PETROBRAS ENERGIA PARTICIPACIONES SA
Form 6-K
August 19, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

August 19, 2005

PETROBRAS ENERGIA PARTICIPACIONES S.A.

(formerly PEREZ COMPANC S.A. and PC HOLDING S.A.)

(Exact Name of Registrant as Specified in its Charter)

Maipú 1, Piso 22

(1084) Buenos Aires, Argentina

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F X Form 40-F _

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes _ No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82

N/A

Buenos Aires, August 19, 2005

Messrs.

Bolsa de Comercio de Buenos Aires

Re: Notice CD N° 173,939.

Press reports

Dear Sirs:

In answer to your request in connection with an article published in the August 14, 2005 issue of the Clarín newspaper, we inform you that Petrobras Energía Participaciones S.A. s Management is not aware of any initiative relating to a potential public offering for the purchase of the company s shares. The source and grounds of the statements published are unknown.

Sincerely yours.

Gabriel Scagnetti

Market relations

SIGNATURES

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

PETROBRAS ENERGÍA PARTICIPACIONES S.A.

Date: 08/19/2005

By: /s/ Daniel Casal

By: /s/ Luis M. Sas

Name: Daniel Casal

Name: Luis M. Sas

Title: Attorney

Title: Attorney

#

N=1> 10,410 10,339 10,277 7.2 Delayed Draw Senior Secured Term
Loan 10.25% (L+9.25%)
12/10/19 741 739 732 0.5 3,000,000 Class A Units in IGT Holdings, LLC, 11%
PIK(12) 2,799 2,757 1.9 3,000,000 Common Units in IGT Holdings,
LLC(12) 572 26 11,151 14,449 13,792 9.6 Total Affiliate
Investments 46,085 63,113 66,393 46.3 Control Investment
Mirage Trailers LLC(3)
Senior Secured Term Loan Travel Trailer and Camper Manufacturing 12.50% (L+11.50%)
11/25/20 10,648 10,544 10,544 7.4 554 common equity shares in MTE Holding
Corp.(12) 3,069 3,069 2.0 10,648 13,613 13,613 9.4 Total Control
Investment 10,648 13,613 13,613 9.4 Total Investments $228,771 $252,255 $257,296 179.9%

(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. 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 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.

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments (Continued) December 31, 2015 (Dollar amounts in thousands)

(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 12.84% 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.

(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 13.25% 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.

(8) 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 earnout payment of up to approximately $230 to $460 in 2017.

(9) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest 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.

(10) 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.

(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.

See Notes to Unaudited Consolidated Financial Statements.

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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

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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.

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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.

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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.

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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.

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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.

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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 retrospecitve 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.

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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

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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.

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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

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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

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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

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

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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	%

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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

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

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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	14,449	5.7	13,792	5.3
Professional, Scientific, and Technical Services				
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:

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

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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

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%)

			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)

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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

Net change in unrealized appreciation/depcreciation 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

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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/depcreciation 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,

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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,

		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.

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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.

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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

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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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[5]				
Dividends from ordinary income[8] (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[1]	15.8	%	6.9	%
Total return based on net asset value[2]	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	[3]	$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[6]	9.7	%	13.3	%
Ratio of incentive fees to average net assets[6]	2.1	%	1.1	%
Ratio of total expenses to average net assets[6]	11.8	%	14.4	%
Ratio of net investment income without incentive fees to average net assets[6]	12.4	%	9.2	%
Ratio of net investment income to net assets at end of period	2.6	%	2.0	%
Portfolio turnover[7]	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.

(8) 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

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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.

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

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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.

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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

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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.

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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

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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

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)

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.

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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

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

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OFS Capital Corporation and Subsidiaries Consolidated Statements of Operations(Dollar amounts in thousands, e

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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

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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)
Additonal 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)

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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

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Industry Portfolio Company Investment Type	Industry	Interest Rate(1)	Spread Above Index(1)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Accurate Group Holdings, Inc.(3)								
Subordinated Loan	Offices of Real Estate Appraisers	12.50%	N/A	8/23/18	$10,000	$10,050	$9,940	7.0%
A.C.T. Lighting, Inc.(3)								
Subordinated Loan	Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers	12.00% cash/2.0% PIK	N/A	7/24/19	3,574	3,558	3,559	2.5
All Metals Holding, LLC(3)								
Senior Secured Term Loan	Metal Service Centers and Other Metal Merchant Wholesalers	10.50%	N/A	12/30/19	9,900	9,765	9,697	6.8
Common Equity (69,464 member units)(12)						69	259	0.2
					9,900	9,834	9,956	7.0
AssuredPartners, Inc.(3)								
Senior Secured Term Loan	Insurance Agencies and Brokerages	10.00%	(L+9.00%)	10/22/23	3,000	2,883	2,894	2.0
B+B SmartWorx Inc. (f/k/a B&B Electronics Manufacturing Company)								
Senior Secured Term Loan A	Communications Equipment	6.50%	(L+5.00%)	3/31/16	2,257	2,257	2,257	1.6

	Manufacturing							
BCC Software, LLC[(3)]								
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[(12)]		N/A	(L+8.00%)	6/20/19		(11)	(36)[(2)]	
					6,573	6,493	6,319	4.4
Community Intervention Services, Inc. (f/k/a South Bay Mental Health Center, Inc.)[(3)]								
Subordinated Loan[(9)]	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
Confie Seguros Holdings II Co.								
Senior Secured Term Loan	Insurance Agencies and Brokerages	10.25%	(L+9.00%)	5/8/19	4,000	3,965	3,893	2.7
C7 Data Centers, Inc.[(3)(7)]								
Senior Secured Term Loan	Other Computer Related Services	13.25%	(L+8.50%)	6/22/20	11,850	11,828	11,508	8.0
Elgin Fasteners Group								
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
HealthFusion, Inc.[(3)(8)]								
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)[(12)]							2,560	1.8
					4,750	4,711	7,453	5.2
Inhance Technologies Holdings LLC								
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
Intelli-Mark Technologies, Inc.[(3)]								
Senior Secured Term Loan[(11)]	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)[(12)]						1,500	1,500	1.0
					8,750	10,164	10,164	7.1

Intrafusion Holding Corp.(3)(6)								
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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(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. 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 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.

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(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 12.84% 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.

(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 13.25% 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.

(8) 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 earnout payment of up to approximately $230 to $460 in 2017.

(9) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest 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.

(10) 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.

(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.

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Industry Portfolio Company Investment Type	Industry	Interest Rate(1)	Spread Above Index(1)	Maturity	Principal Amount	Amortized Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
A.C.T. Lighting, Inc.(3)								
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.(3)								
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(3)								
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

All Metals Holding, LLC(3)								
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)(11)						97	97	0.1
					14,000	13,860	13,860	10.1
Anaren, Inc.(3)								
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(3)								
Senior Secured Revolver	Custom Computer Programming Services	N/A	(L +8.00%)	6/19/19		(15)	(24)(2)	
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

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(1) 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 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.

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

(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 Term Loan, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Community Investors, Inc., the all-in interest rate of 11.86% at December 31, 2014 included an interest rate of 3.61% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

(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 Term Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall.

(8) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed, with respect to the Senior Secured Tem Loan B, to receive its payment after the repayment of certain lenders pursuant to a payment waterfall. With respect to Intrafusion Holding Corp., the all-in interest rate of 13.58% at December 31, 2014 included an interest rate of 3.08% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.

(9) 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 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.

(10) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments with the issuance of additonal 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.

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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.

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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)

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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

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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)

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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 (1)	$20,604
Dividend and fee income	143	278 (1)	421
Total investment income	17,070	3,955	21,025
Expenses			
Interest expense	3,384	502 (1)	3,886
Amortization of deferred financing closing costs	965	121 (1)	1,086
Management fees	3,435	288 (1)	3,723
Professional fees	1,639	122 (1)	1,761
Administrative fee	938		938
General and administrative expenses	991	32 (1)	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) (2)	
Net change in unrealized appreciation (depreciation) on investments	(872)	1,783 (1)	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

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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

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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

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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 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 $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				

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

OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 7. Investments (continued)

	Cost		Fair Value	
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
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
Other Services (except Public Administration)				
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	14,449	5.7	13,792	5.3
Professional, Scientific, and Technical Services				
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%

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Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 7. Investments (continued)

As of December 31, 2014, the Company had loans to 61 portfolio companies, of which 82% were senior secured loans and 18% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held equity investments in one portfolio company in which it did not hold a debt interest. At December 31, 2014, investments consisted of the following:

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

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

	Cost		Fair Value	
Administrative and Support and Waste Management and Remediation Services				
Facilities Support Services	$3,695	1.2%	$3,506	1.1%
Office Administrative Services	13,954	4.4	13,950	4.4
Security Systems Services (except Locksmiths)	2,468	0.8	2,463	0.8
Tour Operators	4,331	1.4	4,572	1.5
Education Services				
Colleges, Universities, and Professional Schools	4,975	1.6	4,975	1.6
Finance and Insurance				
Insurance Agencies and Brokerages	4,848	1.5	4,826	1.5
Health Care and Social Assistance				
Medical Laboratories	8,205	2.6	5,135	1.6
Offices of All Other Miscellaneous Health Practitioners	4,665	1.5	4,665	1.5
Other Outpatient Care Centers	2,016	0.6	2,016	0.6
Outpatient Mental Health and Substance Abuse Centers	3,030	1.0	3,027	1.0
Residential Mental Health and Substance Abuse Facilities	4,537	1.4	4,473	1.4
Information				
Book Publishers	2,364	0.8	2,348	0.8
Cable and Other Subscription Programming	3,542	1.1	3,590	1.1
Other Information Services	2,622	0.8	2,619	0.8
Other Telecommunications	4,132	1.3	3,983	1.3

Software Publishers	14,276	4.6	15,072	4.8
Manufacturing				
Aerospace Product and Parts Manufacturing	3,775	1.2	3,712	1.2
All Other Miscellaneous Chemical Product and Preparation Manufacturing	2,045	0.7	1,952	0.6
All Other Plastics Product Manufacturing	3,990	1.3	3,962	1.3
All Other Rubber Product Manufacturing	4,640	1.5	4,671	1.5
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	4,632	1.5	4,616	1.5
Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing	1,525	0.5	1,529	0.5

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Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 7. Investments (continued)

	Cost			Fair Value		
Communications Equipment Manufacturing	$2,437	0.8	%	$2,426	0.8	%
Conveyor and Conveying Equipment Manufacturing	3,032	1.0		2,974	1.0	
Laminated Plastics Plate, Sheet (except Packaging), and Shape Manufacturing	10,953	3.5		10,953	3.5	
Other Aircraft Parts and Auxiliary Equipment Manufacturing	11,611	3.7		11,780	3.8	
Other Basic Inorganic Chemical Manufacturing	12,242	3.9		12,118	3.9	
Other Basic Organic Chemical Manufacturing	3,182	1.0		3,117	1.0	
Other Commercial and Service Industry Machinery Manufacturing	3,850	1.2		3,810	1.2	
Pharmaceutical Preparation Manufacturing	4,091	1.3		4,934	1.6	
Pump and Pumping Equipment Manufacturing	14,641	4.7		14,682	4.7	
Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing	2,944	0.9		2,923	0.9	
Soap and Other Detergent Manufacturing	1,314	0.4		1,230	0.4	
Surgical and Medical Instrument Manufacturing	4,552	1.5		4,552	1.5	
Other Services (except Public Administration)						
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	13,898	4.4		13,898	4.5	
Professional, Scientific, and Technical Services						
Administrative Management and General Management Consulting Services	7,931	2.5		7,819	2.5	
Custom Computer Programming Services	6,805	2.2		6,734	2.2	
Direct Mail Advertising	4,434	1.4		4,454	1.4	
Marketing Consulting Services	3,012	1.0		3,039	1.0	
Other Accounting Services	5,527	1.8		5,816	1.9	
Other Computer Related Services	13,651	4.4		13,747	4.4	
Other Management Consulting Services	3,430	1.1		3,322	1.1	
Other Professional, Scientific, and Technical Services	20,731	6.5		21,159	6.7	
Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.3		900	0.3	
Office Machinery and Equipment Rental and Leasing	12,026	3.8		12,043	3.9	
Offices of Real Estate Agents and Brokers	4,296	1.4		4,278	1.4	
Offices of Real Estate Appraisers	10,071	3.2		10,071	3.2	
Wholesale Trade						
	5,680	1.8		5,702	1.8	

Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers				
Industrial Machinery and Equipment Merchant Wholesalers	2,778	0.9	2,810	0.9
Medical, Dental, and Hospital Equipment and Supplies Merchant Wholesalers	2,636	0.8	2,630	0.8
Metal Service Centers and Other Metal Merchant Wholesalers	13,860	4.4	13,860	4.4
Office Equipment Merchant Wholesalers	2,791	0.9	2,791	0.9
	$313,573	100.0%	$312,234	100.0%

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Note 8. 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 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:

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 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 December 31, 2015 or 2014, 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.

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Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 8. Fair Value of Financial Instruments (continued)

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, 2015, 2014, and 2013. 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 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.

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Note 8. 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, 2015 and 2014. 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, 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)

	Fair Value at December 31, 2014	Valuation techniques	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$ 241,749	Discounted cash flow	Discount rates	5.75% 25.00% (9.46%)
				4.30x 10.87x (7.24x)

			EBITDA multiples		
Subordinated	52,453	Discounted cash flow	Discount rates	12.78%	15.00% (14.21%)
			EBITDA multiples	3.98x	5.55x (5.43x)
Equity investments	18,032	Discounted cash flow	Discount rates	12.25%	35.00% (20.98%)
			EBITDA multiples	3.98x	9.48x (6.00x)

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.

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Note 8. 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, 2015, 2014, and 2013.

	For the Year Ended December 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 (loss) on investments	(3,876)		2,314	(1,562)
Net change in unrealized appreciation/depcreciation on investments	2,554	(1,060)	4,888	6,382
Purchase of portfolio investments	90,120	21,757	12,073	123,950
Conversion from senior to subordinated debt	(4,705)	4,705		
Capitalized PIK interest, dividends, and fees	524	782	1,115	2,421
Proceeds from principal payments on portfolio investments	(81,538)	(14,531)		(96,069)
Sale and redemption of portfolio investments	(86,096)		(5,576)	(91,672)
Cash distribution received from equity investments			(183)	(183)
Amortization of discounts and premium	1,705	90		1,795
Conversion from equity to debt		44	(44)	
Level 3 assets, end of period	$160,437	$64,240	$32,619	$257,296

	For the Year Ended December 31, 2014			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of year	$221,546	$9,008	$7,365	$237,919
Net realized loss on investments	(2,686)		(673)	(3,359)
Net change in unrealized appreciation/depcreciation on investments	911	108	3,145	4,164
Purchase of portfolio investments	115,357	39,705	7,760	162,822
Capitalized PIK interest, dividends and fees	398	441	446	1,285
Reversal of PIK interest on non-accrual loans	(64)			(64)

Proceeds from principal payments on portfolio investments	(79,587)			(79,587)
Sale of portfolio investments	(12,121)			(12,121)
Cash distribution received from equity investment			(11)	(11)
Amortization of discounts and premium	1,213	(27)		1,186
Reclassification of a debt investment	(3,218)	3,218		
Level 3 assets, end of year	$241,749	$52,453	$18,032	$312,234

The net unrealized (depreciation) for the years ended December 31, 2015, 2014, and 2013 reported in the Company s consolidated statements of operations attributable to the Company s Level 3 assets held at those respective year ends was $3,243, $2,467, and ($1,786), 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

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 8. Fair Value of Financial Instruments (continued)

meaningful. As of December 31, 2015 and 2014, 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 9. Commitments and Contingencies

Unfunded commitments as of December 31, 2015 and 2014 were as follows:

Name of Portfolio Company	Investment Type	December 31, 2015	December 31, 2014
HealthFusion, Inc.	Senior Secured Loan	$	$ 2,500
NeoSystems Corp.	Subordinated Loan	1,636	1,636
NeoSystems Corp.	Convertible Preferred Stock	364	364
BCC Software, LLC	Senior Secured Revolver	1,094	1,094
TRS Services, LLC	Delayed Draw Senior Secured Term Loan		500
Stancor, L.P.	Senior Secured Term Loan		1,000
A.C.T. Lighting, Inc.	Subordinated Loan	742	742
Total		$ 3,836	$ 7,836

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, 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, 2015.

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 10. 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 million. In connection with the SBIC Acquisitions, the Company increased its total commitments to SBIC I LP to

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 10. Borrowings (continued)

$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 December 31, 2015, SBIC I LP had fully drawn the $149,880 of leverage commitments from the SBA. As of December 31, 2014, SBIC I LP had leverage commitments of $149,880 from the SBA, and $127,295 of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $22,585.

On a stand-alone basis, SBIC I LP held $248,567 and $215,728 in assets at December 31, 2015 and 2014, respectively, which accounted for approximately 83% and 63% of the Company s total consolidated assets, respectively.

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

Pooling Date	Maturity Date	Fixed Interest Rate	December 31, 2015	December 31, 2014
September 19, 2012	September 1, 2022	3.049 %	$ 14,000	$ 14,000
September 25, 2013	September 1, 2023	4.448	7,000	7,000
March 26, 2014	March 1, 2024	3.995	5,000	5,000
September 24, 2014	September 1, 2024	3.819	4,110	4,110
September 24, 2014	September 1, 2024	3.370	31,265	31,265
March 25, 2015	March 1, 2025	2.872	65,920	65,920
September 23, 2015	September 1, 2025	3.184	22,585	
Total SBA debentures outstanding			$ 149,880	$ 127,295

The Company received exemptive relief from the SEC effective November 26, 2013. The exemptive relief allows 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 weighted average fixed interest rate on the SBA debentures as of December 31, 2015 and 2014 was 3.18% and 3.50%, respectively. Interest expense on the SBA debentures was $4,055, $1,319, and $60 for the years ended December 31, 2015, 2014, and 2013, respectively.

Deferred financing closing costs, net of accumulated amortization, on SBA-guaranteed debentures as of December 31, 2015 and 2014 were $3,420 and $3,169, respectively. Amortization of deferred financing closing costs on SBA-guaranteed debentures was $297, $114, and $0 for the years ended December 31, 2015, 2014, and 2013, 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 financing closing costs of $202 in connection with the closing of the PWB Credit Facility. Amortization of deferred financing costs was $17 for the year ended December 31, 2015. There have been no advances under the facility as of December 31, 2015.

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 10. Borrowings (continued)

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 interest rate on the outstanding borrowings at December 31, 2014 was 2.76%. 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 was included in interest expense on the consolidated statement of operations. Interest expense on the revolving line of credit was $787, $2,905, $3,324 for the years ended December 31, 2015, 2014, and 2013, respectively.

Deferred financing closing costs, net of accumulated amortization, on the WM Credit Facility was $1,803 as of December 31, 2014. Amortization and write-offs of deferred financing closing costs on the revolving line of credit were $1,803, $1,240, and $965 of which $1,646, $665, and $299, represented write-offs for the years ended December 31, 2015, 2014 and 2013, respectively. Write-offs of deferred financing closing costs occurred when the credit facility s commitment was permanently reduced.

At December 31, 2014, cash and cash equivalents included $1,039 held in a money market account and pledged as collateral under the OFS Capital WM credit facility.

Note 11. 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 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:

	Year ended December 31,		
	2015	2014	2013(1)
Ordinary taxable income (2014 and 2013 revised)	$ 10,954	$ 6,139	$ 8,288
Long-term capital gain			5
Return of capital (2014 and 2013 revised)	2,197	6,964	3,149
Total distributions to stockholders	$ 13,151	$ 13,103	$ 11,442

(1) Includes taxable income for the period November 8, 2012 through December 31, 2012, which was distributed in January 2013.

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Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 11. Federal Income Tax (continued)

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 2014 and 2013 were part of the revisions discussed in Note 2 as they had not been reported in previously issued financial statements. Reclassifications were as follows:

	Year ended December 31,		
	2015	2014	2013
Paid-in capital in excess of par	$ (198)	$ 62	$ (878)
Undistributed net investment income	(304)	(555)	878
Accumulated net realized gain (loss)	502	493	

Tax basis undistributed income as of December 31, 2015 and 2014 was as follows:

	December 31,	
	2015	2014
Undistributed net investment income	$	$
Capital loss carryforward (non-expiring)	(2,447)	(1,440)

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, 2015 and 2014 were as follows:

	December 31,	
	2015	2014
Tax-basis amortized cost of investments	$ 247,714	$ 311,270
Tax-basis gross unrealized appreciation on investments	13,826	6,043
Tax-basis gross unrealized depreciation on investments	(4,244)	(5,079)
Tax-basis net unrealized appreciation on investments	9,582	964
Fair value of investments	$ 257,296	$ 312,234

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 12. Financial Highlights

The financial highlights for the Company since its IPO are as follows:

	Year Ended December 31,			November 8, 2012 through December 31, 2012
	2015	2014	2013	
Per share data:				
Net asset value per share at beginning of period	14.24	$14.58	$14.80	N/A (8)
Distributions(7)				
Dividends from ordinary income (2014 revised)	(1.13)	(0.64)	(0.68)	N/A (8)
Dividends from capital gains				N/A (8)
Return of capital (2014 revised)	(0.23)	(0.72)	(0.34)	N/A (8)
Net investment income	1.39	0.95	0.59	N/A (8)
Net realized gain (loss) on non-control/non-affiliate investments	(0.31)	0.02	0.01	N/A (8)
Net realized gain on affiliate investments	0.14			N/A (8)
Net realized loss on control investment		(0.37)		N/A (8)
Realized gain from SBIC Acquisitions			0.29	N/A (8)
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	0.53	0.05	0.04	N/A (8)
Net change in unrealized appreciation/depreciation on affiliate investments	0.13	0.19	0.05	N/A (8)
Net change in unrealized depreciation on control investment		0.18	(0.18)	N/A (8)
Net asset value per share at end of period	$14.76	$14.24	$14.58	$14.80 (8)
Per share market value, end of period	$11.48	$11.78	$12.83	$13.69
Total return based on market value	9.0%(1)	2.4%(1)	1.3%(1)	(7.6%)(1)
Total return based on net asset value	13.4%(2)	7.0%(2)	7.7%(2)	N/M (10)
Shares outstanding at end of period	9,691,170	9,650,834	9,629,797	9,578,691
Weighted average shares outstanding	9,670,153	9,634,471	9,619,723	9,578,691
Ratio/Supplemental Data (in thousands except ratios)				

Average net asset value	$140,002	(3)	$138,131	(4)	$141,058	(5)	$98,164	(6)
Net asset value at end of period	143,012		137,471		140,378		141,799	
Net investment income	13,411		9,135		5,718		661	
Ratio of expenses without incentive fees to average net assets	11.6	%	9.0	%	8.0	%	13.6	%(9)
Ratio of incentive fees to average net assets	1.9	%	0.9	%				(9)
Ratio of total expenses to average net assets	13.5	%	9.9	%	8.0	%	13.6	%(9)
Ratio of net investment income without incentive fees to average net assets	11.5	%	7.5	%	4.1	%	4.6	%(9)
Ratio of net investment income to average net assets	9.6	%	6.6	%	4.1	%	4.6	%(9)
Portfolio turnover	44.6	%	34.9	%	19.7	%		

(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.

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 12. Financial Highlights (continued)

(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, 2014, March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015.

(4) Based on average net asset values at December 31, 2013, March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014.

(5) Based on average net asset values at December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013.

(6) Based on average net asset values at November 8, 2012 and December 31, 2012.

(7) The components of the distributions are presented on an income tax basis.

(8) Per share data is not provided as the Company did not have shares of common stock outstanding prior to its IPO.

(9) Annualized.

(10) Not meaningful

Note 13. 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 $20,782 held by SBIC I LP, which was not available for distribution at December 31, 2015.

OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 13. Dividends and Distributions (continued)

The following table summarizes distributions declared and paid for the years ended December 31, 2015, 2014, and 2013:

Date Declared	Record Date	Payment Date	Amount Per Share(1)	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Year ended December 31, 2013						
March 26, 2013	April 17, 2013	April 30, 2013	$ 0.34	$ 3,110	11,408	$ 159
June 25, 2013	July 17, 2013	July 31, 2013	0.34	3,248	1,997	24
September 25, 2013	October 17, 2013	October 31, 2013	0.34	3,240	2,810	33
			$ 1.02	$ 9,598	16,215	$ 216
Year ended December 31, 2014						
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
Year ended December 31, 2015						
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	December 17, 2015	December 31, 2015	0.34	3,283	1,041	12
			$ 1.36	$ 12,690	40,336	$ 461

(1) The determination of the tax attributes of distributions is made annually as of the end of each fiscal year based 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, 2013 (which includes the distribution declared on November 26, 2012), 2014, and 2015 was $0.40, $0.72, and $0.23, respectively.

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. For the year ended December 31, 2013, $216 of the total $9,814 paid to shareholders represented DRIP participation, during which the Company satisfied the DRIP participation requirements with the issuance of 51,106 shares at an average value of $14.05 per share at the date of issuance.

Since the Company s IPO, dividends and distributions to shareholders total 37,696, or $3.91 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. For the year ended December 31, 2015, approximately $1.13 per share and $0.23 per share of the Company s distributions represented ordinary income and a return of capital to its shareholders, respectively.

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Note 14. 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 years ended December 31, 2015, 2014 and 2013.

	Years Ended December 31, 2015	2014	2013
Net increase in net assets resulting from operations	$ 18,231	$ 9,940	$ 7,675
Basic and diluted weighted average shares outstanding	9,670,153	9,634,471	9,619,723
per common share basic and diluted	$ 1.89	$ 1.03	$ 0.80

Note 15. Selected Quarterly Financial Data (Unaudited)

	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 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[(1)]	$ 0.64	$ 0.15	$ 0.77	$ 0.33
Net asset value per share[(2)]	$ 14.76	$ 14.46	$ 14.66	$ 14.24

	Quarter Ended 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[(1)]	$ 0.36	$ 0.40	$ 0.06	$ 0.21
Net asset value per share[(2)]	$ 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.

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Note 16. Consolidated Schedule of Investments In and Advances To Affiliates

Name of Portfolio Company	Investment Type[1]		Interest, Fees and Dividends Credited to Income[2]	December 31, 2014 Fair Value	Gross Additions[3]	Gross Reductions[4]	December 31, 2015 Fair Value
Control Investment							
Mirage Trailers LLC	Senior Secured Term Loan		$ 291	$	$ 10,645	$ (101)	$ 10,544
	Common Equity	(6)			3,069		3,069
Total Control Investment			291		13,714	(101)	13,613
Affiliate Investments							
Contract Datascan Holdings, Inc.	Senior Secured Term Loan B		698	9,129	136	(9,265)	
	Subordinated Loan		305		5,325	(89)	5,236
	Preferred Equity A	(6)(7)	360	2,468	360	(56)	2,772
	Preferred Equity B	(6)(7)	28	446	65	(511)	
	Common Equity	(6)			444		444
			1,391	12,043	6,330	(9,921)	8,452
KBP Investments, LLC	Common Equity A	(6)					
	Common Equity B		34		2,034	(2,034)	
			34		2,034	(2,034)	
Malabar International	Subordinated Loan		1,151	7,376	186	(66)	7,496
	Preferred		132	4,404	912		5,316

	Stock						
			1,283	11,780	1,098	(66)	12,812
Master Cutlery, LLC	Subordinated Loan		477		4,787	(82)	4,705
	Preferred Equity	(7)	103		3,779	(764)	3,015
	Common Equity	(6)			167		167
			580		8,733	(846)	7,887
NeoSystems Corp.	Subordinated Loan		610	4,524	102	(7)	4,619
	Convertible Preferred Stock	(6)(7)	109	1,292	1,189		2,481
			719	5,816	1,291	(7)	7,100
Pfanstiehl Holdings, Inc	Subordinated Loan		489	3,864		(50)	3,814
	Class A Common Equity	(6)	85	1,070	814		1,884
			574	4,934	814	(50)	5,698
Sentry Centers Holdings, LLC[5]	Senior Secured Loan		333	5,104	12	(5,116)	
	Senior Secured Loan		74	1,010	8	(1,018)	
	Preferred Equity A	(6)	28	520		(520)	
			435	6,634	20	(6,654)	
Strategic Pharma Solutions, Inc.	Senior Secured Term Loan		128		8,848		8,848
	Class A Units	(6)(7)	4		1,804		1,804
			132		10,652		10,652
Tangible Software, Inc.	Senior Secured Loan		250	2,463	176	(2,639)	
	Common Equity	(6)					
			250	2,463	176	(2,639)	
TRS Services, Inc.	Initial Senior Term Loan		1,049	10,383	60	(166)	10,277
	Delayed Draw Senior Term Loan		73	495	252	(15)	732
	Class A Units in IGT Holdings, LLC	(6)(7)	351	3,020	(221)	(42)	2,757
	Common Units in IGT Holdings, LLC	(6)			572	(546)	26
			1,473	13,898	663	(769)	13,792
Total Affiliate Investments			6,871	57,568	31,811	(22,986)	66,393

Total Control and Affiliate Investments	$ 7,162	$ 57,568	$ 45,525	$ (23,087)	$ 80,006

(1) Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated schedule of investments.

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OFS Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollar amounts in thousands, except per share data)

Note 16. Consolidated Schedule of Investments In and Advances To Affiliates (continued)

(2) Represents the total amount of interest, fees or dividends included in 2015 income for the portion of the year ended December 31, 2015 that an investment was included in Control or Affiliate Investment categories, respectively.

(3) Gross additions include increases in cost basis resulting from a new portfolio investment, accrued PIK interest and dividend, accretion of OID and loan origination fees. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any. Gross reductions also include net decreases in unrealized appreciation or net increases in unrealized depreciation.

(5) In May 2015, the Company sold the Preferred Equity A investment and combined the Senior Secured Loans into a single Senior Secured Loan. As a result, the single Senior Secured Loan was re-categorized as a Non-control/Non-affiliate Investment.

(6) Non-income producing.

(7) Dividends credited to income include dividends contractually earned but not declared.

Note 17. Subsequent Events Not Disclosed Elsewhere

On March 7, 2016, the Company s Board declared a distribution of $0.34 per share for the first quarter of 2016, payable on March 31, 2016 to shareholders of record as of March 17, 2016.

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3,500,000 Shares

Common Stock

OFS Capital Corporation

PROSPECTUS SUPPLEMENT

Morgan Stanley
UBS Investment Bank
Citigroup
J.P. Morgan
Janney Montgomery Scott
Ladenburg Thalmann
Aegis Capital Corp.
National Securities Corporation

March , 2017