subject to United States federal income taxation regardless of its source.

A Non-U.S. shareholder is a beneficial owner of shares of our preferred stock or common stock that is not a partnership for United States federal income tax purposes or a U.S. shareholder.

If a partnership (including an entity treated as a partnership for United States federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend

upon the status of the partner and the activities of the partnership. A prospective shareholder who is a partner of a partnership holding shares of our preferred stock or common stock should consult his, her or its tax advisors with respect to the purchase, ownership and disposition of shares of our preferred stock or common stock.

TABLE OF CONTENTS

*Tax matters are very complicated and the tax consequences to an investor of an investment our shares will depend on the facts of their particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.*

## Taxation as a Regulated Investment Company

We have elected to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level federal income taxes on any income that we distribute to our shareholders from our tax earnings and profits. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order maintain RIC tax treatment, we must distribute to our shareholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses (the Annual Distribution Requirement ).

If we:

maintain our qualification as a RIC; and  
satisfy the Annual Distribution Requirement,

then we will not be subject to U.S. federal income tax on the portion of our income we distribute (or are deemed to distribute) to shareholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our shareholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for each calendar year and (3) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax (the Excise Tax Avoidance Requirement ). We may choose to retain a portion of our ordinary income and/or capital gain net income in any year and pay the 4% U.S. federal excise tax on the retained amounts.

In order to maintain our qualification as a RIC for U.S. federal income tax purposes, we must, among other things:

continue to qualify as a BDC under the 1940 Act at all times during each taxable year;  
derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other dispositions of stock or securities or foreign currencies, net income from certain qualified publicly traded partnerships, or other income derived with respect to our business of investing in such stock or securities (the 90% Income Test ); and

diversify our holdings so that at the end of each quarter of the taxable year:  
at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and  
no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain qualified publicly traded partnerships (the Diversification Tests ).

Some of the income and fees that we may recognize will not satisfy the 90% Income Test. In order to ensure that such income and fees do not disqualify us as a RIC for a failure to satisfy the 90% Income Test, we may be required to recognize such income and fees directly or indirectly through one or more entities

150

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TABLE OF CONTENTS

treated as corporations for U.S. federal income tax purposes. Such corporations will be required to pay U.S. corporate income tax on their earnings, which ultimately will reduce our return on such income and fees.

For federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (OID) or debt instruments with PIK interest, we must include in income each year a portion of the OID and PIK interest that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. The Company may utilize wholly-owned holding companies, which are subject to U.S. federal and state income taxes. These taxable entities are not consolidated with the Company for income tax purposes and may generate income tax liabilities or assets from temporary differences in the recognition of items for financial reporting and income tax purposes at the subsidiaries.

We anticipate that a portion of our income may constitute OID or other income required to be included in taxable income prior to receipt of cash. Because any OID or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our shareholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. 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.

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our shareholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Certain of our investment practices may be subject to special and complex federal income tax provisions that may, among other things, (1) treat dividends that would otherwise qualify for the dividends received deduction or constitute qualified dividend income as ineligible for such treatment, (2) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (3) convert lower-taxed long-term capital gain into higher-taxed short-term capital gain or ordinary income, (4) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (5) cause us to recognize income or gain without receipt of a corresponding distribution of cash, (6) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (7) adversely alter the characterization of certain complex financial transactions and (8) produce income that will not be qualifying income for purposes of the 90% Income Test. We will monitor our transactions and may make certain tax elections to mitigate the potential adverse effect of these provisions, but there can be no assurance that any adverse effects of these provisions will be mitigated.

If we purchase shares in a passive foreign investment company (a PFIC), we may be subject to federal income tax on its allocable share of a portion of any excess distribution received on, or any gain from the disposition of, such shares even if our allocable share of such income is distributed as a taxable dividend to its shareholders. Additional charges in the nature of interest generally will be imposed on us in respect of deferred taxes arising from any such excess



distribution or gain. If we invest in a PFIC and elect to treat the PFIC as a qualified electing fund under the Code (a QEF), in lieu of the foregoing requirements, we will be required to include in income each year our proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed by the QEF. Alternatively, we may be able to elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income our allocable share of any increase in the value of such shares, and as

TABLE OF CONTENTS

ordinary loss our allocable share of any decrease in such value to the extent that any such decrease does not exceed prior increases included in its income. Under either election, we may be required to recognize in a year income in excess of distributions from PFICs and proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4% excise tax.

The remainder of this discussion assumes that we obtain and maintain our qualification as a RIC and have satisfied the Annual Distribution Requirement.

## **Taxation of U.S. Shareholders**

Distributions by us generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of our investment company taxable income (which is, generally, our net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. shareholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional preferred stock or common stock. To the extent such distributions paid by us to non-corporate U.S. shareholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be reported by us as qualified dividend income, or Qualifying Dividends, eligible to be taxed in the hands of non-corporate shareholders at the rates applicable to long-term gains, provided certain holding period and other requirements are met at both the shareholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be Qualifying Dividends. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as capital gain distributions will be taxable to a U.S. shareholder as long-term capital gains which are currently taxable at a maximum rate of 20% in the case of individuals, trusts or estates, regardless of the U.S. shareholder's holding period for his, her or its preferred stock or common stock and regardless of whether paid in cash or reinvested in additional preferred stock or common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. shareholder's adjusted tax basis in such shareholder's preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. shareholder.

We may decide to retain some or all of our net capital gain but designate the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. shareholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. shareholder's tax basis for his, her or its preferred stock or common stock. In order to utilize the deemed distribution approach, we must provide written notice to our shareholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of distributions paid for that year, we may, under certain circumstances, elect to treat a distribution that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. shareholder will still be treated as receiving the distribution in the taxable year in which the distribution is made. However, any distribution declared by us in October, November or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following year, may be treated as if it had been received by our U.S. shareholders on December 31 of the year in which the distribution was declared.

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A shareholder generally will recognize taxable gain or loss if the shareholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. The amount of gain or loss will be measured by the difference between such shareholder's adjusted tax basis in the preferred stock or common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally

TABLE OF CONTENTS

will be treated as long-term capital gain or loss if the shareholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain distributions received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if other shares of our preferred stock or common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition, in which case the basis of the shares acquired will be adjusted to reflect the disallowed loss.

In general, individual U.S. shareholders currently are subject to a reduced maximum federal income tax rate of 20% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses), including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. In addition, individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. shareholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate U.S. shareholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. shareholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. shareholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will report to each of our U.S. shareholders, as promptly as possible after the end of each calendar year, the amounts includible in such U.S. shareholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 20% maximum rate). Distributions paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. shareholder's particular situation.

In some taxable years, we may be subject to the alternative minimum tax (AMT). If we have tax items that are treated differently for AMT purposes than for regular tax purposes, we may apportion those items between us and our shareholders, and this may affect our shareholder's AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the IRS, we may apportion these items in the same proportion that dividends paid to each shareholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances.

You should consult your own tax advisor to determine how an investment in our stock could affect your AMT liability.

We may be required to withhold federal income tax, or backup withholding, from all distributions to any non-corporate U.S. shareholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such shareholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. shareholder's federal income tax liability, provided that proper information is provided to the IRS.



TABLE OF CONTENTS

## **Taxation of Non-U.S. Shareholders**

Whether an investment in our shares is appropriate for a Non-U.S. shareholder will depend upon that person's particular circumstances. An investment in our shares by a Non-U.S. shareholder may have adverse tax consequences. Non-U.S. shareholders should consult their tax advisors before investing in our preferred stock or common stock.

Distributions of our investment company taxable income to Non-U.S. shareholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. shareholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. shareholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States, we will not be required to withhold federal tax if the Non-U.S. shareholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

In addition, for taxable years beginning after December 31, 2014, U.S. source withholding taxes were not imposed on dividends paid by us to the extent the dividends were reported as interest-related dividends or short-term capital gain dividends. Under this exemption, interest-related dividends and short-term capital gain dividends generally represented distributions of interest or short-term capital gains that would not have been subject to U.S. withholding tax at the source if they had been received directly by a foreign person, and that satisfied certain other requirements.

Actual or deemed distributions of our net capital gains to a Non-U.S. shareholder, and gains realized by a Non-U.S. shareholder upon the sale of our preferred stock or common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless (i) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. shareholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. shareholder in the United States, or (ii) the Non-U.S. shareholder is an individual that is present in the United States for 183 days or more during the taxable year.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. shareholder will be entitled to a federal income tax credit or tax refund equal to the shareholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of our preferred stock or common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. shareholder.

Legislation enacted in 2009 generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by United States persons (or held by foreign entities that have U.S. persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends paid after June 30, 2014, and the gross proceeds from the sale of any property that could produce U.S. source interest or dividends received after December 31, 2016. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's

account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner.

When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the

TABLE OF CONTENTS

intermediaries through which they hold their units, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their units and proceeds from the sale of their units. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

A Non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on distributions unless the Non-U.S. shareholder provides us or the distributions paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. shareholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

## **Failure to Maintain Our Qualification as a RIC**

If we were unable to maintain our qualification for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our shareholders. Distributions would not be required, and any distributions would be taxable to our shareholders as ordinary dividend income that would be eligible for the current 20% maximum rate to the extent of our current and accumulated earnings and profits (subject to limitations under the Code). Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the shareholder's tax basis (reducing that basis accordingly), and any remaining distributions would be treated as a capital gain. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years, in order to qualify as a RIC in a subsequent year.



TABLE OF CONTENTS

## **PLAN OF DISTRIBUTION**

We may offer, from time to time, in one or more offerings or series, up to \$200.0 million of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, in one or more underwritten public offerings, at-the-market offerings, negotiated transactions, block trades, best efforts or a combination of these methods. We may sell the securities through underwriters or dealers, directly to one or more purchasers, including existing shareholders in a rights offering, through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement. A prospectus supplement or supplements will also describe the terms of the offering of the securities, including: the purchase price of the securities and the proceeds we will receive from the sale; any over-allotment options under which underwriters may purchase additional securities from us; any agency fees or underwriting discounts and other items constituting agents or underwriters compensation; any expenses we incur in connection with the sale of such securities; the public offering price; any discounts or concessions allowed or re-allowed or paid to dealers; and any securities exchange or market on which the securities may be listed. Only underwriters named in the prospectus supplement will be underwriters of the securities offered by the prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering except (1) in connection with a rights offering to our existing shareholders, (2) with the consent of the majority of our voting securities or (3) under such circumstances as the SEC may permit. The price at which securities may be distributed may represent a discount from prevailing market prices.

In connection with the sale of the securities, underwriters or agents may receive compensation from us or from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions.

Our common shareholders will bear, directly or indirectly, the expenses of any offering of our securities, including debt securities. Underwriters may sell the securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of the securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement. The maximum amount of any compensation to be received by any member of the Financial Industry Regulatory Authority or independent broker-dealer will not be greater than 10% of the gross proceeds of the sale of securities offered pursuant to this prospectus and any applicable prospectus supplement. We may also reimburse the underwriter or agent for certain fees and legal expenses incurred by it.

Any underwriter may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum price. Syndicate-covering or other short-covering transactions involve purchases of the securities, either through exercise of the over-allotment option or in the open market after the distribution is completed, to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a stabilizing or covering transaction to

cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

Any underwriters that are qualified market makers on the NASDAQ Global Select Market may engage in passive market making transactions in our common stock on the NASDAQ Global Select Market in accordance with Regulation M under the Exchange Act, during the business day prior to the pricing of the

TABLE OF CONTENTS

offering, before the commencement of offers or sales of our common stock. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, the passive market maker's bid must then be lowered when certain purchase limits are exceeded. Passive market making may stabilize the market price of the securities at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

We may sell securities directly or through agents we designate from time to time. We will name any agent involved in the offering and sale of securities and we will describe any commissions we will pay the agent in the prospectus supplement. Unless the prospectus supplement states otherwise, our agent will act on a best-efforts basis for the period of its appointment.

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no trading market, other than our common stock, which is traded on the NASDAQ Global Select Market. We may elect to list any other class or series of securities on any exchanges, but we are not obligated to do so. We cannot guarantee the liquidity of the trading markets for any securities.

Under agreements that we may enter, underwriters, dealers and agents who participate in the distribution of shares of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act, or contribution with respect to payments that the agents or underwriters may make with respect to these liabilities. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

In order to comply with the securities laws of certain states, if applicable, securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

# **CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR**

Our securities are held by U.S. Bank National Association pursuant to a custody agreement. The principal business address of U.S. Bank National Association is One Federal Street, 3<sup>rd</sup> Floor, Boston, MA 02110, telephone: (617) 603-6538. American Stock Transfer & Trust Company, LLC serves as our transfer agent, distribution paying agent and registrar. The principal business address of American Stock Transfer & Trust Company, LLC is 59 Maiden Lane, New York, NY 10038, telephone: (800) 937-5449.

157

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TABLE OF CONTENTS

## **BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, OFS Advisor is primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. OFS Advisor does not expect to execute transactions through any particular broker or dealer but will seek to obtain the best net results for us under the circumstances, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While OFS Advisor generally seeks reasonably competitive trade execution costs, we may not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements and consistent with Section 28(e) of the Exchange Act, OFS Advisor may select a broker based upon brokerage or research services provided to OFS Advisor and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if OFS Advisor determines in good faith that such commission is reasonable in relation to the services provided. For the years ended December 31, 2015, 2014, and 2013, we did not pay any brokerage commissions.

## **LEGAL MATTERS**

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters, if any, by the counsel named in the prospectus supplement.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

BDO USA, LLP is the independent registered public accounting firm of the Company.

The consolidated statements of operations, changes in net assets and cash flows for the year ended December 31, 2013 appearing in the Prospectus and Registration Statement have been audited by RSM US LLP, our previous independent registered public accounting firm, as stated in their report appearing elsewhere herein, and are included in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing.

## **CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

On April 8, 2014, we dismissed RSM US LLP as our independent registered public accounting firm. During the fiscal year ended December 31, 2013 and through April 8, 2014, there were no disagreements between us and RSM US LLP with respect to any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of RSM US LLP, would have caused it to make reference to the subject matter of such disagreements in its reports on the financial statements for such years. Nor were there any reportable events as such term is described in Item 304(a)(1)(v) of Regulation S-K, promulgated under the Securities Exchange Act of 1934, as amended.



TABLE OF CONTENTS

## **AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our securities offered by this prospectus. The registration statement contains additional information about us and our securities being offered by this prospectus.

We will file with or submit to the SEC periodic and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. We maintain a website at <http://www.ofscapitalcorp.com> and make all of our periodic and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. Information contained on our website is not incorporated into this prospectus, and you should not consider information on our website to be part of this prospectus. You may also obtain such information by contacting us in writing at 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, Attention: Investor Relations. The SEC maintains a website that contains reports, proxy and information statements and other information we file with the SEC at [www.sec.gov](http://www.sec.gov). Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102.

TABLE OF CONTENTS

## Index to Financial Statements

### OFS Capital Corporation and Subsidiaries

Unaudited Financial Statements

<u>Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets for the Three Months Ended March 31, 2016 and 2015</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015</u>	<u>F-5</u>
<u>Consolidated Schedules of Investments as of March 31, 2016 and December 31, 2015</u>	<u>F-6</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>F-16</u>

Audited Financial Statements

<u>Reports of Independent Registered Public Accounting Firms</u>	<u>F-2</u>
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	<u>F-5</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014 and 2013</u>	<u>F-6</u>
<u>Consolidated Statements of Changes in Net Assets for the Years Ended December 31, 2015, 2014 and 2013</u>	<u>F-7</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013</u>	<u>F-48</u>
<u>Consolidated Schedules of Investments as of December 31, 2015 and 2014</u>	<u>F-9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-19</u>

F-1

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Consolidated Balance Sheets (unaudited)  
(Dollar amounts in thousands, except per share data)**

	March 31, 2016	December 31, 2015
Assets		
Investments, at fair value		
Non-control/non-affiliate investments (amortized cost of \$154,429 and \$175,529, respectively)	\$151,976	\$177,290
Affiliate investments (amortized cost of \$76,632 and \$63,113, respectively)	80,180	66,393
Control investment (amortized cost of \$13,247 and \$13,613, respectively)	13,251	13,613
Total investments at fair value (amortized cost of \$244,308 and \$252,255 respectively)	245,407	257,296
Cash and cash equivalents	42,230	32,714
Interest receivable	839	789
Prepaid expenses and other assets	4,209	3,877
Total assets	\$292,685	\$294,676
Liabilities		
SBA debentures (net of deferred debt issuance costs of \$3,324 and \$3,420, respectively)	\$146,556	\$146,460
Interest payable	404	1,548
Management and incentive fees payable	1,987	2,238
Administration fee payable	428	488
Accrued professional fees	464	433
Other liabilities	835	497
Total liabilities	150,674	151,664
Commitments and Contingencies (Note 8)		
Net Assets		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	\$	\$
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 9,692,324 and 9,691,170 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	97	97
Paid-in capital in excess of par	134,478	134,446
Accumulated undistributed net investment income	4,985	4,612
Accumulated undistributed net realized gain (loss)	1,352	(1,184)
Net unrealized appreciation on investments	1,099	5,041
Total net assets	142,011	143,012
Total liabilities and net assets	\$292,685	\$294,676

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Number of shares outstanding	9,692,324	9,691,170
Net asset value per share	\$14.65	\$14.76

See Notes to Unaudited Consolidated Financial Statements.

F-2

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

	Three Months Ended March 31,	
	2016	2015
Investment income		
Interest income		
Non-control/non-affiliate investments	\$4,736	\$5,815
Affiliate investments	1,686	1,343
Control investment	341	
Total interest income	6,763	7,158
Dividend income		
Non-control/non-affiliate investments	28	80
Affiliate investments	529	249
Total dividend income	557	329
Fee income		
Non-control/non-affiliate investments	478	105
Affiliate investments	32	29
Control investment	13	
Total fee income	523	134
Total investment income	7,843	7,621
Expenses		
Interest expense	1,308	1,777
Management fees	1,115	1,555
Incentive fee	733	375
Professional fees	314	315
Administration fee	428	541
General and administrative expenses	290	309
Total expenses	4,188	4,872
Net investment income	3,655	2,749
Net realized and unrealized gain (loss) on investments		
Net realized gain on non-control/non-affiliate investments	2,566	90
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(4,092)	(353)
Net change in unrealized appreciation/depreciation on affiliate investments	146	746
Net change in unrealized appreciation/depreciation on control investment	4	
Net gain (loss) on investments	(1,376)	483
Net increase in net assets resulting from operations	\$2,279	\$3,232
Net investment income per common share basic and diluted	\$0.38	\$0.28
Net increase in net assets resulting from operations per common share basic	\$0.24	\$0.33

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and diluted

Dividends and distributions declared per common share	\$0.34	\$0.34
Basic and diluted weighted average shares outstanding	9,691,183	9,650,969

See Notes to Unaudited Consolidated Financial Statements.

F-3

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Statements of Changes in Net Assets  
(unaudited)  
(Dollar amounts in thousands)**

	Three Months Ended March	
	31,	
	2016	2015
Increase in net assets resulting from operations:		
Net investment income	\$ 3,655	\$ 2,749
Net realized gain on investments	2,566	90
Net change in unrealized appreciation/depreciation on investments	(3,942 )	393
Net increase in net assets resulting from operations	2,279	3,232
Distributions to shareholders from:		
Net investment income (2015 revised Note 2)	(3,295 )	(3,281 )
Net realized gain (2015 revised Note 2)	(3,295 )	(3,281 )
Total distributions to shareholders	(3,295 )	(3,281 )
Common stock transactions:		
Reinvestment of shareholder distributions	15	148
Net increase in net assets resulting from capital transactions	15	148
Net increase (decrease) in net assets	(1,001 )	99
Net assets:		
Beginning of period	\$ 143,012	\$ 137,471
End of period	\$ 142,011	\$ 137,570
Accumulated undistributed net investment income (2015 revised Note 2)	\$ 4,985	\$ 1,941
Common stock activity:		
Shares issued from reinvestment of shareholder distributions	1,154	12,106
Shares issued and outstanding at beginning of period	9,691,170	9,650,834
Shares issued and outstanding at end of period	9,692,324	9,662,940

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows From Operating Activities		
Net increase in net assets resulting from operations	\$2,279	\$3,232
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized gain on investments	(2,566 )	(90 )
Net change in unrealized appreciation/depreciation on investments	3,942	(393 )
Amortization and write-off of deferred debt issuance costs	121	547
Amortization of discounts and premiums, net	(257 )	(306 )
Amortization of deferred loan fee revenue	(119 )	(79 )
Amortization of intangible assets	49	49
Cash collection of deferred loan fee revenue	23	12
Payment-in-kind interest and dividends	(593 )	(593 )
Purchase and origination of portfolio investments	(6,502 )	(24,588 )
Proceeds from principal payments on portfolio investments	15,868	10,986
Proceeds from sale or redemption of portfolio investments	2,115	18,257
Changes in operating assets and liabilities:		
Interest payable	(1,144 )	(573 )
Management and incentive fees payable	(251 )	820
Administration fee payable	(60 )	268
Other assets and liabilities	(109 )	(540 )
Net cash provided by operating activities	12,796	7,009
Cash Flows From Financing Activities		
Distributions paid	(3,280 )	(3,133 )
Borrowings under revolving line of credit		1,200
Repayments under revolving line of credit		(9,464 )
Draw down on SBA debentures		13,585
Change in other liabilities		(14 )
Deferred financing closing costs paid		(329 )
Deferred common stock offering costs paid		(4 )
Net cash (used in) provided by financing activities	(3,280 )	1,841
Net increase in cash and cash equivalents	9,516	8,850
Cash and cash equivalents beginning of period	32,714	12,447
Cash and cash equivalents end of period	\$42,230	\$21,297
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$2,331	\$1,803

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Reinvestment of shareholder distributions	\$15	\$148
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See Notes to Unaudited Consolidated Financial Statements.

F-5

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (unaudited)  
March 31, 2016  
(Dollar amounts in thousands)**

Industry Portfolio Company Investment Type	Industry	Interest Rate <sup>(1)</sup>	Spread Above Index <sup>(1)</sup>	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<u>Non-control/Non-affiliate Investments</u>								
<b>Accurate Group Holdings, Inc.<sup>(3)</sup></b>								
Subordinated Loan	Offices of Real Estate Appraisers	12.50%	N/A	8/23/18	\$10,000	\$10,046	\$9,848	6.9 %
<b>A.C.T. Lighting, Inc.<sup>(3)</sup></b>								
Subordinated Loan	Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	12.0% cash/2.0% PIK	N/A	7/24/19	3,592	3,578	3,754	2.6
<b>AssuredPartners, Inc.<sup>(3)</sup></b>								
Senior Secured Term Loan	Insurance Agencies and Brokerages	10.00%	(L +9.00%)	10/20/23	3,000	2,887	2,664	1.9
<b>BCC Software, LLC<sup>(3)</sup></b>								
Senior Secured Term Loan	Custom Computer Programming Services	9.00%	(L +8.00%)	6/20/19	6,426	6,364	6,250	4.4
Senior Secured Revolver <sup>(12)</sup>		N/A	(L +8.00%)	6/20/19	6,426	(11 ) 6,353	(30 ) 6,220	4.4
<b>Community Intervention Services, Inc.<sup>(3)</sup></b>								
Subordinated Loan <sup>(8)</sup>	Outpatient Mental Health and Substance Abuse Centers	10.0% cash/3.0% PIK	N/A	1/16/21	6,722	6,664	6,376	4.5



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**Confie Seguros Holdings II Co.**

Senior Secured Term Loan	Insurance Agencies and Brokerages	10.25%	(L +9.00%)	5/8/19	4,000	3,968	3,630	2.6
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**C7 Data Centers, Inc.<sup>(3)(7)</sup>**

Senior Secured Term Loan	Other Computer Related Services	13.16%	(L +8.50%)	6/22/20	11,850	11,829	11,624	8.2
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**Elgin Fasteners Group**

Senior Secured Term Loan	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	6.25%	(L +5.00%)	8/27/18	4,495	4,484	4,447	3.1
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**Enhance Technologies Holdings LLC**

Senior Secured Term Loan A	Other Basic Inorganic Chemical Manufacturing	5.50%	(L +4.50%)	2/7/18	2,218	2,213	2,176	1.5
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**Intelli-Mark Technologies, Inc.<sup>(3)</sup>**

Senior Secured Term Loan <sup>(11)</sup>	Other Travel Arrangement and Reservation Services	13.00%	N/A	11/23/20	8,750	8,669	8,679	6.1
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Common Equity (2,553,089 shares)<sup>(12)</sup>

					8,750	1,500	1,612	1.1	
						8,750	10,169	10,291	7.2

**Intrafusion Holding Corp.<sup>(3)(6)</sup>**

Senior Secured Term Loan B	Other Outpatient Care Centers	12.85%	(P +5.75%)	9/25/20	14,250	14,198	13,950	9.8
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**Jobson Healthcare Information, LLC<sup>(3)</sup>**

Senior Secured Term Loan <sup>(8)</sup>	Other Professional, Scientific, and Technical Services	10.13% cash/2.795% PIK	(L +10.925%)	7/21/19	14,597	14,336	14,117	9.9
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Warrants (1,056,428 member units)<sup>(12)</sup>

						454	358	0.3
					14,597	14,790	14,475	10.2

**Maverick Healthcare Equity, LLC<sup>(3)</sup>**

						900	1,405	1.0
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Preferred Equity (1,250,000 units) <sup>(12)</sup>	Home Health Equipment Rental								
Class A Common Equity (1,250,000 units) <sup>(12)</sup>						900	276	1,681	0.2
<b>My Alarm Center, LLC<sup>(3)</sup></b>									
Senior Secured Term Loan	Security Systems Services (except Locksmiths)	12.00%	(L +11.00%)	7/9/19	5,000	5,000	4,860		3.4
Class A Preferred Equity (100 units) <sup>(12)</sup>						203	203	203	0.1
					5,000	5,203	5,063		3.5

See Notes to Unaudited Consolidated Financial Statements.

F-6

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments**

**(unaudited) (Continued)**

**March 31, 2016**

**(Dollar amounts in thousands)**

See Notes to Unaudited Consolidated Financial Statements.

F-7

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments**

**(unaudited) (Continued)**

**March 31, 2016**

**(Dollar amounts in thousands)**

See Notes to Unaudited Consolidated Financial Statements.

F-8

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TABLE OF CONTENTS

# OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments (unaudited) (Continued)

March 31, 2016

(Dollar amounts in thousands)

(1) The majority of investments bear interest at a variable rate that is indexed to the London Interbank Offered Rate ( LIBOR ) (L) or Prime (P), and are reset monthly or quarterly. Substantially all of the Company's LIBOR referenced investments are subject to an interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at March 31, 2016. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.

(2) The negative fair value is the result of the unfunded commitment being valued below par.

(3) Investments held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(4) Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 ( 1940 Act ), as amended. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of March 31, 2016, 98.4% of the Company's assets were qualifying assets.

(5) Non-accrual loan.

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

# OFS Capital Corporation and Subsidiaries

## Consolidated Schedule of Investments

(unaudited) (Continued)

March 31, 2016

(Dollar amounts in thousands)

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain (6) lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the reported interest rate of 12.85% at March 31, 2016 includes interest of 3.60% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan, to receive its payment after the repayment of certain lenders (7) pursuant to a payment waterfall. With respect to C7 Data Centers, Inc., the reported interest rate of 13.16% at March 31, 2016 includes interest of 3.66% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest (8) 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 interest rate includes a 1.5% PIK provision, whereby the issuer has the option to make interest payments in (9) 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.

The interest rate includes a 2.5% PIK provision, whereby the issuer has the option to make interest payments in (10) 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.

The interest rate includes a 2.0% PIK provision, whereby the issuer has the option to make interest payments in (11) 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.

(12)

Non-income producing.

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2015  
(Dollar amounts in thousands)**

Industry Portfolio Company Investment Type	Industry	Interest Rate <sup>(1)</sup>	Spread Above Index <sup>(1)</sup>	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<u>Non-control/Non-affiliate Investments</u>								
<b>Accurate Group Holdings, Inc.<sup>(3)</sup></b>	Offices of Real Estate Appraisers	12.50%	N/A	8/23/18	\$10,000	\$10,050	\$9,940	7.0%
Subordinated Loan								
<b>A.C.T. Lighting, Inc.<sup>(3)</sup></b>	Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	12.00% cash/2.0% PIK	N/A	7/24/19	3,574	3,558	3,559	2.5
Subordinated Loan								
<b>All Metals Holding, LLC<sup>(3)</sup></b>	Metal Service Centers and Other Metal Merchant Wholesalers	10.50%	N/A	12/30/19	9,900	9,765	9,697	6.8
Senior Secured Term Loan								
Common Equity (69,464 member units) <sup>(12)</sup>						69	259	0.2
					9,900	9,834	9,956	7.0
<b>AssuredPartners, Inc.<sup>(3)</sup></b>	Insurance Agencies and Brokerages	10.00%	(L+9.00%)	10/22/23	3,000	2,883	2,894	2.0
Senior Secured Term Loan								
<b>B+B SmartWorx Inc. (f/k/a B&amp;B Electronics Manufacturing Company)</b>	Communications Equipment	6.50%	(L+5.00%)	3/31/16	2,257	2,257	2,257	1.6
Senior Secured Term Loan A								

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<b>BCC Software, LLC</b> <sup>(3)</sup>	Manufacturing							
Senior Secured Term Loan	Custom Computer Programming Services	9.00%	(L+8.00%)	6/20/19	6,573	6,504	6,355	4.4
Senior Secured Revolver <sup>(12)</sup>		N/A	(L+8.00%)	6/20/19	6,573	(11 )	(36 ) <sup>(2)</sup>	4.4
<b>Community Intervention Services, Inc. (f/k/a South Bay Mental Health Center, Inc.)</b> <sup>(3)</sup>								
Subordinated Loan <sup>(9)</sup>	Outpatient Mental Health and Substance Abuse Centers	10.0% cash/3.0% PIK	N/A	1/16/21	6,672	6,610	6,456	4.5
<b>Confie Seguros Holdings II Co.</b>								
Senior Secured Term Loan	Insurance Agencies and Brokerages	10.25%	(L+9.00%)	5/8/19	4,000	3,965	3,893	2.7
<b>C7 Data Centers, Inc.</b> <sup>(3)(7)</sup>								
Senior Secured Term Loan	Other Computer Related Services	13.25%	(L+8.50%)	6/22/20	11,850	11,828	11,508	8.0
<b>Elgin Fasteners Group</b>								
Senior Secured Term Loan	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	6.00%	(L+4.75%)	8/27/16	4,551	4,534	4,506	3.2
<b>HealthFusion, Inc.</b> <sup>(3)(8)</sup>								
Senior Secured Loan	Software Publishers	13.00%	N/A	10/7/18	4,750	4,711	4,893	3.4
Common Stock Warrants (2,007,360 shares) <sup>(12)</sup>							2,560	1.8
					4,750	4,711	7,453	5.2
<b>Inhance Technologies Holdings LLC</b>								
Senior Secured Term Loan A	Other Basic Inorganic Chemical Manufacturing	5.50%	(L+4.50%)	2/7/18	2,248	2,242	2,180	1.5
<b>Intelli-Mark Technologies, Inc.</b> <sup>(3)</sup>								
Senior Secured Term Loan <sup>(11)</sup>	Other Travel Arrangement and Reservation Services	13.00%	N/A	11/23/20	8,750	8,664	8,664	6.1
Common Equity (2,553,089 shares) <sup>(12)</sup>						1,500	1,500	1.0
					8,750	10,164	10,164	7.1



**Intrafusion Holding Corp.**<sup>(3)(6)</sup>

Senior Secured Term Loan B	Other Outpatient Care Centers	12.84%	(P+5.75%)	9/25/20	14,250	14,196	14,059	9.8
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See Notes to Unaudited Consolidated Financial Statements.

F-11

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (Continued)  
December 31, 2015  
(Dollar amounts in thousands)**

See Notes to Unaudited Consolidated Financial Statements.

F-12

---

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (Continued)  
December 31, 2015  
(Dollar amounts in thousands)**

See Notes to Unaudited Consolidated Financial Statements.

F-13

---

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Consolidated Schedule of Investments (Continued) December 31, 2015 (Dollar amounts in thousands)

The majority of investments bear interest at a variable rate that is indexed to the London Interbank Offered Rate (LIBOR) (L) or Prime (P), and are reset monthly or quarterly. All of the Company's LIBOR referenced investments (1) are subject to an interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2015. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.

(2) The negative fair value is the result of the unfunded commitment being valued below par.

(3) Investments held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(4) Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2015, 96.3% of the Company's assets were qualifying assets.

(5) Non-accrual loan.

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Consolidated Schedule of Investments (Continued) December 31, 2015 (Dollar amounts in thousands)

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain (6) lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the reported interest rate of 12.84% at December 31, 2015 includes interest of 3.59% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan, to receive its payment after the repayment of certain lenders (7) pursuant to a payment waterfall. With respect to C7 Data Centers, Inc., the reported interest rate of 13.25% at December 31, 2015 includes interest of 3.75% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

In January 2016, HealthFusion, Inc. was purchased, at which time the Common Stock Warrants were redeemed and the Senior Secured Loan was repaid at par. In connection with the loan repayment, the Company received a (8) prepayment penalty of \$143. The Common Stock Warrants were redeemed for total consideration of \$2,385, which included a cash payment of \$2,115 and an additional amount held in escrow valued at \$270 to be released 50% in one year and the remaining amount in approximately two years. In addition, the Company could receive an earnout payment of up to approximately \$230 to \$460 in 2017.

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest (9) payments in cash 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 interest rate includes a 1.5% PIK provision, whereby the issuer has the option to make interest payments in (10) 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.

The interest rate includes a 2.0% PIK provision, whereby the issuer has the option to make interest payments in (11) 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.

(12)

Non-income producing.

See Notes to Unaudited Consolidated Financial Statements.

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 1. Organization

OFS Capital Corporation (the Company) is a Delaware corporation formed on November 7, 2012, as an externally managed, closed-end, non-diversified management investment company. The Company has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for income tax purposes, the Company has elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

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

The Company may make investments directly or through OFS SBIC I, LP (SBIC I LP), its investment company subsidiary licensed under the Small Business Administration (SBA) Small Business Investment Company program (the SBIC Program). The SBIC Program is designed to stimulate the flow of capital into eligible businesses. SBIC I LP is subject to SBA regulatory requirements, including limitations on the businesses and industries in which it can invest, requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the Small Business Investment Act of 1958 (SBIC Act), limitations on the financing terms of investments, and capitalization thresholds that limit distributions to the Company; and is subject to periodic audits and examinations of its financial statements. As of March 31, 2016, SBIC I LP was in compliance with its SBA regulatory requirements.

#### Note 2. Correction of Error

In the fourth quarter of 2015, the Company discovered and corrected errors impacting the classification of certain components of consolidated net assets as of December 31, 2014 and 2013, and distributions reported on the consolidated statement of changes in net assets for the year ended December 31, 2014. These reclassifications had no effect on total net assets or net asset value per share. The purpose of the reclassifications was to properly report the tax character of, and basis differences between tax and accounting principles generally accepted in the United States of America (GAAP) in (i) accumulated shareholder distributions, (ii) accumulated undistributed net investment income, (iii) accumulated net realized gains/losses, and (iv) net unrealized appreciation (depreciation) on investments. Accordingly, the Company has revised its December 31, 2014 consolidated balance sheet and statement of changes in net assets for the years ended December 31, 2014, 2013, and for each interim period within the year ended December 31, 2015. The effect of the reclassifications to the consolidated statement of net assets as of March 31, 2015 and the consolidated statement of changes in net assets for the three months ended March 31, 2015 were as follows:

## Summary of revisions to the Statement of Net Assets

	As Previously Reported March 31, 2015	Revisions	Revised March 31, 2015
Net Assets			
Preferred stock	\$	\$	\$
Common stock	97		97
Paid-in capital in excess of par	143,529	(6,985 )	136,544
Accumulated undistributed (distributions in excess of) net investment income	(8,286 )	10,227	1,941
Accumulated undistributed net realized gain (loss)	(844 )	778	(66 )
Net unrealized appreciation (depreciation) on investments	3,074	(4,020 )	(946 )
Total net assets	\$ 137,570	\$	\$ 137,570

F-16

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Correction of Error (continued)****Summary of revisions to the Statement of Changes in Net  
Assets (affected components)**

	As Previously Reported Three Months Ended March 31, 2015	Revisions	Revised Three Months Ended March 31, 2015
Distributions to shareholders from:			
Net investment income	\$ (3,191 )	\$ (90 )	\$ (3,281 )
Net realized gains	(90 )	90	
Total distributions to shareholders	\$ (3,281 )	\$	\$ (3,281 )
Net assets:			
Beginning of period	\$ 137,471	\$	\$ 137,471
End of period	\$ 137,570	\$	\$ 137,570
Accumulated undistributed (distributions in excess of) net investment income	\$ (8,286 )	\$ 10,227	\$ 1,941

**Note 3. Summary of Significant Accounting Policies**

**Basis of presentation:** The Company prepares its consolidated financial statements in accordance with GAAP, including Accounting Standards Codification Topic 946, Financial Services Investment Companies, and the requirements for reporting on Form 10-Q, the 1940 Act, and Articles 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments consisting only of normal and recurring accruals and adjustment necessary for the fair presentation in accordance with GAAP. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation.

**Principles of consolidation:** The Company consolidates majority-owned investment company subsidiaries. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation.



**Fair value of financial instruments:** The Company applies fair value to substantially all of its financial instruments. Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820) defines fair value, establishes a framework to measure fair value, and requires disclosures regarding fair value measurements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined through the use of models and other valuation techniques, valuation inputs, and assumptions market participants would use in pricing the investment. Highest priority is given to prices for identical assets quoted in active markets (Level 1) and the lowest priority is given to unobservable valuation inputs (Level 3). The availability of observable inputs can vary significantly and is affected by a variety of factors, including the type of product, whether the product is new to the market, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on less observable or unobservable inputs, the determination of fair value requires more judgment.

Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3 (i.e., those instruments valued using non-observable inputs), which comprise the entirety of the Company's investments.

Changes to the valuation policy are reviewed by management and the Company's board of directors (the Board). As the Company's investments change, markets change, new products develop, and valuation inputs become more or less observable, the Company will continue to refine its valuation methodologies.

F-17

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

See Note 7 for more detailed disclosures of the Company's fair value measurements of its financial instruments.

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

Additionally, the Company adopted the North American Industry Classification System in the first quarter of 2016 for the purpose of industry classification of the Company's investments on the Schedule of Investments. The December 31, 2015 Schedule of Investments has been conformed to the March 31, 2016 presentation.

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

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

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

*Liquidity risk* Liquidity risk represents the possibility that the Company may not maintain sufficient cash balances or access to cash to meet loan and other commitments as they become due.

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

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

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

specific future dates.

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

**Reportable segments:** The Company has a single reportable segment and single operating segment structure.

**Cash and cash equivalents:** Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities at the time of acquisition of three months or less. The Company places its cash in financial institutions and at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. Included in cash and cash equivalents was \$40,441 and \$32,612 held in a US Bank Money Market Deposit Account as of March 31, 2016 and December 31, 2015, respectively.

F-18

---

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

##### Revenue recognition:

*Interest Income:* Interest income is recorded on an accrual basis. Recognized interest income, if payable monthly or quarterly, is reported as interest receivable until collected. Recognized interest income due at maturity or at another stipulated date ( PIK interest ) is recorded as an adjustment to the amortized cost basis of the investment. The Company accrues interest income until events occur that place a loan into a non-accrual status (see below). Loan origination fees, original issue discount ( OID ), market discount or premium, and loan amendment fees (collectively, net loan origination fees ) are capitalized, and the Company accretes or amortizes such amounts as additional interest income over the life of the loan using a method that approximates the effective interest method. Unamortized OID is recorded as an adjustment to the amortized cost basis of the investment and unamortized loan amendment fees are reported as deferred loan fee revenue. When the Company receives a loan principal payment, the unamortized OID related to the paid principal is accelerated and recognized in interest income. All other interest income is recognized as contractually earned. Further, in connection with the Company's debt investments, the Company may receive warrants or similar equity-related securities ( Warrants ). The Company determines the cost basis of Warrants based upon their fair values on the date of receipt relative to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

Unamortized net loan origination fees on debt investments were \$2,390 and \$1,885 as of March 31, 2016 and December 31, 2015, respectively. The Company recognized net loan origination fee income of \$366 and \$379 for the three months ended March 31, 2016 and 2015, respectively. The Company recognized PIK interest income of \$292 and \$297 for the three months ended March 31, 2016 and 2015, respectively. To maintain its status as a RIC, the Company includes non-cash interest income in the amounts that must be distributed to shareholders.

*Dividend Income:* Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity securities is accrued as earned. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared ( PIK dividends ) are recorded as an adjustment to the cost basis of the investment. The Company discontinues accrual of dividends on preferred equity securities when it determines that the dividend may not be collectible. The Company assesses the collectability of the preferred dividends based on factors including the fair value of the preferred equity security, the valuation of the portfolio company's enterprise value, and proceeds expected to be received over the life of the investment. The Company may receive cash distributions from portfolio companies that are taxed as flow-through entities. Each distribution is evaluated to determine whether it should be recorded as income or as a return of capital. Distributions

classified as a returns of capital are recorded as reductions in the adjusted cost basis of the investments. The Company recognized preferred dividend income of \$514 and \$329, of which \$301 and \$296, respectively, was contractually earned but not declared for the three months ended March 31, 2016 and 2015, respectively. The Company recognized common stock dividends of \$43 for the three months ended March 31, 2016. The Company did not recognize common stock dividends during the three months ended March 31, 2015.

*Fee Income:* The Company generates revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services are rendered. Prepayment penalties for debt instruments repaid prior to their stated maturity are recorded as income upon receipt.

F-19

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

*Net Realized and Unrealized Gain or Loss on Investments:* Investment transactions are reported on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the carrying value of the investment. Investments are reported at fair value as determined by the Company's Board. After recording all appropriate interest, dividend, and other income, some of which is recorded as an adjustment to the cost basis of the investment as described above, the Company reports changes in the fair value of investments as a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

*Non-accrual loans:* Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans and accounted for the non-accrual cash method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest according to the contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of management, there is reasonable doubt about its collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has been contractually added to the principal balance prior to the designation date, is reversed against current period interest income. Interest payments subsequently received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. At March 31, 2016 and December 31, 2015, one investment with a cost of \$937 and fair value of \$743 and \$798, respectively, was carried as non-accrual cash method loan.

**Income taxes:** The Company has elected to be treated, and intends to qualify annually, as a RIC under Subchapter M of the Code. To qualify as a RIC, the Company must, among other things, meet certain source of income and asset diversification requirements, and timely distribute at least 90% of its investment company taxable income to its shareholders. The Company has made, and intends to continue to make, the requisite distributions to its shareholders, which generally relieves the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to retain taxable income in an amount less than that which would trigger federal income tax liability under Subchapter M of the Code. However, the Company would be liable for a 4% excise tax on such income. Excise tax liability is recognized when the Company determines its estimated current year annual taxable income exceeds estimated current year dividend distributions.

The Company may utilize wholly-owned holding companies taxed under Subchapter C of the Code when making equity investments in portfolio companies taxed as pass-through entities to meet its source-of-income requirements as

a BDC. These tax blocker entities are consolidated in the Company's GAAP financial statements and may result in the reporting of federal income tax expense with respect to income derived from those investments. Such income, net of applicable federal income tax, is not included in the Company's tax-basis net investment income until distributed, which may result in temporary differences and character differences between the Company's GAAP and tax-basis net investment income and realized gains and losses.

The Company evaluates tax positions taken in the course of preparing its tax returns to determine whether they are more-likely-than-not to be sustained by the applicable tax authority. The effect on taxable income of positions not deemed to meet the more-likely-than-not threshold would be recorded as an adjustment to distributable taxable income in the current year. The Company recognizes accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at March 31, 2016 and December 31, 2015. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

F-20

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

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

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

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

**Deferred debt issuance costs:** Deferred debt issuance costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. Deferred debt issuance costs are presented as a direct reduction of the related debt liability on the consolidated balance sheets except for deferred debt issuance costs associated with the Company's line of credit arrangements, which are included in prepaid expenses and other assets on the consolidated balance sheets. These amounts are amortized to interest expense over the life of the borrowings.

**Goodwill:** On December 4, 2013, in connection with acquisition of the remaining limited partnership interests in SBIC I LP and membership interest in SBIC I GP (the SBIC Acquisitions ), the Company recorded goodwill of \$1,077 (see Note 4) which is included in prepaid expenses and other assets on the consolidated balance sheets. Goodwill is not subject to amortization. Goodwill is evaluated for impairment annually or more frequently if events occur or circumstances change that indicate goodwill may be impaired. There have been no goodwill impairments since the date of the SBIC Acquisitions. Goodwill is included in prepaid expenses and other assets on the Consolidated Balance Sheets.

**Intangible asset:** On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded an intangible asset of \$2,500 attributable to the SBIC license. The Company amortizes this intangible asset on a straight-line basis over its estimated useful life of 13 years. The Company expects to incur annual amortization expense of \$195 in each of the years ending December 31, 2025 and \$145 in 2026.



The Company tests its intangible asset for impairment if events or circumstances suggest that the asset carrying value may not be fully recoverable. The intangible asset, net of accumulated amortization of \$454 and \$405, is included in prepaid expenses and other assets at March 31, 2016 and December 31, 2015, respectively.

**Interest expense:** Interest expense is recognized on an accrual basis.

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

F-21

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 3. Summary of Significant Accounting Policies  
(continued)****New Accounting Standards**

The following table discusses recently issued Accounting Standards Updates ( ASU ) by the Financial Accounting Standards Board ( FASB ) adopted by the Company during 2016:

Standard	Description	Period of Adoption	Effect of Adoption on the financial statements
Standards that were adopted			
ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis	Modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities	First Quarter 2016 retrospectively	No material impact to the Company's consolidated financial statements
ASU 2015-03, Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs	Changes the presentation of debt issuance costs in the financial statements where an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 did not specifically address presentation or subsequent measurement of debt	First Quarter 2016 retrospectively	Resulted in a \$3,420 retrospective reduction of both net deferred financing closing costs and SBA debentures payable in the consolidated balance sheet as of December 31, 2015 and a \$547 reduction of amortization and write-off of deferred financing closing costs and corresponding increase in interest expense associated with the Company's SBA debentures and the OFS Capital WM revolving line of credit in the consolidated statement of operations for the three months ended March 31, 2015. Net deferred debt issuance costs of \$3,324 are presented as a

issuance costs related  
to line of credit  
arrangements

direct deduction from the SBA  
debentures payable in the  
consolidated balance sheet as of  
March 31, 2016. Amortization of  
deferred debt issuance costs  
associated with the Company's  
SBA debentures was \$96 for the  
three months ended March 31,  
2016 and included as interest  
expense in the consolidated  
statement of operations. There was  
no impact to consolidated earnings  
as a result of this adoption.

F-22

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 3. Summary of Significant Accounting Policies  
(continued)**

Standard	Description	Period of Adoption	Effect of Adoption on the financial statements
ASU 2015-15, Interest Imputation of Interest: Presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements amendments to SEC paragraphs	Response to SEC views on ASU 2015-03. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line of credit arrangements, the SEC stated it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement	First Quarter 2016 retrospectively	Net deferred financing closing costs of \$160 and \$185 associated with the Company's PWB Credit Facility are presented as an asset and included in prepaid expenses and other assets in the consolidated balances sheet as of March 31, 2016 and December 31, 2015, respectively. There was no impact to consolidated earnings as a result of this adoption.

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

Standard	Description	Effect of Adoption on the the financial statements
Standards that are not yet adopted		
ASU 2014-09, Revenue from Contracts with Customers	Supersedes nearly all existing revenue recognition guidance under	Annual reporting periods beginning after December 15,

GAAP. The core principle of the standard is to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard defines a five step process to achieve this core principle. The standard must be adopting using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures)

2017. Early adoption is not permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2018

F-23

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)**

**Note 3. Summary of Significant Accounting Policies  
(continued)**

Standard	Description	Effect of Adoption on the the financial statements
ASU 2016-01, Financial Instruments Overall	Modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value, and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820 Fair Value Measurement, and as such these investments may be measured at cost	Annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is required to record its investments at fair value with changes in fair value recognized in net income in accordance with ASC Topic 946, Financial Services Investment Companies. Therefore, the adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements.

**Note 4. OFS Capital WM**

OFS Capital WM, LLC ( OFS Capital WM ), a wholly-owned investment company subsidiary, was formed in August 2010 with the limited purpose of holding, acquiring, managing and financing senior secured loan investments to middle-market companies in the United States. On September 28, 2010, the Company became the owner of OFS Capital WM through a transaction in which it transferred eligible loans or 100% of its participating interest in certain other loans to OFS Capital WM in exchange for cash and a 100% equity ownership interest in OFS Capital WM.

These loans were managed and serviced by MCF Capital Management, LLC ( MCF ) under a loan and security agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, and Well Fargo Delaware Trust Company, N.A. (the Loan and Security Agreement ). MCF charged a management fee of 0.25% per annum of the assigned value of the underlying portfolio investments plus an accrued fee that was deferred until termination of the Loan and

Security Agreement on May 28, 2015. The Company incurred management fee expense related to this agreement of \$-0-, and \$138, for the three months ended March 31, 2016 and 2015, respectively.

**OFS Capital WM Asset Sale and Related Transactions**

On May 28, 2015, the Company and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison Capital Funding LLC ( Madison ), an affiliate of MCF, pursuant to which OFS Capital WM sold a portfolio of 20 senior secured debt investments with an aggregate outstanding principal balance of \$67,807 to Madison for cash proceeds of \$67,309 (the WM Asset Sale ). On May 28, 2015, the total fair value of the debt investments sold, applying the Company s March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was approximately \$66,703. The determination of the fair value of the Company s investments is subject to the good faith determination by the Company s board of directors, which is conducted no less frequently than quarterly, pursuant to the Company s valuation policies and accounting principles generally accepted in the United States.

On May 28, 2015, pursuant to the Loan and Security Agreement, the Company applied \$52,414 from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM s secured revolving line of credit with Wells Fargo Bank, N.A. ( WM Credit Facility ). As a result of the termination of the WM Credit Facility, the Company wrote-off related unamortized deferred debt issuance costs of \$1,216.

F-24

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 4. OFS Capital WM (continued)

On May 28, 2015, in connection with the WM Asset Sale, the Company entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to certain of its remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter. The Company incurred loan administration fee expense of \$13 for the three months ended March 31, 2016.

#### Note 5. Related Party Transactions

**Investment Advisory and Management Agreement:** On November 7, 2012, the Company entered into an Investment Advisory and Management Agreement ( Advisory Agreement ) with OFS Advisor, under which OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. Under the terms of the Advisory Agreement and subject to the overall supervision of the Company's Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of Orchard First Source Asset Management, LLC ( OFSAM ) and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor's services under the Advisory Agreement are not exclusive to the Company and OFS Advisor is free to furnish similar services to other entities so long as its services to the Company are not impaired. OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% and based on the average value of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. OFS Advisor has elected to exclude the value of the intangible asset and goodwill resulting from the SBIC Acquisitions from the base management fee calculation.

The base management fee is payable quarterly in arrears and was \$1,115 and \$1,417, for the three months ended March 31, 2016 and 2015, respectively.

The incentive fee has two parts. The first part (part one) is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any



expenses payable under the Administration Agreement (as 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. The incentive fee with respect to pre-incentive fee net income is 20.0% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any

F-25

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 5. Related Party Transactions (continued)

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 and adjusted for any share issuances or repurchases during such quarter.

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

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

The Company incurred incentive fee expense of \$733 for the three months ended March 31, 2016. Incentive fees for the three months ended March 31, 2016, consisted of part one incentive fees (based on net investment income) of \$872 and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$(139),

which represents the reversal of the part two incentive fee accrued at December 31, 2015. Incentive fees were \$375 for the three months ended March 31, 2015, which consisted entirely of part one incentive fees.

**Administration Agreement:** On November 7, 2012, the Company entered into an administration agreement ( Administration Agreement ) with OFS Capital Services, LLC (the OFS Services ), a wholly-owned subsidiary of OFSAM. Pursuant to the 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. 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 shareholders and all other reports and materials required to be filed with the SEC or any other

F-26

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. Related Party Transactions (continued)**

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 shareholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, 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.

Administration expense was \$428 and \$541 for the three months ended March 31, 2016 and 2015, respectively.

**Note 6. Investments**

As of March 31, 2016, the Company had loans to 35 portfolio companies, of which 70% were senior secured loans and 30% were subordinated loans, at fair value, as well as equity investments in 16 of these portfolio companies. The Company also held an equity investment in one portfolio company in which it did not hold a debt interest. At March 31, 2016, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	\$ 153,688	\$ 152,060	\$ 149,172
Subordinated debt investments	64,605	64,463	63,779
Equity investments	N/A	27,785	32,456
Total	\$ 218,293	\$ 244,308	\$ 245,407

At March 31, 2016, the Company's investments were all domiciled in the United States and the industry compositions of the Company's portfolio were as follows:

	Cost		Fair Value	
Administrative and Support and Waste Management and Remediation Services				
Other Travel Arrangement and Reservation Services	\$10,169	4.2 %	\$10,291	4.2 %
Security Systems Services (except Locksmiths)	5,203	2.1	5,063	2.1
Tour Operators	2,852	1.2	3,235	1.3

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Education Services				
Colleges, Universities, and Professional Schools	5,083	2.1	4,949	2.0
Finance and Insurance				
Insurance Agencies and Brokerages	11,662	4.8	10,998	4.5
Health Care and Social Assistance				
Medical Laboratories	4,192	1.7	3,860	1.6
Other Outpatient Care Centers	14,198	5.9	13,950	5.7
Outpatient Mental Health and Substance Abuse Centers	6,664	2.7	6,376	2.6
Information				
Other Information Services	2,544	1.0	2,416	1.0
Other Telecommunications	3,538	1.4	3,469	1.4

F-27

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Investments (continued)**

	Cost		Fair Value	
Manufacturing				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,484	1.8	4,447	1.8
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,810	4.8	13,151	5.4
Other Basic Inorganic Chemical Manufacturing	4,705	1.9	4,668	1.9
Packaging Machinery Manufacturing	1,995	0.8	1,815	0.7
Pharmaceutical Preparation Manufacturing	4,062	1.7	6,398	2.6
Pump and Pumping Equipment Manufacturing	12,885	5.3	12,578	5.1
Soap and Other Detergent Manufacturing	937	0.4	743	0.3
Travel Trailer and Camper Manufacturing	13,247	5.4	13,251	5.4
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	14,520	5.9	12,684	5.2
Professional, Scientific, and Technical Services				
Administrative Management and General Management Consulting	9,564	3.9	9,554	3.9
Computer Systems Design and Related Services	2,972	1.2	2,676	1.1
Custom Computer Programming Services	6,353	2.6	6,220	2.5
Other Accounting Services	5,784	2.4	6,920	2.8
Other Computer Related Services	11,829	4.8	11,624	4.7
Other Professional, Scientific, and Technical Services	28,760	11.8	28,533	11.6
Real Estate and Rental and Leasing				
Home Health Equipment Rental	\$900	0.4 %	\$1,681	0.7 %
Office Machinery and Equipment Rental and Leasing	8,133	3.3	8,527	3.5
Offices of Real Estate Appraisers	10,046	4.1	9,848	4.0
Wholesale Trade				
Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	3,578	1.5	3,754	1.5
Metal Service Centers and Other Metal Merchant Wholesalers	13,091	5.5	13,969	5.7
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,548	3.5	7,759	3.2
	\$244,308	100.1 %	\$245,407	100.0 %



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Investments (continued)**

As of December 31, 2015, the Company had loans to 38 portfolio companies, of which 71% were senior secured loans and 29% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held an equity investment in one portfolio company in which it did not hold a debt interest. At December 31, 2015, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	\$ 163,398	\$ 161,944	\$ 160,437
Subordinated debt investments	65,373	65,227	64,240
Equity investments	N/A	25,084	32,619
Total	\$ 228,771	\$ 252,255	\$ 257,296

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

	Cost		Fair Value	
Administrative and Support and Waste Management and Remediation Services				
Other Travel Arrangement and Reservation Services	\$10,164	4.0 %	\$10,164	4.0 %
Security Systems Services (except Locksmiths)	5,000	2.0	5,000	1.9
Tour Operators	2,849	1.1	3,198	1.2
Education Services				
Colleges, Universities, and Professional Schools	5,005	2.0	4,786	1.9
Finance and Insurance				
Insurance Agencies and Brokerages	11,663	4.6	11,497	4.5
Health Care and Social Assistance				
Medical Laboratories	4,165	1.7	3,677	1.4
Other Outpatient Care Centers	15,187	6.0	15,031	5.8
Outpatient Mental Health and Substance Abuse Centers	6,610	2.6	6,456	2.5
Information				
Other Information Services	\$2,564	1.0 %	\$2,433	0.9 %
Other Telecommunications	3,798	1.5	3,711	1.4
Software Publishers	4,711	1.9	7,453	2.9
Manufacturing				
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,534	1.8	4,506	1.8
Communications Equipment Manufacturing	2,257	0.9	2,257	0.9
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,770	4.7	12,812	4.9



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Other Basic Inorganic Chemical Manufacturing	4,766	1.9	4,695	1.8
Packaging Machinery Manufacturing	1,995	0.8	1,940	0.8
Pharmaceutical Preparation Manufacturing	4,068	1.6	5,698	2.2
Pump and Pumping Equipment Manufacturing	12,853	5.1	12,752	5.0
Soap and Other Detergent Manufacturing	937	0.4	798	0.3
Travel Trailer and Camper Manufacturing	13,613	5.4	13,613	5.3

F-29

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Investments (continued)**

	Cost		Fair Value	
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance Professional, Scientific, and Technical Services	14,449	5.7	13,792	5.3
Administrative Management and General Management Consulting	9,915	3.9	9,952	3.9
Computer Systems Design and Related Services	2,971	1.2	2,892	1.1
Custom Computer Programming Services	6,493	2.6	6,319	2.5
Other Accounting Services	5,738	2.3	7,100	2.8
Other Computer Related Services	11,828	4.7	11,508	4.5
Other Professional, Scientific, and Technical Services	31,574	12.4	31,511	12.1
Real Estate and Rental and Leasing				
Home Health Equipment Rental	900	0.4	1,951	0.8
Office Machinery and Equipment Rental and Leasing	8,037	3.2	8,452	3.3
Offices of Real Estate Appraisers	10,050	4.0	9,940	3.9
Wholesale Trade				
Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	3,558	1.4	3,559	1.4
Metal Service Centers and Other Metal Merchant Wholesalers	9,834	3.9	9,956	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,399	3.3	7,887	3.1
	\$252,255	100.0%	\$257,296	100.0%

**Note 7. Fair Value of Financial Instruments**

The Company's investments are reported at fair value as determined in good faith by Company management under the supervision and review of the Board. These fair value are determined using a documented valuation policy and a consistently applied valuation process that includes a review of each investment by an independent valuation firm at least once every 12 months.

Each quarter the Company assesses whether sufficient market quotations are available or whether a sufficient number of indicative prices from pricing services or brokers or dealers have been received. Investments for which sufficient market quotations are available are valued at such market quotations. Otherwise, the Company undertakes, on a quarterly basis, a multi-step valuation process as described below:

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

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

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

Third-party valuation firm(s) provide valuation services as requested, by reviewing the investment committee's preliminary valuations. OFS Advisor's investment committee's preliminary fair value

F-30

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 7. Fair Value of Financial Instruments (continued)

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

The audit committee of the Board reviews the preliminary valuations of OFS Advisor's investment committee and independent valuation firms and, if appropriate, recommends the approval of the valuations by the Board.

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

The Company was unable to obtain sufficient market quotations or indicative prices at March 31, 2016 and December 31, 2015, and followed the multi-step valuation process.

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

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

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

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

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

significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the measurement date. All of the Company's investments were categorized as Level 3 based upon the lowest level of significant input to the valuations. There were no transfers among Level 1, 2 and 3 for the three months ended March 31, 2016 and 2015. The following sections describe the valuation techniques used by the Company to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.

The primary method used to estimate the fair value of investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more

F-31

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 7. Fair Value of Financial Instruments (continued)**

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

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 following tables provide quantitative information about the Company's significant Level 3 fair value inputs to the Company's fair value measurements as of March 31, 2016 and 2015. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

	Fair Value at March 31, 2016	Valuation techniques	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$ 149,172	Discounted cash flow	Discount rates	6.85% - 25.00% (12.19%)

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			EBITDA multiples	4.91x	11.52x (6.97x)
Subordinated	63,779	Discounted cash flow	Discount rates	11.94%	27.47% (15.65%)
			EBITDA multiples	4.30x	7.42x (6.25x)
Equity investments	32,456	Discounted cash flow	Discount rates	17.50%	30.00% (20.36%)
			EBITDA multiples	4.30x	8.10x (6.21x)

F-32

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 7. Fair Value of Financial Instruments (continued)**

	Fair Value at December 31, 2015	Valuation techniques	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	\$ 160,437	Discounted cash flow	Discount rates	7.11% 25.00% (12.05%)
			EBITDA multiples	4.21x 11.72x (7.79x)
Subordinated	64,240	Discounted cash flow	Discount rates	12.56% 22.34% (15.12%)
			EBITDA multiples	3.98x 8.61x (6.35x)
Equity investments	32,619	Discounted cash flow	Discount rates	15.00% 30.00% (20.19%)
			EBITDA multiples	3.98x 8.08x (6.31x)

Changes in market credit spreads or the credit quality of the underlying portfolio company (both of which could impact the discount rate), as well as changes in EBITDA 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 multiples, as well as changes in the discount rate, could have a significant impact on fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA multiples, and in inverse relation to changes in the discount rate.

The following tables present changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2016 and 2015.

	For the Three Months Ended March 31, 2016			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	\$ 160,437	\$ 64,240	\$ 32,619	\$ 257,296
Net realized gain (loss) on investments		7	2,559	2,566



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Net change in unrealized appreciation/depreciation on investments	(1,383 )	307	(2,866 )	(3,942 )
Purchase of portfolio investments	5,396	1,135		6,531
Equity received in connection with purchase of portfolio investments and amendments	(301 )		504	203
Conversion from subordinated debt to equity		(1,765 )	1,765	
Capitalized PIK interest, dividends, and fees	116	373	301	790
Proceeds from principal payments on portfolio investments	(15,342 )	(526 )		(15,868 )
Sale and redemption of portfolio investments			(2,560 )	(2,560 )
Amortization of discounts and premium	249	8		257
Other			134	134
Level 3 assets, end of period	\$149,172	\$ 63,779	\$ 32,456	\$245,407

F-33

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 7. Fair Value of Financial Instruments (continued)**

For the Three Months Ended March 31, 2015

	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	\$241,749	\$ 52,453	\$ 18,032	\$ 312,234
Net realized gain on investments	90			90
Net change in unrealized appreciation/depreciation on investments	(571 )	(12 )	976	393
Purchase of portfolio investments	12,688	9,900	2,000	24,588
Capitalized PIK interest, dividends and fees	102	195	296	593
Proceeds from principal payments on portfolio investments	(10,986 )			(10,986 )
Sale of portfolio investments	(11,034 )			(11,034 )
Amortization of discounts and premium	308	(2 )		306
Conversion from equity to debt		44	(44 )	
Level 3 assets, end of period	\$232,346	\$ 62,578	\$ 21,260	\$ 316,184

The net change in unrealized appreciation/depreciation for the three months ended March 31, 2016 and 2015 reported in the Company's consolidated statements of operations attributable to the Company's Level 3 assets held at those period ends was \$(821) and \$344, respectively.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since fair value measurements are only required for a portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. As of March 31, 2016 and December 31, 2015, the carrying value of the Company's financial instruments, including its debt obligations under its SBA debentures payable, as well as the revolving line of credit (which was terminated on May 28, 2015; see Note 4), approximated their estimated fair value.

The Company discloses fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Certain non-financial assets and liabilities, as well as a wide range of franchise, relationship and intangible values that add value to the Company, are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts disclosed do not represent the underlying value of the Company.

## Note 8. Commitments and Contingencies

Unfunded commitments as of March 31, 2016 and December 31, 2015 were as follows:

Name of Portfolio Company	Investment Type	March 31, 2016	December 31, 2015
A.C.T. Lighting, Inc.	Subordinated Loan	\$ 742	\$ 742
BCC Software, LLC	Senior Secured Revolver	1,094	1,094
NeoSystems Corp.	Subordinated Loan	1,636	1,636
NeoSystems Corp.	Convertible Preferred Stock	364	364
Sentry Centers Holdings, LLC	Senior Secured Loan	1,450	
Total		\$ 5,286	\$ 3,836

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,

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 8. Commitments and Contingencies (continued)

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 March 31, 2016.

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

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

#### Note 9. Borrowings

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

Under present regulations of the SBIC Act, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is \$150,000. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed \$350,000. In connection with the SBIC Acquisitions, the Company increased its total commitments to SBIC I LP to \$75,000, which became a drop down SBIC fund of the Company on December 4, 2013. During 2014, the Company fully funded its \$75,000 commitment to the SBIC I LP. As of March 31, 2016 and December 31, 2015, SBIC I LP had fully drawn the \$149,880 of leverage commitments from the SBA.

SBIC I LP held \$249,567 and \$245,147 of the Company's consolidated assets at March 31, 2016 and December 31, 2015, respectively, which accounted for approximately 85% and 83% of consolidated assets, respectively.

The following table shows the Company's outstanding SBA debentures payable as of March 31, 2016 and December 31, 2015:

Pooling Date	Maturity Date	Fixed Interest	March 31, 2016	December 31,
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		Rate		2015
September 19, 2012	September 1, 2022	3.049 %	\$ 14,000	\$ 14,000
September 25, 2013	September 1, 2023	4.448	7,000	7,000
March 26, 2014	March 1, 2024	3.995	5,000	5,000
September 24, 2014	September 1, 2024	3.819	4,110	4,110
September 24, 2014	September 1, 2024	3.370	31,265	31,265
March 25, 2015	March 1, 2025	2.872	65,920	65,920
September 23, 2015	September 1, 2025	3.184	22,585	22,585
SBA debentures outstanding			149,880	149,880
Unamortized debt issuance costs			(3,324 )	(3,420 )
SBA debentures outstanding, net of unamortized debt issuance costs			\$ 146,556	\$ 146,460

The Company received exemptive relief from the SEC effective November 26, 2013 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.

F-35

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 9. Borrowings (continued)

The weighted average fixed interest rate on the SBA debentures as of March 31, 2016 and December 31, 2015 was 3.18%. The effective interest rate on the SBA debentures, which includes amortization of deferred debt issuance costs, was 3.42% as of March 31, 2016 and December 31, 2015. Interest expense, inclusive of debt issuance costs amortization, on the SBA debentures was \$1,283 and \$721 for the three months ended March 31, 2016 and 2015, respectively.

Deferred debt issuance costs, net of accumulated amortization, on SBA-guaranteed debentures as of March 31, 2016 and December 31, 2015 were \$3,324 and \$3,420, respectively. Amortization of deferred debt issuance costs on SBA-guaranteed debentures was \$96 and \$13 for the three months ended March 31, 2016 and 2015, respectively.

*PWB Credit Facility:* On November 5, 2015, the Company entered into a Business Loan Agreement ( BLA ) with Pacific Western Bank, as lender, to provide the Company with a \$15,000 senior secured revolving credit facility ( PWB Credit Facility ). The PWB Credit Facility 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 and otherwise specified in the BLA. The PWB Credit Facility is guaranteed by OFS Capital WM and secured by all of the Company's current and future assets excluding assets held by SBIC I LP and the Company's SBIC I LP and SBIC I GP partnership interests. The BLA matures on November 7, 2017. Advances under the facility bear interest at a fixed rate per annum equal to 4.75%. The Company incurred deferred debt issuance costs of \$202 in connection with the closing of the PWB Credit Facility. Deferred debt issuance costs, net of accumulated amortization, was \$160 and \$185 as of March 31, 2016 and December 31, 2015, respectively. Amortization of debt issuance costs was \$25 for the three months ended March 31, 2016. There have been no advances under the facility as of March 31, 2016.

The BLA contains customary terms and conditions, including 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 its covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in the borrower's financial condition, which would permit amounts borrowed to be accelerated and would permit the lender to terminate their lender commitments.

*OFS Capital WM Revolving Line of Credit:* Prior to the termination of the WM Credit Facility on May 28, 2015 (see Note 4), OFS Capital WM had a \$75,000 secured revolving credit facility, as amended from time to time, with Wells Fargo. The WM Credit Facility was secured by all eligible loans acquired by OFS Capital WM, and had a maturity date of December 31, 2018 and a reinvestment period through December 31, 2015. The interest rate on outstanding borrowings was the London Interbank Offered Rate plus 2.50% per annum. The minimum equity requirement was set at \$35,000. The unused commitment fee on the WM Credit Facility was (1) 0.5% per annum of the first \$25,000 of the

unused facility and (2) 2% per annum of the balance in excess of \$25,000, and is included in interest expense on the consolidated statement of operations. Interest expense on the revolving line of credit was \$522 for the three months ended March 31, 2015.

For the three months ended March 31, 2015 amortization and write-off of deferred debt issuance costs on the revolving line of credit totaled \$534, of which \$430 was due to a write-off when the credit facility's commitment was permanently reduced \$100,000 to \$75,000 on March 12, 2015.

F-36

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 10. Federal Income Tax**

The Company has elected to be treated as a RIC under Subchapter M of the Code, and intends to distribute substantially all of its taxable net income. Accordingly, there is no expected liability for federal income taxes at the Company level. The Company's taxable net income differs from the net increase in net assets resulting from operations primarily due to differences in income recognition on the unrealized appreciation or depreciation of investments, income from Company's equity investments in pass-through entities, PIK dividends that have not yet been declared and paid by underlying portfolio companies, and capital gains and losses and the net creation or utilization of capital loss carryforwards.

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 taxable income for the full year and distributions paid for the full year. If the tax characteristics of the Company's \$3,295 distributions paid during 2016 were determined as of March 31, 2016, approximately \$375 would have represented return of capital to its shareholders. The Company utilized \$2,381 of capital loss carryforward during the three months ended March 31, 2016. The Company has \$65 of non-expiring capital loss carryforward remaining as of March 31, 2016.

The Company records reclassifications to its capital accounts related to permanent differences between GAAP and tax treatment related to goodwill amortization, excise taxes, and other permanent differences; and temporary differences between GAAP and tax treatment of realized gains and losses, income arising from Company's equity investments in pass-through entities, PIK dividends, and other temporary differences. These required reclassifications for the three months ended March 31, 2015 were part of the revisions discussed in Note 2 as they had not been reported in previously issued financial statements. Reclassifications were as follows:

	Three Months Ended March 31,	
	2016	2015
Paid-in capital in excess of par	\$ 18	\$ 18
Undistributed net investment income	14	14
Accumulated net realized gain (loss)	(32 )	(32 )

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015
Tax-basis amortized cost of investments	\$ 239,387	\$ 247,714



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Tax-basis gross unrealized appreciation on investments	12,229	13,826
Tax-basis gross unrealized depreciation on investments	(6,209 )	(4,244 )
Tax-basis net unrealized appreciation on investments	6,020	9,582
Fair value of investments	\$ 245,407	\$ 257,296

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F-37

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 11. Financial Highlights**

The following is a schedule of financial highlights for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
Per share data:				
Net asset value per share at beginning of period	\$ 14.76		\$ 14.24	
Distributions <sup>(5)</sup>				
Dividends from ordinary income <sup>(8)</sup> (2015 revised Note 2)	(0.34	)	(0.34	)
Net investment income	0.38		0.28	
Net realized gain on non-control/non-affiliate investments	0.25		0.01	
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(0.42	)	(0.03	)
Net change in unrealized appreciation/depreciation on affiliate investments	0.02		0.08	
Net change in unrealized depreciation on control investment				
Net asset value per share at end of period	\$ 14.65		\$ 14.24	
Per share market value, end of period	\$ 12.95		\$ 12.25	
Total return based on market value <sup>(1)</sup>	15.8	%	6.9	%
Total return based on net asset value <sup>(2)</sup>	1.6	%	2.4	%
Shares outstanding at end of period	9,692,324		9,662,940	
Weighted average shares outstanding	9,691,183		9,650,969	
Ratio/Supplemental Data (in thousands except ratios)				
Average net asset value	\$ 142,512	<sup>(3)</sup>	\$ 137,521	
Net asset value at end of period	142,011		137,570	
Net investment income	\$ 3,655		\$ 2,749	
Ratio of expenses without incentive fees to average net assets <sup>(6)</sup>	9.7	%	13.3	%
Ratio of incentive fees to average net assets <sup>(6)</sup>	2.1	%	1.1	%
Ratio of total expenses to average net assets <sup>(6)</sup>	11.8	%	14.4	%
Ratio of net investment income without incentive fees to average net assets <sup>(6)</sup>	12.4	%	9.2	%
Ratio of net investment income to net assets at end of period	2.6	%	2.0	%
Portfolio turnover <sup>(7)</sup>	2.1	%	7.8	%

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

(2)

Calculation is ending net asset value less beginning net asset value, adjusting for dividends and distributions reinvested at the Company's quarter-end net asset value for the respective distributions.

(3) Based on average net asset values at December 31, 2015 and March 31, 2016.

(4) Based on average net asset values at December 31, 2014 and March 31, 2015.

(5) The components of the distributions are presented on an income tax basis.

(6) Annualized.

(7) Portfolio turnover rate is calculated using the lesser of year-to-date sales and principal payments or year-to-date purchases over the average of the invested assets at fair value.

The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal (8) year based upon its taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax

F-38

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 11. Financial Highlights (continued)**

attributes of the Company's distributions for a full year. If the tax characteristics of the Company's distributions paid during 2016 were determined as of March 31, 2016, approximately \$.04 per share would represent a return of capital.

**Note 12. Dividends and Distributions**

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

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 its ability to receive distributions from SBIC I LP. SBIC I LP's ability to make distributions is governed by SBA regulations. Consolidated cash and cash equivalents includes \$35,426 held by SBIC I LP, which was not available for distribution at March 31, 2016.

The following table summarizes distributions declared and paid for the three months ended March 31, 2016 and 2015:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Three Months Ended March 31, 2015						
March 4, 2015	March 17, 2015	March 31, 2015	\$ 0.34	\$ 3,133	12,106	\$ 148
Three Months Ended March 31, 2016						
March 7, 2016	March 17, 2016	March 31, 2016	\$ 0.34	\$ 3,280	1,154	\$ 15

For the three months ended March 31, 2016, \$15 of the total \$3,295 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 1,154 shares at an average value of \$12.95 per share at the date of issuance. For the three months ended March 31, 2015, \$148 of the total \$3,281 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 12,106 shares at an average value of \$12.25 per share at the date of issuance.

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Since the Company's IPO, dividends and distributions to shareholders total \$40,991, or \$4.25 per share on a cumulative basis.

Distributions in excess of the Company's current and accumulated profits and earnings would be treated first as a return of capital to the extent of the shareholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based upon its taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company's shareholders. If the tax characteristics of the Company's distributions paid during 2016 were determined as of March 31, 2016, approximately \$0.30

F-39

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)**

**Note 12. Dividends and Distributions (continued)**

per share and \$0.04 per share of the Company's distributions represented ordinary income and a return of capital to its shareholders, respectively.

**Note 13. Earnings per Share**

The following table summarizes the calculations for basic and diluted net increase in net assets resulting from operations per common share for the three months ended March 31, 2016 and 2015.

	Three Months Ended	
	March 31,	
	2016	2015
Net increase in net assets resulting from operations	\$2,279	\$3,232
Basic and diluted weighted average shares outstanding	9,691,183	9,650,969
Net increase in net assets resulting from operations per common share - basic and diluted	\$0.24	\$0.33

**Note 14. Subsequent Events**

On May 2, 2016, the Company's Board declared a distribution of \$0.34 per share for the first quarter of 2016, payable on June 30, 2016 to shareholders of record as of June 16, 2016.

TABLE OF CONTENTS

# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
OFS Capital Corporation  
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of OFS Capital Corporation (the Company), including the consolidated schedules of investments, as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, cash flows, and financial highlights for each of the two years in the period ended December 31, 2015. These consolidated financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2015 and 2014 by correspondence with the custodian, loan agent, portfolio companies, or by other appropriate auditing procedures where replies were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of OFS Capital Corporation at December 31, 2015 and 2014, and the results of their operations, the changes in their net assets, their cash flows, and the financial highlights for each of the two years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the 2014 financial statements have been revised to correct a misstatement.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), OFS Capital Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2016 expressed an adverse opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

Chicago, Illinois  
March 15, 2016





TABLE OF CONTENTS

# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
OFS Capital Corporation  
Chicago, Illinois

We have audited OFS Capital Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). OFS Capital Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's failure to design and maintain controls over the reconciliation of components of distributions in the statement of changes in net assets and net assets within the balance sheet has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 financial statements, and this report does not affect our report dated March 15, 2016 on those financial

statements.

In our opinion, OFS Capital Corporation did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

F-42

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TABLE OF CONTENTS

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of OFS Capital Corporation, including the consolidated schedules of investments, as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, cash flows, and financial highlights for each of the two years in the period ended December 31, 2015, and our report dated March 15, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

Chicago, Illinois  
March 15, 2016

F-43

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TABLE OF CONTENTS

# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
OFS Capital Corporation

We have audited the accompanying consolidated statements of operations, changes in net assets and cash flows for the year ended December 31, 2013, of OFS Capital Corporation and Subsidiaries (collectively, the Company ). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations of OFS Capital Corporation and Subsidiaries and their cash flows for the year ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Chicago, Illinois  
March 17, 2014

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Consolidated Balance Sheets****(Dollar amounts in thousands, except per share data)**

	December 31,	
	2015	2014
Assets		
Investments, at fair value		
Non-control/non-affiliate investments (amortized cost of \$175,529 and \$258,004, respectively)	\$ 177,290	\$ 254,666
Affiliate investments (amortized cost of \$63,113 and \$55,569, respectively)	66,393	57,568
Control investment (amortized cost of \$13,613 and \$0, respectively)	13,613	
Total investments at fair value (amortized cost of \$252,255 and \$313,573, respectively)	257,296	312,234
Cash and cash equivalents	32,714	12,447
Interest receivable	789	676
Receivable from investment sold		7,223
Prepaid expenses and other assets	3,692	3,924
Deferred financing closing costs, net of accumulated amortization of \$427 and \$2,540, respectively	3,605	4,972
Total assets	\$ 298,096	\$ 341,476
Liabilities		
Accrued professional fees	\$ 433	\$ 462
Interest payable	1,548	1,315
Management and incentive fees payable	2,238	1,229
Administration fee payable	488	273
Other liabilities	497	819
SBA debentures	149,880	127,295
Revolving line of credit		72,612
Total liabilities	155,084	204,005
Commitments and Contingencies (Note 9)		
Net Assets		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2015 and 2014		
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 9,691,170 and 9,650,834 shares issued and outstanding as of December 31, 2015 and 2014, respectively	97	97
Paid-in capital in excess of par (2014 revised) (Note 2)	134,446	136,378
Accumulated undistributed net investment income (2014 revised) (Note 2)	4,612	2,459
Accumulated undistributed net realized loss (2014 revised) (Note 2)	(1,184 )	(124 )
Net unrealized appreciation on investments (2014 revised) (Note 2)	5,041	(1,339 )

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Total net assets	143,012	137,471
Total liabilities and net assets	\$298,096	\$341,476
Number of shares outstanding	9,691,170	9,650,834
Net asset value per share	\$14.76	\$14.24

See Notes to Consolidated Financial Statements.

F-45

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

	Years Ended December 31,		
	2015	2014	2013
Investment income			
Interest income			
Non-control/non-affiliate investments	\$23,488	\$16,847	\$16,613
Affiliate investments	5,341	3,646	211
Control investment	141	843	103
Total interest income	28,970	21,336	16,927
Dividend income			
Non-control/non-affiliate investments	150	1	
Affiliate investments	1,211	569	9
Total dividend income	1,361	570	9
Fee income			
Non-control/non-affiliate investments	1,463	620	
Affiliate investments	320	269	127
Control investment	150	25	7
Total fee income	1,933	914	134
Total investment income	32,264	22,820	17,070
Expenses			
Interest expense	4,842	4,224	3,384
Amortization and write-off of deferred financing closing costs (see Note 10)	2,117	1,354	965
Amortization of intangible asset	195	209	
Management fees	5,225	2,916	3,435
Incentive fee	2,627	1,253	
Professional fees	1,114	1,517	1,639
Administration fee	1,637	1,245	938
General and administrative expenses	1,096	967	991
Total expenses	18,853	13,685	11,352
Net investment income	13,411	9,135	5,718
Net realized and unrealized gain (loss) on investments			
Net realized gain (loss) on non-control/non-affiliate investments	(3,033 )	199	87
Net realized gain on affiliate investments	1,471	28	
Net realized loss on control investment		(3,586 )	
Realized gain from SBIC Acquisitions			2,742
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	5,099	534	367

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Net change in unrealized appreciation/depreciation on affiliate investments	1,283	1,880	511
Net change in unrealized appreciation/depreciation on control investment		1,750	(1,750 )
Net gain on investments	4,820	805	1,957
Net increase in net assets resulting from operations	\$18,231	\$9,940	\$7,675
Net investment income per common share basic and diluted	\$1.39	\$0.95	\$0.59
Net increase in net assets resulting from operations per common share basic and diluted	\$1.89	\$1.03	\$0.80
Dividends and distributions declared per common share	\$1.36	\$1.36	\$1.02
Basic and diluted weighted average shares outstanding	9,670,153	9,634,471	9,619,723

See Notes to Consolidated Financial Statements.



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Consolidated Statements of Changes in Net Assets  
(Dollar amounts in thousands, except per share data)**

	Years Ended December 31,		
	2015	2014	2013
Increase in net assets resulting from operations:			
Net investment income	13,411	9,135	5,718
Realized gain from SBIC Acquisitions			2,742
Net realized gain (loss) on investments	(1,562 )	(3,359 )	87
Net change in unrealized appreciation/depreciation on investments	6,382	4,164	(872 )
Net increase in net assets resulting from operations	18,231	9,940	7,675
Distributions to shareholders from:			
Net investment income (2014 and 2013 revised) (Note 2)	(10,954 )	(6,139 )	(6,578 )
Net realized gain (2014 and 2013 revised) (Note 2)			(87 )
Return of capital distributions (2014 and 2013 revised) (Note 2)	(2,197 )	(6,964 )	(3,149 )
Total distributions to shareholders	(13,151 )	(13,103 )	(9,814 )
Common stock transactions:			
Reinvestment of shareholder distributions	461	256	718
Net increase in net assets resulting from capital transactions	461	256	718
Net increase (decrease) in net assets	5,541	(2,907 )	(1,421 )
Net assets:			
Beginning of year	\$137,471	\$140,378	\$141,799
End of year	\$143,012	\$137,471	\$140,378
Net investment income in excess of distributions, end of period (2014 and 2013 revised) (Note 2)	\$4,612	\$2,459	\$18
Common stock activity:			
Shares issued from reinvestment of shareholder distributions	40,336	21,037	51,106
Shares issued and outstanding at beginning of year	9,650,834	9,629,797	9,578,691
Shares issued and outstanding at end of year	9,691,170	9,650,834	9,629,797

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2015	2014	2013
Cash Flows From Operating Activities			
Net increase in net assets resulting from operations	\$18,231	\$9,940	\$7,675
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net realized (gain) loss on investments	1,562	3,359	(87 )
Net realized gain from SBIC Acquisitions			(2,742 )
Net change in unrealized appreciation/depreciation on investments	(6,382 )	(4,164 )	872
Amortization and write-off of deferred financing closing costs	2,117	1,354	965
Amortization of discounts and premiums, net	(1,795 )	(1,186 )	(1,354 )
Amortization of deferred loan fee revenue	(498 )	(280 )	(127 )
Amortization of intangible assets	195	209	
Cash collection of deferred loan fee revenue	112	354	313
Payment-in-kind interest and dividends	(2,322 )	(1,172 )	(89 )
Reversal of payment-in-kind interest income on non-accrual loans		64	
Purchase of portfolio investments	(123,950)	(162,822)	(45,182)
Additional equity investment in SBIC I LP			(5,157 )
Proceeds from principal payments on portfolio investments	96,069	79,587	63,053
Proceeds from sale or redemption of portfolio investments	98,895	9,493	9,413
Cash distribution received from equity investment	183	11	
Changes in operating assets and liabilities:			
Interest payable	233	272	(361 )
Management and incentive fees payable	1,009	61	501
Administration fee payable	215	(7 )	170
Other assets and liabilities	(136 )	(282 )	1,315
Net cash provided by (used in) operating activities	83,738	(65,209 )	29,178
Cash Flows From Investing Activities			
Acquisitions of remaining ownership interests in SBIC I LP and SBIC I GP			(8,110 )
Change in restricted cash		450	172
Consolidation of cash of SBIC I LP (December 4, 2013)			1,216
Net cash provided by (used in) investing activities		450	(6,722 )

See Notes to Consolidated Financial Statements.



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Continued)  
(Dollar amounts in thousands)**

	Years Ended December 31,		
	2015	2014	2013
Cash Flows From Financing Activities			
Net repayment of advances from affiliated entities	\$	\$(15 )	\$
Cash dividends and distributions paid	(12,690)	(12,847 )	(10,724 )
Borrowings under the revolving line of credit	1,217	20,188	64,901
Repayments under the revolving line of credit	(73,829)	(56,531 )	(55,170 )
Draw down on SBA debentures	22,585	101,295	
Change in other liabilities		90	
Deferred financing closing costs paid	(750 )	(3,282 )	(1,164 )
Deferred common stock offering costs paid	(4 )	(261 )	
Net cash (used in) provided by financing activities	(63,471)	48,637	(2,157 )
Net increase (decrease) in cash and cash equivalents	20,267	(16,122 )	20,299
Cash and cash equivalents beginning of year	12,447	28,569	8,270
Cash and cash equivalents end of year	\$32,714	\$12,447	\$28,569
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for interest	\$4,609	\$3,592	\$3,744
Reinvestment of shareholder distributions	461	256	718
Supplemental Disclosure of Noncash Financing and Investing Activities:			
Consolidation of assets and liabilities of SBIC I LP and SBIC I GP effective December 4, 2013:			
Interest receivable			607
Investments, at fair value			41,887
Intangible asset			2,500
Prepaid expenses and other assets			40
SBA debentures payable			26,000
Interest payable			183
Accrued expenses and other liabilities			68

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2015  
(Dollar amounts in thousands)**

Industry Portfolio Company Investment Type	Industry	Interest Rate <sup>(1)</sup>	Spread Above Index <sup>(1)</sup>	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<u>Non-control/Non-affiliate Investments</u>								
<b>Accurate Group Holdings, Inc.<sup>(3)</sup></b>	Offices of Real Estate Appraisers	12.50%	N/A	8/23/18	\$10,000	\$10,050	\$9,940	7.0%
Subordinated Loan								
<b>A.C.T. Lighting, Inc.<sup>(3)</sup></b>	Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	12.00% cash/2.0% PIK	N/A	7/24/19	3,574	3,558	3,559	2.5
Subordinated Loan								
<b>All Metals Holding, LLC<sup>(3)</sup></b>	Metal Service Centers and Other Metal Merchant Wholesalers	10.50%	N/A	12/30/19	9,900	9,765	9,697	6.8
Senior Secured Term Loan								
Common Equity (69,464 member units) <sup>(12)</sup>						69	259	0.2
					9,900	9,834	9,956	7.0
<b>AssuredPartners, Inc.<sup>(3)</sup></b>	Insurance Agencies and Brokerages	10.00%	(L+9.00%)	10/22/23	3,000	2,883	2,894	2.0
Senior Secured Term Loan								
<b>B+B SmartWorx Inc. (f/k/a B&amp;B Electronics Manufacturing Company)</b>	Communications Equipment	6.50%	(L+5.00%)	3/31/16	2,257	2,257	2,257	1.6
Senior Secured Term Loan A								

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<b>BCC Software, LLC</b> <sup>(3)</sup>	Manufacturing							
Senior Secured Term Loan	Custom Computer Programming Services	9.00%	(L+8.00%)	6/20/19	6,573	6,504	6,355	4.4
Senior Secured Revolver <sup>(12)</sup>		N/A	(L+8.00%)	6/20/19	6,573	(11 )	(36 ) <sup>(2)</sup>	4.4
<b>Community Intervention Services, Inc. (f/k/a South Bay Mental Health Center, Inc.)</b> <sup>(3)</sup>								
Subordinated Loan <sup>(9)</sup>	Outpatient Mental Health and Substance Abuse Centers	10.0% cash/3.0% PIK	N/A	1/16/21	6,672	6,610	6,456	4.5
<b>Confie Seguros Holdings II Co.</b>								
Senior Secured Term Loan	Insurance Agencies and Brokerages	10.25%	(L+9.00%)	5/8/19	4,000	3,965	3,893	2.7
<b>C7 Data Centers, Inc.</b> <sup>(3)(7)</sup>								
Senior Secured Term Loan	Other Computer Related Services	13.25%	(L+8.50%)	6/22/20	11,850	11,828	11,508	8.0
<b>Elgin Fasteners Group</b>								
Senior Secured Term Loan	Bolt, Nut, Screw, Rivet, and Washer Manufacturing	6.00%	(L+4.75%)	8/27/16	4,551	4,534	4,506	3.2
<b>HealthFusion, Inc.</b> <sup>(3)(8)</sup>								
Senior Secured Loan	Software Publishers	13.00%	N/A	10/7/18	4,750	4,711	4,893	3.4
Common Stock Warrants (2,007,360 shares) <sup>(12)</sup>							2,560	1.8
					4,750	4,711	7,453	5.2
<b>Inhance Technologies Holdings LLC</b>								
Senior Secured Term Loan A	Other Basic Inorganic Chemical Manufacturing	5.50%	(L+4.50%)	2/7/18	2,248	2,242	2,180	1.5
<b>Intelli-Mark Technologies, Inc.</b> <sup>(3)</sup>								
Senior Secured Term Loan <sup>(11)</sup>	Other Travel Arrangement and Reservation Services	13.00%	N/A	11/23/20	8,750	8,664	8,664	6.1
Common Equity (2,553,089 shares) <sup>(12)</sup>						1,500	1,500	1.0
					8,750	10,164	10,164	7.1

**Intrafusion Holding Corp.**<sup>(3)(6)</sup>

Senior Secured Term Loan B	Other Outpatient Care Centers	12.84%	(P+5.75%)	9/25/20	14,250	14,196	14,059	9.8
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See Notes to Consolidated Financial Statements.

F-50

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TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (Continued)  
December 31, 2015  
(Dollar amounts in thousands)**

See Notes to Consolidated Financial Statements.

F-51

---



TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

**Consolidated Schedule of Investments (Continued)  
December 31, 2015  
(Dollar amounts in thousands)**

See Notes to Consolidated Financial Statements.

F-52

---

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Consolidated Schedule of Investments (Continued) December 31, 2015 (Dollar amounts in thousands)

The majority of investments bear interest at a variable rate that is indexed to the London Interbank Offered Rate (LIBOR) (L) or Prime (P), and are reset monthly or quarterly. All of the Company's LIBOR referenced investments (1) are subject to an interest rate floor. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2015. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.

(2) The negative fair value is the result of the unfunded commitment being valued below par.

(3) Investments held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(4) Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2015, 96.3% of the Company's assets were qualifying assets.

(5) Non-accrual loan.

See Notes to Consolidated Financial Statements.

F-53

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Consolidated Schedule of Investments (Continued) December 31, 2015 (Dollar amounts in thousands)

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain (6) lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the reported interest rate of 12.84% at December 31, 2015 includes interest of 3.59% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan, to receive its payment after the repayment of certain lenders (7) pursuant to a payment waterfall. With respect to C7 Data Centers, Inc., the reported interest rate of 13.25% at December 31, 2015 includes interest of 3.75% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

In January 2016, HealthFusion, Inc. was purchased, at which time the Common Stock Warrants were redeemed and the Senior Secured Loan was repaid at par. In connection with the loan repayment, the Company received a (8) prepayment penalty of \$143. The Common Stock Warrants were redeemed for total consideration of \$2,385, which included a cash payment of \$2,115 and an additional amount held in escrow valued at \$270 to be released 50% in one year and the remaining amount in approximately two years. In addition, the Company could receive an earnout payment of up to approximately \$230 to \$460 in 2017.

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest (9) payments in cash 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 interest rate includes a 1.5% PIK provision, whereby the issuer has the option to make interest payments in (10) 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.

The interest rate includes a 2.0% PIK provision, whereby the issuer has the option to make interest payments in (11) 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.

(12)

Non-income producing.

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries**

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

Industry Portfolio Company Investment Type	Industry	Interest Rate <sup>(1)</sup>	Spread Above Index <sup>(1)</sup>	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
<u>Non-control/Non-affiliate Investments</u>								
A.C.T. Lighting, Inc. <sup>(3)</sup>								
Subordinated Loan	Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	12.00% cash/ 2.0% PIK	N/A	7/24/19	\$3,502	\$3,482	\$3,482	2.5%
Accella Holdings LLC (f/k/a Dash Materials LLC)								
Senior Secured Term Loan	Other Basic Inorganic Chemical Manufacturing	5.50%	(L +4.50%)	4/30/19	3,424	3,413	3,424	2.5
Accurate Group Holdings, Inc. <sup>(3)</sup>								
Subordinated Loan	Offices of Real Estate Appraisers	12.50%	N/A	6/11/18	10,000	10,071	10,071	7.3
Accuvant Finance, LLC <sup>(3)</sup>								
Senior Secured Initial Loans	Other Computer Related Services	7.00%	(P +3.75%)	10/22/20	5,970	5,917	5,970	4.3
Actagro, LLC								
Senior Secured Term Loan	Other Basic Organic Chemical Manufacturing	5.50%	(L +4.25%)	12/30/16	3,201	3,182	3,117	2.3
Aero-Metric, Inc.								
Senior Secured Term Loan	Other Information Services	8.75%	(L +7.50%)	8/27/17	2,644	2,622	2,619	1.9

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All Metals Holding, LLC <sup>(3)</sup>								
Senior Secured Term Loan	Metal Service Centers and Other Metal Merchant Wholesalers	10.50%	N/A	12/31/19	14,000	13,763	13,763	10.0
Common Equity (2.75% member interest) <sup>(11)</sup>						97	97	0.1
					14,000	13,860	13,860	10.1
Anaren, Inc. <sup>(3)</sup>								
Senior Secured Term Loan	Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing	5.50%	(L +4.50%)	2/18/21	2,970	2,944	2,923	2.1
ANS Distributing, INC.								
Senior Secured Term Loan	Industrial Machinery and Equipment Merchant Wholesalers	8.00%	(L +6.50%)	11/1/17	2,810	2,778	2,810	2.0
Apex Companies, LLC.								
Senior Secured Term Loan	Facilities Support Services	5.50%	(L +4.50%)	3/28/19	3,714	3,695	3,506	2.6
B&B Electronics Manufacturing Company								
Senior Secured Term Loan A	Communications Equipment Manufacturing	6.50%	(L +5.00%)	4/4/15	2,440	2,437	2,426	1.8
Barcodes LLC								
Senior Secured Term Loan	Office Equipment Merchant Wholesalers	7.25%	(P +4.00%)	12/9/19	2,815	2,791	2,791	2.0
BCC Software, LLC <sup>(3)</sup>								
Senior Secured Revolver	Custom Computer Programming Services	N/A	(L +8.00%)	6/19/19		(15 )	(24 ) <sup>(2)</sup>	
Senior Secured Term Loan		9.00%	(L +8.00%)	6/19/19	6,913	6,820	6,758	4.9
					6,913	6,805	6,734	4.9

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

See Notes to Consolidated Financial Statements.

F-56

---

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

See Notes to Consolidated Financial Statements.

F-57

---

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

See Notes to Consolidated Financial Statements.

F-58

---



TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

See Notes to Consolidated Financial Statements.

F-59

---

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

- The majority of the investments bear interest at a rate that may be determined by reference to LIBOR (L) or Prime (P), which is reset monthly or quarterly. All of the Company's LIBOR-referenced investments are subject a LIBOR interest rate floor; LIBOR was below the LIBOR interest rate floor for all LIBOR-referenced investments at
- (1) December 31, 2014. For each investment, the Company has provided the spread over LIBOR and current interest rate in effect at December 31, 2014. Unless otherwise noted, all investments with a stated PIK rate are obligated to make interest payments with the issuance of additional securities as payment of the entire PIK provision.
- (2) The negative fair value is the result of the unfunded commitment being valued below par.
- (3) Investments held by SBIC I LP. All other investments were held by OFS Capital WM, and were pledged as collateral under the OFS Capital WM credit facility.
- (4) Indicates investments that the Company deems non-qualifying assets under Section 55(a) of the Investment Company Act of 1940 ( 1940 Act ), as amended. Qualifying assets must represent at least 70% of the Company's assets, as defined under Section 55 of the 1940 Act, at the time of acquisition of any additional non-qualifying assets. As of December 31, 2014, 97.6% of the Company's assets were qualifying assets.
- (5) Non-accrual loan.

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Term Loan, to receive its payment after the repayment of certain lenders (6) pursuant to a payment waterfall. With respect to Community Investors, Inc., the all-in interest rate of 11.86% at December 31, 2014 included an interest rate of 3.61% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has (7) agreed, with respect to the Senior Secured Term Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall.

SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain (8) lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the all-in interest rate of 13.58% at December 31, 2014 included an interest rate of 3.08% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

The original debt and equity investments, with a total cost basis of \$8,992, were restructured on December 17, 2014, as a result of which SBIC I LP received a cash payment of \$2,943, a new note with a fair value of \$2,463 on (9) the restructuring date and at December 31, 2014, and common stock in Tangible Software, Inc. valued at zero at the restructuring date and at December 31, 2014. In connection with this restructuring, SBIC I LP recognized a loss of \$3,586. The post-restructured investments were classified as affiliate investments and the new debt investment was deemed an accrual loan as of December 31, 2014.

The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest (10) payments 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.

(11)

Non-income producing.

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

**OFS Capital Corporation and Subsidiaries**

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

**OFS Capital Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)**

**Note 1. Organization**

OFS Capital Corporation (the Company) is a Delaware corporation formed on November 7, 2012, as an externally managed, closed-end, non-diversified management investment company. The Company has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for income tax purposes, the Company has elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

The Company's strategic investment focus is primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies in the United States. The Company has entered into an investment advisory and management agreement with OFS Capital Management, LLC (OFS Advisor), under which OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. The Company may make investments directly or through OFS SBIC I, LP (SBIC I LP), its investment company subsidiary licensed under the Small Business Administration (SBA) Small Business Investment Company program (the SBIC Program).

The SBIC Program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, SBIC I LP is subject to regulatory requirements, including limitations on the businesses and industries in which it can invest, requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the Small Business Investment Act of 1958 (SBIC Act), and limitations on the financing terms of investments, and capitalization thresholds that limit distributions to the Company; and is subject to periodic audits and examinations of its financial statements. As of December 31, 2015, SBIC I LP was in compliance with its regulatory requirements. See Notes 5 and 10.

TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Correction of Error**

In the fourth quarter of 2015, the Company discovered and corrected errors impacting the classification of certain components of consolidated net assets as of December 31, 2014 and 2013, and distributions reported on the consolidated statement of changes in net assets for the year ended December 31, 2014. The Company also separately stated capital gain distributions on the consolidated statement of changes in net assets for the year ended December 31, 2013 to be consistent with the 2014 and 2015 presentation. These reclassifications had no effect on total net assets or net asset value per share. The purpose of the reclassifications was to properly report the tax character of, and basis differences between tax and accounting principles generally accepted in the United States of America ( GAAP ) in (i) accumulated shareholder distributions, (ii) accumulated undistributed net investment income, (iii) accumulated net realized gains/losses, and (iv) net unrealized appreciation (depreciation) on investments. Accordingly, the Company has revised its December 31, 2014 consolidated balance sheet and statement of changes in net assets for the years ended December 31, 2014 and 2013 and the three and six months ended June 30, 2015 and the three and nine months ended September 30, 2015 interim financial statements as disclosed below. The effect of recording the adjustments in the December 31, 2014 consolidated balance sheet, the consolidated statement of changes in net assets for the year ended December 31, 2014 and 2013, and the consolidated statement of operations for the quarters ended September 30, 2015 and June 30, 2015 to be reported in subsequent filings are as follows:

**Summary of revisions to the Statement of Net Assets (affected components)**

	As Previously Reported December 31, 2014	Revisions	Revised December 31, 2014	As Previously Reported December 31, 2013	Revisions	Revised December 31, 2013
Net Assets						
Preferred stock						
Common stock	\$97	\$	\$97	\$96	\$	\$96
Paid-in capital in excess of par	143,381	(7,003 )	136,378	143,126	104	143,022
Accumulated undistributed (distributions in excess of) net investment income	(7,844 )	10,303	2,459	(4,103 )	(4,121)	18
Accumulated undistributed net realized gain (loss)	(844 )	720	(124 )	2,742		2,742
	2,681	(4,020 )	(1,339 )	(1,483 )	4,017	(5,500 )

Net unrealized appreciation  
(depreciation) on investments

Total net assets \$137,471 \$ \$137,471 \$140,378 \$ \$140,378

## Summary of revisions to Statement of Changes in Net Assets (affected components)

	As Previously Reported Year Ended December 31, 2014	Revisions	Revised Year Ended December 31, 2014	As Previously Reported Year Ended December 31, 2013	Revisions	Revised Year Ended December 31, 2013
Distributions to shareholders from:						
Net investment income	\$(12,876)	\$(6,737)	\$(6,139 )	\$(9,727 )	\$(3,282)	\$(6,445 )
Net realized gains	(227 )	(227 )		(87 )		(87 )
Return of capital distributions		6,964	(6,964 )		3,282	(3,282 )
Total distributions to shareholders	\$(13,103)	\$	\$(13,103)	\$(9,814 )	\$	\$(9,814 )

F-63

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Correction of Error (continued)****Summary of revisions to Statement of Operations (affected components)**

	As Previously Reported Three Months Ended September 30, 2015	Revisions	Revised Three Months Ended September 30, 2015
Net realized and unrealized gain (loss) on investments			
Net realized gain on non-control/non-affiliate investments	\$ 254	\$ (19 )	\$ 235
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(2,115 )	19	(2,096 )
Net change in unrealized appreciation/depreciation on affiliate investments	(348 )		(348 )
Net loss on investments	\$ (2,209 )	\$	\$ (2,209 )

	As Previously Reported Nine Months Ended September 30, 2015	Revisions	Revised Nine Months Ended September 30, 2015
Net realized and unrealized gain (loss) on investments			
Net realized gain on non-control/non-affiliate investments	\$ 3,132	\$ (2,932 )	\$ 200
Net realized gain on affiliate investments	1,471		1,471
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(3,173 )	2,932	(241 )

Net change in unrealized appreciation/depreciation on affiliate investments	1,494		1,494
Net loss on investments	\$ 2,924	\$	\$ 2,924

## Summary of revisions to Statement of Operations (affected components)

	As Previously Reported Three Months Ended June 30, 2015	Revisions	Revised Three Months Ended June 30, 2015
Net realized and unrealized gain (loss) on investments			
Net realized gain (loss) on non-control/non-affiliate investments	\$ 2,788	\$ (2,913 )	\$ (125 )
Net realized gain on affiliate investments	1,471		1,471
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(705 )	2,913	2,208
Net change in unrealized appreciation/depreciation on affiliate investments	1,096		1,096
Net gain on investments	\$ 4,650	\$	\$ 4,650

F-64



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 2. Correction of Error (continued)**

	As Previously Reported Six Months Ended June 30, 2015	Revisions	Revised Six Months Ended June 30, 2015
Net realized and unrealized gain (loss) on investments			
Net realized gain (loss) on non-control/non-affiliate investments	\$ 2,878	\$(2,913 )	\$(35 )
Net realized gain on affiliate investments	1,471		1,471
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(1,058 )	2,913	1,855
Net change in unrealized appreciation/depreciation on affiliate investments	1,842		1,842
Net gain on investments	\$ 5,133	\$	\$ 5,133

**Note 3. Summary of Significant Accounting Policies**

**Basis of presentation:** The Company prepares its consolidated financial statements in accordance with GAAP, including Accounting Standards Codification Topic 946, Financial Services Investment Companies, and the requirements for reporting on Form 10-K, the 1940 Act, and Articles 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments consisting only of normal and recurring accruals and adjustment. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation.

**Principles of consolidation:** The Company consolidates majority-owned investment company subsidiaries. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation. See Notes 4 and 5.

**Fair value of financial instruments:** The Company applies fair value to substantially all of its financial instruments. Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820) defines fair value, establishes a framework to measure fair value, and requires disclosures regarding fair value measurements. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined through the use of models and other valuation

techniques, valuation inputs, and assumptions market participants would use in pricing the investment. Highest priority is given to prices for identical assets quoted in active markets (Level 1) and the lowest priority is given to unobservable valuation inputs (Level 3). The availability of observable inputs can vary significantly and is affected by a variety of factors, including the type of product, whether the product is new to the market, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on less observable or unobservable inputs, the determination of fair value requires more judgment.

Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3 (i.e., those instruments valued using non-observable inputs), which comprise the entirety of the Company's investments.

Changes to the valuation policy are reviewed by management and the Company's board of directors (the Board). As the Company's investments change, markets change, new products develop, and valuation inputs become more or less observable, the Company will continue to refine its valuation methodologies.

See Note 8 for more detailed disclosures of the Company's fair value measurements of its financial instruments.

F-65

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

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

Additionally, the Company adopted the North American Industry Classification System in the first quarter of 2016 for purposes of industry classification of the Company's investments on the Schedule of Investments. The December 31, 2015 and 2014 Schedule of Investments has been reclassified to conform to the March 31, 2016 presentation.

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

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

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

*Liquidity risk* Liquidity risk represents the possibility that the Company may not maintain sufficient cash balances or access to cash to meet loan and other commitments as they become due.

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

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

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

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

**Reportable segments:** The Company has a single reportable segment and single operating segment structure.

**Cash and cash equivalents:** Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities at the time of acquisition of three months or less. The Company places its cash in financial institutions and at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. Included in cash and cash equivalents was \$32,612 held in a US Bank Money Market Deposit Account as of December 31, 2015. As of December 31, 2014, cash and cash equivalents included \$8,570 and \$1,039 held in a US Bank Money Market Deposit Account and Wells Fargo Prime INVT MM #1752 account, respectively.

F-66

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

##### Revenue recognition:

*Interest Income:* Interest income, adjusted for amortization of premium and accretion of discounts, is recorded on an accrual basis. Recognized interest income, if payable monthly or quarterly, is reported as interest receivable until collected. Recognized interest income due at maturity or at another stipulated date ( PIK interest ) is recorded as an adjustment to the amortized cost basis of the investment. The Company accrues interest income until events occur that place a loan into a non-accrual status (see below). Loan origination fees, original issue discount ( OID ), market discount or premium, and loan amendment fees (collectively, net loan origination fees ) are capitalized, and the Company accretes or amortizes such amounts as additional interest income over the life of the loan using a method that approximates the effective interest method. When the Company receives a loan principal payment, the OID related to the paid principal is accelerated and recognized in interest income. Unamortized OID is recorded as an adjustment to the amortized cost basis of the investment and unamortized loan amendment fees are reported as deferred loan fee revenue. All other interest income is recognized as contractually earned. Further, in connection with the Company's debt investments, the Company may receive warrants or similar equity-related securities ( Warrants ). The Company determines the cost basis of Warrants based upon their fair values on the date of receipt relative to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

Unamortized net loan origination fees on debt investments were \$1,885 and \$3,706 as of December 31, 2015 and 2014, respectively. The Company recognized net loan origination fee income of \$2,263, \$1,459, and \$1,481 for the years ended December 31, 2015, 2014, and 2013, respectively. The Company recognized PIK interest income of \$1,206, \$664, and \$37 for the years ended December 31, 2015, 2014, and 2013, respectively. To maintain its status as a RIC, the Company includes non-cash interest income in the amounts that must be distributed to shareholders.

*Dividend Income:* Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity securities is accrued as earned. Dividends on preferred equity securities may be payable in cash or in additional preferred securities, and are generally not payable unless declared or upon liquidation. Declared dividends payable in cash are reported as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared ( PIK dividends ) are recorded as an adjustment to the cost basis of the investment. The Company discontinues accrual of PIK dividends on preferred equity securities when it determines that the dividend may not be collectible. The Company assesses the collectability of the PIK dividends based on factors including the fair value of the preferred equity security, the valuation of the portfolio company's enterprise value, and proceeds expected to be received over the life of the investment. Distributions received from common or preferred equity securities that do not qualify as dividend income are recorded

as a return of capital and a reduction in the adjusted cost basis of the investment. In addition, the Company may receive cash distributions from portfolio companies that are taxed as flow-through entities. Each distribution is evaluated to determine whether it should be recorded as income or as a return of capital. Generally, the Company will not record distributions from investments taxed as flow through entities as income unless there are sufficient accumulated tax-basis earning and profits prior to the distribution. Distributions that are classified as a return of capital are recorded as a reduction in the adjusted cost basis of the investment. The Company recognized preferred dividend income of \$1,276, \$570, and \$9, of which \$1,116, \$445, and \$-0-, respectively, was contractually earned but not declared for the years ended December 31, 2015, 2014, and 2013, respectively. The Company recognized common stock dividends of \$85 for the year ended December 31, 2015. The Company did not recognize common stock dividends during the years ended December 31, 2014 and 2013.

F-67

---

TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

*Fee Income:* The Company generates revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance, consulting fees, and other contractual fees. Such revenue is recognized as the related services are rendered. Prepayment penalties for debt instruments repaid prior to their stated maturity are recorded as income upon receipt.

*Net Realized and Unrealized Gain or Loss on Investments:* Investment transactions are reported on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the carrying value of the investment. Investments are reported at fair value as determined by the Company's Board. After recording all appropriate interest, dividend, and other income, some of which is recorded as an adjustment to the cost basis of the investment as described above, the Company reports changes in the fair value of investments as a component of the net changes in unrealized appreciation/depreciation on investments in the consolidated statements of operations.

*Non-accrual loans:* Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans, and non-accrual loans are further classified as and accounted for under either a non-accrual cash method or a non-accrual cost recovery method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest according to the contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of management, there is reasonable doubt about its collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has been contractually added to the principal balance prior to the designation date, is reversed against current period interest income. Interest payments subsequently received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. At December 31, 2015, one investment with aggregate cost and fair value of \$937 and \$798, respectively, was carried as non-accrual cash method loan. At December 31, 2014, the Company's investment in Strata Pathology, Inc. ( Strata ) was the Company's sole investment designated as a non-accrual loan, and was carried with an aggregate fair value and amortized cost of \$801 and \$3,988, respectively. On October 2, 2015, the Company accepted a cash payment of \$97 in full satisfaction of the loan. In connection with the Strata settlement, the Company realized a fourth quarter loss of \$3,891 and reversed \$3,187 of previously recognized unrealized depreciation.

**Income taxes:** The Company has elected to be treated, and intends to qualify annually, as a RIC under Subchapter M of the Code. To qualify as a RIC, the Company must, among other things, meet certain source of income and asset diversification requirements, and timely distribute at least 90% of its investment company taxable income to its shareholders. The Company has made, and intends to continue to make, the requisite distributions to its shareholders,

which generally relieves the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to retain taxable income in an amount less than that which would trigger federal income tax liability under Subchapter M of the Code. However, the Company would be liable for a 4% excise tax on such income. Excise tax liability is recognized when the Company determines its estimated current year annual taxable income exceeds estimated current year dividend distributions.

The Company may utilize wholly-owned holding companies taxed under Subchapter C of the Code when making equity investments in portfolio companies taxed as pass-through entities to meet its source-of-income requirements as a BDC. These tax blocker entities are consolidated in the Company's GAAP financial statements and may result in the reporting of federal income tax expense with respect to income derived from those investments. Such income, net of applicable federal income tax, is not included in the Company's tax-basis net investment income until distributed, which may result in temporary differences and character differences between the Company's GAAP and tax-basis net investment income and realized gains and losses.

F-68

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

The Company evaluates tax positions taken in the course of preparing its tax returns to determine whether they are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. The Company recognizes accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at December 31, 2015 and 2014. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

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

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

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

**Deferred financing closing costs:** Deferred financing closing costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. These amounts are amortized over the life of the borrowings.

**Goodwill:** On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded goodwill of \$1,077 (see Note 4). Goodwill is not subject to amortization. Goodwill is evaluated for impairment annually or more frequently if events occur or circumstances change that indicate goodwill may be impaired. There have been no goodwill impairments since the date of the SBIC Acquisitions. Goodwill is included in prepaid expenses and other assets at December 31, 2015 and 2014.

**Intangible asset:** On December 4, 2013, in connection with the SBIC Acquisitions, the Company recorded an intangible asset of \$2,500 attributable to the SBIC license. The Company amortizes this intangible asset on a straight-line basis over its estimated useful life of 13 years. The Company expects to incur annual amortization

expense of \$195 in each of the years ending December 31, 2025 and \$145 in 2026.

The Company tests its intangible asset for impairment if events or circumstances suggest that the asset carrying value may not be fully recoverable. The intangible asset, net of accumulated amortization of \$405 and \$209, is included in prepaid expenses and other assets at December 31, 2015 and 2014, respectively.

**Interest expense:** Interest expense is recognized on an accrual basis.

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

F-69

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 3. Summary of Significant Accounting Policies (continued)

**Recent accounting pronouncements:** In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2018.

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

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

In March 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* ( ASU 2015-03 ). ASU 2015-03 changes the presentation of debt issuance costs in the financial statements where an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 did not specifically address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. In response, the FASB issued ASU 2015-15 to incorporate the views of the Securities and Exchange Commission ( SEC ), which, given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line of credit arrangements, stated the SEC would not object to an entity deferring and presenting debt issuance costs as an

asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and requires a retrospective approach to adoption and applicable disclosures for a change in an accounting principle. Early adoption is permitted. Upon adoption of ASU 2015-03, the deferred financing closing costs associated with the Company's SBA debentures will be presented in the balance sheet as a direct deduction from the SBA debentures liability rather than as an asset. In addition, amortization of deferred financing closing costs will be reported as interest expense in the consolidated statement of operations rather than as amortization of deferred financing closing costs.

The Company is currently evaluating the impact of ASU 2015-03 to its revolving lines of credit.

F-70

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TABLE OF CONTENTS

## **OFS Capital Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)**

#### **Note 3. Summary of Significant Accounting Policies (continued)**

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ). ASU 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value, and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, *Fair Value Measurements*, and as such these investments may be measured at cost. ASU 2016-01 will be effective for the Company's fiscal year beginning December 1, 2018 and subsequent interim periods. The Company is required to record its investments at fair value with changes in fair value recognized in net income in accordance with ASC Topic 946, *Financial Services – Investment Companies*. Therefore, the adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements.

#### **Note 4. OFS Capital WM**

OFS Capital WM, LLC ( OFS Capital WM ), a wholly-owned investment company subsidiary, was formed in August 2010 with the limited purpose of holding, acquiring, managing and financing senior secured loan investments to middle-market companies in the United States. On September 28, 2010, the Company became the owner of OFS Capital WM through a transaction in which it transferred eligible loans or 100% of its participating interest in certain other loans to OFS Capital WM in exchange for cash and a 100% equity ownership interest in OFS Capital WM.

These loans were managed and serviced by MCF Capital Management, LLC ( MCF ) under a loan and security agreement among OFS Capital WM, MCF, Wells Fargo Securities, LLC, and Well Fargo Delaware Trust Company, N.A. (the Loan and Security Agreement ). MCF charged a management fee of 0.25% per annum of the assigned value of the underlying portfolio investments plus an accrued fee that was deferred until termination of the Loan and Security Agreement on May 28, 2015. The Company incurred management fee expense related to this agreement of \$288, \$731, and \$1,061, for the years ended December 31, 2015, 2014, and 2013, respectively.

##### **OFS Capital WM Asset Sale and Related Transactions**

On May 28, 2015, the Company and OFS Capital WM entered into a Loan Portfolio Purchase Agreement with Madison Capital Funding LLC ( Madison ), an affiliate of MCF, pursuant to which OFS Capital WM sold a portfolio of 20 senior secured debt investments with an aggregate outstanding principal balance of \$67,807 to Madison for cash proceeds of \$67,309 (the WM Asset Sale ). On May 28, 2015, the total fair value of the debt investments sold, applying the Company's March 31, 2015 fair value percentages to the principal balances of the respective investments on the sale date, was approximately \$66.7 million. The determination of the fair value of the Company's investments is

subject to the good faith determination by the Company's board of directors, which is conducted no less frequently than quarterly, pursuant to the Company's valuation policies and accounting principles generally accepted in the United States.

F-71

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TABLE OF CONTENTS

## OFS Capital Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

#### Note 4. OFS Capital WM (continued)

On May 28, 2015, pursuant to the Loan and Security Agreement, the Company applied \$52,414 from the sale proceeds of the WM Asset Sale to pay in full and retire OFS Capital WM's secured revolving line of credit with Wells Fargo Bank, N.A. ( WM Credit Facility ). As a result of the termination of the WM Credit Facility, the Company wrote-off related unamortized deferred financing closing costs of \$1,216.

On May 28, 2015, in connection with the WM Asset Sale, the Company entered into a Loan Administration Services Agreement with Madison pursuant to which Madison will provide loan servicing and other administrative services to OFS Capital WM with respect to certain of its remaining loan assets. In return for its loan administration services, Madison will receive a quarterly loan administration fee of 0.25% per annum based on the average daily principal balances of the loan assets for such quarter. The Company incurred loan administration fee expense of \$33 for the year ended December 31, 2015.

#### Note 5. SBIC Acquisitions

On December 4, 2013, the Company acquired all of the limited partnership interests in SBIC I LP, as well as all of the membership interest in SBIC I GP, LLC ( SBIC I GP ) that it did not already own, which resulted in SBIC I LP becoming a wholly owned subsidiary of the Company (the SBIC Acquisitions ). The Company paid cash of \$8,110 for the SBIC Acquisitions, consisting of \$7,951 for the SBIC I LP interests and \$159 for the SBIC I GP interests. In connection with the SBIC Acquisitions, on December 5, 2013, the employees directing the activities of SBIC I LP were reemployed by the affiliated entity of the Company, and Tamarix Associates, LLC was terminated as the investment manager of SBIC I LP. Upon the closing of the SBIC Acquisitions, the Company increased its capital commitment to SBIC I LP, both directly and through SBIC I GP, to \$75,000.

The SBIC Acquisitions were accounted for as a step acquisition in accordance with the Accounting Standards Codification 805, Business Combinations ( ASC Topic 805 ), under which the Company first re-measured its previously held equity interest in SBIC I LP and SBIC I GP at fair value at December 4, 2013, and recognized the resulting \$2,742 gain in earnings. The Company then stepwise accounted for the \$1,077 excess of the fair value of its previously held equity interest plus acquisition price over the fair value of the total net assets of SBIC I LP and SBIC I GP as goodwill. For tax purposes, the Company amortizes the goodwill over a period of 15 years.

In connection with the SBIC Acquisitions, the Company recognized a \$2,500 intangible asset attributable to SBIC I LP's SBIC license. In addition, the control the Company obtained upon the SBIC Acquisitions required the Company to consolidate the financial statements of SBIC I LP and SBIC I GP into its own effective December 4, 2013.





TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. SBIC Acquisitions (continued)**

The following table presents (1) the fair value of the net identifiable assets of SBIC I LP and SBIC I GP on the December 4, 2013 SBIC Acquisitions date, (2) remeasurement of the Company's equity interests in SBIC I LP and SBIC I GP at the SBIC Acquisitions date fair value and recognition of a realized gain, and (3) recording of the excess of the fair value of the previously held equity interest of SBIC I LP and SBIC I GP plus the acquisition price over the fair value of the total net assets of SBIC LP and SBIC I GP as goodwill.

Fair value of net identifiable assets on SBIC Acquisitions date:	
Investments	\$ 41,887
Cash and cash equivalents	1,216
Interest receivable and other assets	647
Intangible asset	2,500
Total assets	\$ 46,250
SBA debentures	(26,000 )
Other liabilities	(251 )
Net assets	\$ 19,999
Remeasurement of the Company's equity investments in step acquisition:	
Fair value of the Company's equity interests on SBIC Acquisitions date	\$ 12,966
Cost of the Company's equity interest immediately prior to SBIC Acquisitions date	10,224
Realized gain	\$ 2,742
Goodwill:	
Acquisition price	\$ 8,110
Fair value of the Company's equity interests on SBIC Acquisitions date	12,966
Less: total net assets acquired	(19,999 )
Goodwill	\$ 1,077

The following table reflects the summary operational data of SBIC I LP on a stand-alone basis for the period December 5, 2013 to December 31, 2013.

Total investment income	\$ 593
Total expenses	(84 )
Net change in unrealized appreciation on non-control/non-affiliate investments	45
Net change in unrealized appreciation on affiliate investments	119
Net change in unrealized depreciation on control investment	(1,750 )
Net decrease in net assets resulting from operations	\$ (1,077 )



TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 5. SBIC Acquisitions (continued)**

The following unaudited pro forma presentation assumes the SBIC Acquisitions took place on January 1, 2013.

	For the year ended December 31, 2013		
	Historical	Pro Forma Adjustments (unaudited)	Pro Forma (unaudited)
Investment income			
Interest income	\$16,927	\$3,677 <sup>(1)</sup>	\$20,604
Dividend and fee income	143	278 <sup>(1)</sup>	421
Total investment income	17,070	3,955	21,025
Expenses			
Interest expense	3,384	502 <sup>(1)</sup>	3,886
Amortization of deferred financing closing costs	965	121 <sup>(1)</sup>	1,086
Management fees	3,435	288 <sup>(1)</sup>	3,723
Professional fees	1,639	122 <sup>(1)</sup>	1,761
Administrative fee	938		938
General and administrative expenses	991	32 <sup>(1)</sup>	1,023
Total expenses	11,352	1,065	12,417
Net investment income	5,718	2,890	8,608
Net realized and unrealized gain (loss) on investments			
Net realized gain on non-control/non-affiliate investments	87		87
Realized gain from SBIC Acquisitions	2,742	(2,742) <sup>(2)</sup>	
Net change in unrealized appreciation (depreciation) on investments	(872 )	1,783 <sup>(1)</sup>	911
Net realized and unrealized gain on investments	1,957	(959 )	998
Net increase in net assets resulting from operations	\$7,675	\$1,931	\$9,606

**Pro Forma Adjustments:**

- (1) To incorporate SBIC I LP's statement of operations for the period January 1, 2013 through December 4, 2013 into the Company's. During this period, SBIC I GP had minimal activities.
- (2) To eliminate the Company's realized gain from the step acquisition on its pro forma consolidated statement of operations for the year ended December 31, 2013.

## Note 6. Related Party Transactions

**Investment Advisory and Management Agreement:** On November 7, 2012, the Company entered into an Investment Advisory and Management Agreement ( Advisory Agreement ) with OFS Advisor, under which OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. Under the terms of the Advisory Agreement and subject to the overall supervision of the Company s Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of Orchard First Source Asset Management, LLC ( OFSAM ) and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

OFS Advisor s services under the Advisory Agreement are not exclusive to the Company and OFS Advisor is free to furnish similar services to other entities so long as its services to the Company are not

F-74

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TABLE OF CONTENTS

## **OFS Capital Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)**

#### **Note 6. Related Party Transactions (continued)**

impaired. OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an incentive fee. From the completion of the Company's IPO through October 31, 2013, the base management fee was calculated at an annual rate of 0.875% based on the average value of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters. Beginning on November 1, 2013 and through March 31, 2014, pursuant to the Advisory Agreement, the base management fee was calculated at an annual rate of 1.75% based on the average value of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. OFS Advisor has excluded the value of the intangible asset and goodwill resulting from the SBIC Acquisitions from the base management fee calculation.

On May 5, 2014, the OFS Advisor agreed to reduce its base management fee by two-thirds for the nine months commencing April 1, 2014 and ending December 31, 2014. Specifically, for the second, third, and fourth quarters of fiscal 2014, OFS Advisor reduced its base management fee from 0.4375% per quarter to 0.145833% per quarter of the average value of the Company's total assets (other than cash, cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisitions, but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters. The purpose of this was to reduce the effective annual base management fee payable to OFS Advisor pursuant to the terms of the Advisory Agreement by 50% for the 2014 fiscal year. Accordingly, the effective annual base management fee for the 2014 fiscal year was equal to 50% of the 1.75% required by the Advisory Agreement with OFS Advisor, or 0.875%. OFS Advisor informed the Company that this reduction was made for the benefit of the Company's shareholders to take into account unforeseen delays in completing the SBIC Acquisitions. The base management fee resumed to its 1.75% annual rate on January 1, 2015.

The base management fee is payable quarterly in arrears and was \$4,937, \$2,184, and \$2,374, for the years ended December 31, 2015, 2014 and 2013, respectively.

The incentive fee has two parts. The first part (part one) is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (as 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. The incentive fee with respect to pre-incentive fee net income is 20.0% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until the net investment income equals the hurdle rate of 2.0%, but then receives, as a catch-up, 100.0% of the pre-incentive fee net investment income with

F-75

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TABLE OF CONTENTS

## **OFS Capital Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)**

#### **Note 6. Related Party Transactions (continued)**

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 and adjusted for any share issuances or repurchases during such quarter.

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

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

The Company incurred incentive fee expense of \$2,627, \$1,253, and \$-0- for the years ended December 31, 2015, 2014, and 2013, respectively. Incentive fees for the year ended December 31, 2015, consisted of part one incentive fees (based on net investment income) of \$2,488 and part two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of \$139, which was accrued but not payable as of December 31, 2015. Incentive fees were \$1,253 and \$-0- for the years ended December 31, 2014 and 2013, respectively, which consisted entirely of

part one incentive fees.

**Administration Agreement:** On November 7, 2012, the Company entered into an administration agreement ( Administration Agreement ) with OFS Capital Services, LLC (the OFS Services ), a wholly-owned subsidiary of OFSAM. Pursuant to the 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. 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 shareholders 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

F-76

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TABLE OF CONTENTS**OFS Capital Corporation and Subsidiaries****Notes to Consolidated Financial Statements  
(Dollar amounts in thousands, except per share data)****Note 6. Related Party Transactions (continued)**

reports to its shareholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, 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' 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.

Administration expense was \$1,637, \$1,245, and \$938 for the years ended December 31, 2015, 2014, and 2013, respectively.

**Note 7. Investments**

As of December 31, 2015, the Company had loans to 38 portfolio companies, of which 71% were senior secured loans and 29% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held an equity investment in one portfolio company in which it did not hold a debt interest. At December 31, 2015, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	\$ 163,398	\$ 161,944	\$ 160,437
Subordinated debt investments	65,373	65,227	64,240
Equity investments	N/A	25,084	32,619
Total	\$ 228,771	\$ 252,255	\$ 257,296

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

	Cost		Fair Value	
Administrative and Support and Waste Management and Remediation Services				
Other Travel Arrangement and Reservation Services	\$10,164	4.0 %	\$10,164	4.0 %
Security Systems Services (except Locksmiths)	5,000	2.0	5,000	1.9
Tour Operators	2,849	1.1	3,198	1.2
Education Services				

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Colleges, Universities, and Professional Schools	5,005	2.0	4,786	1.9
Finance and Insurance				
Insurance Agencies and Brokerages	11,663	4.6	11,497	4.5
Health Care and Social Assistance				