UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

OR

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

COMMISSION FILE NUMBER: 814-00813

OFS Capital Corporation

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**46-1339639**
(State or jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10 S. Wacker Drive, Suite 2500 Chicago, Illinois	**60606**
(Address of principal executive offices)	**(Zip Code)**

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:

(847) 734-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ No x

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) YES ☐ NO x

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

The aggregate market value of the registrant's voting shares of common stock held by non-affiliates of the registrant as of June 30, 2019, was approximately $125.0 million based on $12.00 per share, the last reported sale price of the shares of common stock on the Nasdaq Global Select Market. For the purpose of calculating this amount only, shares held by certain stockholders and by directors and executive officers of the registrant have been excluded. On March 11, 2020, there were 13,376,836 shares outstanding of the Registrant's common stock, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the registrant's 2020 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K as indicated herein.

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OFS Capital Corporation, our logo and other trademarks of OFS Capital Corporation are the property of OFS Capital Corporation. All other trademarks or trade names referred to in this Annual Report on Form 10-K are the property of their respective owners.

Defined Terms

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

1940 Act	Investment Company Act of 1940, as amended
Administration Agreement	Administration Agreement between the Company and OFS Services dated November 7, 2012
Advisers Act	Investment Advisers Act of 1940, as amended
Annual Distribution Requirement	Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI
ASC	Accounting Standards Codification, as issued by the FASB
ASC Topic 820	ASC Topic 820, "Fair Value Measurements and Disclosures"
ASC Topic 946	ASC Topic 946, "Financial Services-Investment Companies"
ASU	Accounting Standards Updates, as issued by the FASB
BDC	Business Development Company under the 1940 Act
BLA	Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility
BNP Facility	Revolving credit and security agreement by and among OFSCC-FS, the lenders from time to time parties thereto, BNP Paribas, as administrative agent, OFSCC-FS Holdings, LLC, a wholly owned subsidiary of the Company, as equityholder, the Company, as servicer, Citibank, N.A., as collateral agent and Virtus Group, LP, as collateral administrator, which provides for borrowings in an aggregate principal amount up to $150,000,000
Board	The Company's board of directors
CLO	Collateralized loan obligation
Code	Internal Revenue Code of 1986, as amended
Company	OFS Capital Corporation and its consolidated subsidiaries
Direct Investment	A debt or equity investment in a portfolio company. Direct investments exclude Structured Finance Notes
DRIP	Distribution reinvestment plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
GAAP	Accounting principles generally accepted in the United States
HPCI	Hancock Park Corporate Income, Inc., a Maryland corporation and non-traded BDC for whom OFS Advisor serves as investment adviser
ICTI	Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses
Indicative Prices	Market quotations, prices from pricing services or bids from brokers or dealers
Investment Advisory Agreement	Investment Advisory and Management Agreement between the Company and OFS Advisor dated November 7, 2012
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
Net Loan Fees	The cumulative amount of fees, such as discounts, premiums and amendment fees that are deferred and recognized as income over the life of the loan.
NBIB	Non-binding indicative bid
OCCI	OFS Credit Company, Inc., a Delaware corporation and a non-diversified, closed-end management investment company for whom OFS Advisor serves as investment adviser
Offering	Follow-on public offering of 3,625,000 shares of our common stock in April 2017
OFS Advisor	OFS Capital Management, LLC, a wholly owned subsidiary of OFSAM and registered investment advisor under the Advisers Act
OFSC	Orchard First Source Capital, Inc., a wholly owned subsidiary of OFSAM
OFS Services	OFS Capital Services, LLC, a wholly owned subsidiary of OFSAM and affiliate of OFS Advisor
OFSAM	Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. corporations

OFSCC-FS	OFSCC-FS, LLC, an indirect wholly owned subsidiary of the Company
OFSCC-MB	OFSCC-MB, LLC, a wholly owned subsidiary taxed under subchapter C of the Code and generally holds the equity investments of the Company that are taxed as pass-through entities.
Parent	OFS Capital Corporation
PIK	Payment-in-kind, non-cash interest or dividends payable as an addition to the loan or equity security producing the income.
Prime Rate	United States Prime interest rate
PWB Credit Facility	Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender
RIC	Regulated investment company under the Code
SBA	U.S. Small Business Administration
SBCAA	Small Business Credit Availability Act
SBIC	A fund licensed under the SBA small business investment company program
SBIC Acquisition	The Company's acquisition of the remaining ownership interests in SBIC I LP and OFS SBIC I GP, LLC on December 4, 2013
SBIC Act	Small Business Investment Act of 1958, as amended
SBIC I LP	OFS SBIC I, LP, a wholly owned SBIC subsidiary of the Company
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Stock Repurchase Program	The open market stock repurchase program for shares of the Company’s common stock under Rule 10b-18 of the Exchange Act
Structured Finance Notes	CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses
The Order	An exemptive relief order from the SEC to permit us to co-invest in portfolio companies with certain funds managed by OFS Advisor in a manner consistent with our investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions.
Transaction Price	The cost of an arm's length transaction occurring in the same security
Unsecured Notes	The combination of the Unsecured Notes Due April 2025, the Unsecured Notes Due October 2025 and the Unsecured Notes Due October 2026
Unsecured Notes Due April 2025	The Company's $50.0 million aggregate principal amount of 6.375% notes due April 30, 2025
Unsecured Notes Due October 2025	The Company's $46.0 million aggregate principal amount of 6.5% notes due October 30, 2025
Unsecured Notes Due October 2026	The Company's $54.3 million aggregate principal amount of 5.95% notes due October 31, 2026

PART I

As used in this Annual Report on Form 10-K, except as otherwise indicated, the terms "OFS Capital," "the Company," "we," "us," and "our" refer to OFS Capital Corporation and its consolidated subsidiaries.

Item 1. Business

GENERAL

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

As of December 31, 2019, the fair value of our debt investment portfolio totaled $451.8 million in 79 portfolio companies, of which 90% was comprised of senior secured loans and 10% of subordinated loans, respectively, and approximately $43.5 million in equity investments, at fair value, in 15 portfolio companies in which we also held debt investments. We also have six portfolio companies in which we solely held equity investments, as well as four investments in Structured Finance Notes with a fair value of $21.6 million.

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

We have executed our investment strategy, in part, through SBIC I LP, a licensee under the SBA's SBIC program, which is subject to SBA regulations and policies, including periodic audits by the SBA. On a stand-alone basis, SBIC I LP held approximately $249.6 million and $251.1 million in assets, or approximately 46% and 57% of our total consolidated assets, at December 31, 2019 and 2018, respectively. As part of our plans to focus on lower-yielding, first lien senior secured loans to larger borrowers, which we believe will improve our overall risk profile, SBIC I LP intends, over time, to repay its outstanding SBA debentures prior to the scheduled maturity dates of its debentures. We do not expect to make new investments through SBIC I LP, other than follow-on investments. We believe that investing in more senior loans to larger borrowers is consistent with our view of the private loan market and will reduce our overall leverage on a consolidated basis. For additional information regarding the regulation of SBIC I LP, see "Regulation—Small Business Investment Company Regulations."

We also execute on our investment strategy, in part, through OFSCC-FS, which established the BNP Facility on June 20, 2019, to provide borrowings in an aggregate principal amount up to $150.0 million. We believe that the BNP Facility will enable us to provide more first lien loans to large companies at more competitive pricing, due to this lower cost of financing. On a stand-alone basis, OFSCC-FS held approximately $92.5 million and $-0- million in assets at December 31, 2019 and 2018, respectively, which accounted for approximately 17% and -0-% of our total consolidated assets, respectively.

Our investment activities are managed by OFS Advisor and supervised by our Board a majority of whom are independent of us, OFS Advisor and its affiliates. Under the Investment Advisory Agreement we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from the SBIC Acquisition. OFS Advisor also serves as the investment adviser or collateral manager to CLOs and other assets, including HPCI, a non-traded BDC with an investment strategy similar to the Company's, and OCCI, a non-diversified, externally managed, closed-end management investment company that has registered as an investment company under the 1940 Act that primarily invests in Structured Finance Notes. See "Item 1A. Risk Factors — Risks Related to OFS Advisor and its Affiliates — We have potential conflicts of interest related to obligations that OFS Advisor or its affiliates may have to other clients" and "Item 1A. Risk Factors — Risks Related to OFS Advisor and its Affiliates —We have potential conflicts of interest related to the purchases and sales that OFS Advisor makes on our behalf and/or on behalf of Affiliated Accounts."

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

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

A BDC is generally not permitted to incur indebtedness unless immediately after such borrowing it has an asset coverage ratio for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). However, certain provisions of the Small Business Credit Availability Act (the "SBCAA"), permit BDCs to be subject to a minimum asset coverage ratio of 150%, if specific conditions are satisfied, when issuing senior securities (i.e., the amount of debt may not exceed 66 2/3% of the value of our assets). As an approximation, prior to the enactment of the SBCAA, the most that a BDC could borrow for investment purposes was $1 for every $1 of investor equity. Now, for those BDCs that satisfy the SBCAA's approval and disclosure requirements and become subject to the reduced asset coverage ratio, the BDC can borrow $2 for investment purposes for every $1 of investor equity.

On May 3, 2018, the Board, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements made available under the SBCAA and, as a result, the asset coverage ratio test applicable to us was decreased from 200% to 150%, effective May 3, 2019. See "Item 1A. Risk Factors — Risks Related to our Business and Structure — Because we have received the approval of our Board, we are subject to 150% Asset Coverage effective May 3, 2019." Additionally, we received exemptive relief from the SEC effective November 26, 2013, which allows us to exclude our SBA guaranteed debentures from the definition of senior securities in the statutory asset coverage ratio under the 1940 Act.

We may borrow money when the terms and conditions available are favorable to do so and are aligned with our investment strategy and portfolio composition. The use of borrowed funds or the proceeds of preferred stock to make investments would have its own specific benefits and risks, and all of the costs of borrowing funds or issuing preferred stock would be borne by holders of our common stock.

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

About OFS and Our Advisor

OFS (which refers to the collective activities and operations of OFSAM, its subsidiaries, and certain affiliates) is a full-service provider of capital and leveraged finance solutions to U.S. companies.

As of December 31, 2019, OFS had 44 full-time employees. OFS is headquartered in Chicago, Illinois and also has offices in New York, New York and Los Angeles, California.

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

Our relationship with OFS Advisor is governed by and dependent on the Investment Advisory Agreement and may be subject to conflicts of interest. See "Item 1A. Risk Factors — Risks Related to OFS Advisor and its Affiliates." OFS Advisor provides us with advisory services in exchange for a base management fee and incentive fee; see "Management and Other Agreements—Investment Advisory Agreement". The base management fee is based on our total assets (other than cash and cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisition, but including assets purchased with borrowed funds and assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance.

OFS Advisor has entered into a Staffing Agreement (the "Staffing Agreement") with OFSC, a wholly-owned subsidiary of OFSAM. Under the Staffing Agreement, OFSC makes experienced investment professionals available to OFS

Advisor and provides access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment adviser, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

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

Competitive Strengths and Core Competencies

Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure. We are managed by OFS Advisor, which has access to the resources and expertise of OFS's investment professionals through the Staffing Agreement with OFSC. As of December 31, 2019, OFS's credit and investment professionals (including all investment committee members) employed by OFSC had an average of over 15 years of investment experience with strong institutional backgrounds.

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

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

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

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

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

Our Administrator

We do not have any direct employees, and our day-to-day investment operations are managed by OFS Advisor. We have a chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, corporate secretary and, to the extent necessary, our board of directors may elect to appoint additional officers going forward. Our officers are employees of OFSC, an affiliate of OFS Advisor, and a portion of the compensation paid to our officers is paid by us pursuant to the Administration Agreement. All of our executive officers are also officers of OFS Advisor.

OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and recordkeeping services at such facilities. OFS Services oversees our financial reporting as well as prepares our reports to stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. OFS Services also manages the determination and publication of our net asset value and the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. OFS Services may retain third parties to assist in providing administrative services to us. To the extent that OFS Services outsources any of its functions, we will pay the fees associated with such functions at cost, on a direct basis.

Market Opportunity

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

Large Target Market. According to the National Center for the Middle Market, there were approximately 200,000 companies in the United States with annual revenues between $10 million and $1.0 billion as of the fourth quarter of 2019. We believe that these middle-market companies represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have historically constituted the vast bulk of OFS's portfolio companies since its inception, and constituted the majority of our portfolio as of December 31, 2019. We believe that this market segment will continue to produce significant investment opportunities for us.

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

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

Competition

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

We expect to continue to use the expertise of the investment professionals of OFS to which we have access, to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we expect that the relationships of the senior members of OFS and its affiliates will enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face.

Investment Criteria/Guidelines

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

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

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

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

Due Diligence and Investment Process Overview

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

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

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

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

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

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

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

Portfolio Review/Risk Monitoring

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

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

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

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

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

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

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

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

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

As of December 31, 2019, we had debt investments in 79 portfolio companies, totaling $451.8 million at fair value, of which $18.0 million, $387.7 million, $45.5 million, and $0.0 million, and $0.7 million were rated 2, 3, 4, 5, and 6, respectively.

Investment Committees

OFS Advisor’s Pre-Allocation Investment Committee, CLO Investment Committee, Structured Credit Investment Committee and Middle-Market Investment Committee, (collectively, the “Advisor Investment Committees”), are responsible for the overall asset allocation decisions and the evaluation and approval of investments of OFS Advisor’s advisory clients.

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

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

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

Investments

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

Structure of Investments

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

Senior Secured First-Lien Loans. First-lien senior secured loans comprise, and will continue to comprise, a significant portion of our investment portfolio. We obtain security interests in the assets of these portfolio companies as collateral in support of the repayment of these loans (in certain cases, subject to a payment waterfall). The collateral takes the form of first-priority liens on specified assets of the portfolio company borrower and, typically, first-priority pledges of the ownership interests in the borrower. Our first lien loans may provide for moderate loan amortization in the early years of the loan, with the majority of the amortization deferred until loan maturity.

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

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

Broadly Syndicated Loans. Broadly Syndicated Loans (whose features are similar to those described under "Senior Secured First-Lien Loans" and "Senior Secured Second-Lien Loans" above) are typically originated and structured by banks on behalf of large corporate borrowers with employee counts, revenues, EBITDAs and enterprise values larger than the middle-market characteristics described above. The proceeds of Broadly Syndicated Loans are often used for leveraged buyout transactions, mergers and acquisitions, recapitalizations, refinancings, and financing capital expenditures. Broadly Syndicated Loans are typically distributed by the arranging bank to a diverse group of investors primarily consisting of: CLOs; senior secured loan and high yield bond mutual funds; closed-end funds, hedge funds, banks, and insurance companies; and finance companies. A borrower must comply with various covenants contained in a loan agreement or note purchase agreement between the borrower and the holders of the Broadly Syndicated Loan (the "Loan Agreement"). In a typical Broadly Syndicated Loan, an administrative agent (the "Agent") administers the terms of the Loan Agreement. In such cases, the Agent is normally responsible for the collection of principal and interest payments from the borrower and the apportionment of these payments to the credit of all institutions that are parties to the Loan Agreement. We will generally rely upon the Agent or an intermediate participant to receive and forward to us our portion of the principal and interest payments on the Broadly Syndicated Loan.

Additionally, we normally will rely on the Agent and the other loan investors to use appropriate credit remedies against the borrower. The Agent is typically responsible for monitoring compliance with covenants contained in the Loan Agreement based upon reports prepared by the borrower. The Agent may monitor the value of the collateral and, if the value of the collateral declines, may accelerate the Broadly Syndicated Loan, may give the borrower an opportunity to provide additional collateral or may seek other protection for the benefit of the participants in the Broadly Syndicated Loan. The Agent is compensated by the borrower for providing these services under a Loan Agreement, and such compensation may include special fees paid upon structuring and funding the Broadly Syndicated Loan and other fees paid on a continuing basis. The Broadly Syndicated Loans in which we invest may include loans that are considered “covenant-lite” loans, because of their lack of a full set of financial maintenance covenants.

These above loans are categorized as Senior Secured Loans in our consolidated schedule of investments included in "Part II, Item 8. Financial Statements and Supplementary Data."

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

These above loan is categorized as Subordinated Loans in our consolidated schedule of investments included in "Part II, Item 8. Financial Statements and Supplementary Data."

Equity Securities. Equity securities typically consist of either a direct minority equity investment in common or membership/partnership interests or preferred stock of a portfolio company, and are typically not control-oriented investments. Our preferred equity investments typically contain a fixed dividend yield based on the par value of the equity security. Preferred equity dividends may be paid in cash at a stipulated date, usually quarterly, and are participating and/or cumulative. We may structure such equity investments to include provisions protecting our rights as a minority-interest holder, as well as a “put,” or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and “piggyback” registration rights, which grants us the right to register our equity interest when either the portfolio company or another investor in the portfolio company files a registration statement with the SEC to issue securities. Our equity investments typically are made in connection with debt investments to the same portfolio companies. These securities are categorized as a Preferred Equity or Common Equity in our consolidated schedule of investments included in "Part II, Item 8. Financial Statements and Supplementary Data."

Warrants. In some cases, we may receive nominally priced warrants to buy a minority equity interest in the portfolio company in connection with a loan. As a result, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure such warrants to include provisions protecting our rights as a minority-interest holder, as well as a put to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and “piggyback” registration rights. These securities are categorized as Warrants in our consolidated schedule of investments included in "Part II, Item 8. Financial Statements and Supplementary Data."

Structured Finance Notes. We may purchase interests in the equity securities of CLOs collateralized by portfolios consisting primarily of below investment grade U.S. senior secured loans with a large number of distinct underlying borrowers across various industry sectors. The equity of a CLO is unrated and subordinated to the debt tranches and typically represents approximately 8% to 11% of a CLO’s capital structure. A CLO’s equity represents the first loss position in the CLO. The holders of CLO equity interests are typically entitled to any cash reserves that form part of the structure when such reserves are permitted to be released. Structured Finance Notes are considered CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses. Economically, CLO equity benefits from gains and suffers from losses and generally receive the difference between the interest received from the investment portfolio and the interest paid to the holders of debt tranches of the CLO structure. In addition, the CLO equity securities in which we may invest in the future are highly leveraged (with CLO equity securities typically being leveraged 9 to 13 times), which magnifies our risk of loss on such investments.

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

- selecting investments that we believe have a very low probability of loss;
- requiring a total return on our investments (including both interest and potential equity appreciation) that we believe will compensate us appropriately for credit risk; and
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or rights to a seat on the board of directors under some circumstances.

We expect to hold most of our investments to maturity or repayment, but we may sell some of our investments earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

MANAGEMENT AND OTHER AGREEMENTS

Investment Advisory Agreement

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

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- assists us in determining what securities we purchase, retain or sell;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and
- executes, closes, services and monitors the investments we make.

Management and Incentive Fee

For providing these services, OFS Advisor receives a fee from us, consisting of two components—a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), adjusted for stock issuances and stock purchases, at the end of the two most recently completed calendar quarters. We have excluded from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from the SBIC Acquisition. The base management fee is payable quarterly in arrears. Base management fees for any partial quarter are prorated based on the number of days in the quarter.

On June 11, 2019, OFS Advisor agreed to reduce a portion of its base management fee by reducing the portion of such fee from 0.4375% per quarter (1.75% annualized) to 0.25% per quarter (1.00% annualized) of the average value of the portion of the total assets held by the Company through OFSCC-FS (the "OFSCC-FS Assets"), at the end of the two most recently completed calendar quarters to the extent that such portion of the OFSCC-FS Assets are financed using leverage (also calculated on an average basis) that causes the Company’s statutory asset coverage ratio to fall below 200%. When calculating its statutory asset coverage ratio, the Company excludes its SBA guaranteed debentures from its total outstanding senior securities as permitted pursuant to exemptive relief granted by the SEC dated November 26, 2013. Effective January 1, 2020, OFS Advisor agreed to further reduce the base management fee to 0.25% per quarter (1.00% annualized) of the average value of the portion of total assets held by the Company through OFSCC-FS at the end of the two most recently completed calendar quarters without regard to the statutory asset coverage ratio. The base management fee reduction by OFS Advisor is renewable on an annual basis and the amount of the base management fee reduced with respect to the OFSCC-FS Assets shall not be subject to recoupment by OFS Advisor.

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

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

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

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

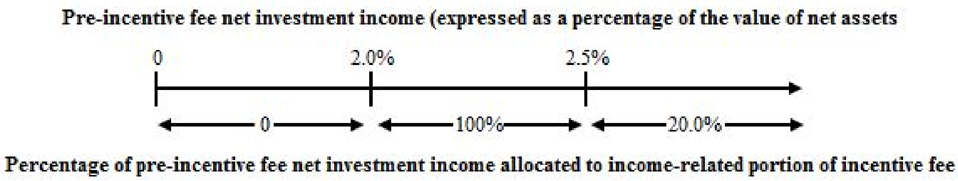
- no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate;

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

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

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

<u>Quarterly Incentive Fee Based on Net Investment Income</u>



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

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

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

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investments. Unrealized capital appreciation is accrued, but not paid until said appreciation is realized. We accrue the Capital Gains Fee if, on a cumulative basis, the sum of the net realized capital gains (and losses) plus net unrealized appreciation (and depreciation) is positive. OFS Advisor has excluded from the Capital Gains Fee calculation the realized gain with respect to the step acquisitions resulting from the SBIC Acquisition. The Capital Gains Fee for any partial year is prorated based on the number of days in such year.

The base management fee is payable quarterly in arrears and was $8.3 million, $6.3 million, and $5.0 million, for the years ended December 31, 2019, 2018, and 2017, respectively.

The incentive fee is payable quarterly in arrears and was $4.8 million, $4.4 million, and $3.0 million for the years ended December 31, 2019, 2018, and 2017, respectively. Incentive fees for the years ended December 31, 2019, 2018, and 2017, included Part One incentive fees (based on net investment income) of $4.8 million, $4.4 million, which included an irrevocable waiver of receipt of $22,000 by OFS Advisor, and $3.0 million respectively, which included a share issue adjustment of $(0.6) million related to the Company's Offering and Part Two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of $0, $0 and $0, respectively.

Examples of Incentive Fee Calculation

Example 1—Income Related Portion of Incentive Fee:

Assumptions

- Hurdle rate(1) = 2.0%
- Management fee(2) = 0.44%
- Other estimated expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

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

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

(3) Excludes estimated offering expenses.

Alternative 1

Additional Assumptions

- Investment income (including interest, dividends, fees, etc.) = 1.25%
- Pre-incentive fee net investment income (investment income – (management fee + other expenses)) = 0.61%

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

Alternative 2

Additional Assumptions

- Investment income (including interest, dividends, fees, etc.) = 2.80%
- Pre-incentive fee net investment income (investment income – (management fee + other expenses)) = 2.16%

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

Incentive Fee	=	100% × “Catch-Up” + the greater of 0% **AND** (20% × (pre-incentive fee net investment income – 2.5%))
	=	(100% ×(2.16% – 2.0%)) + 0%
	=	100% × 0.16%
	=	0.16%

Alternative 3

Additional Assumptions

- Investment income (including interest, dividends, fees, etc.) = 3.50%
- Pre-incentive fee net investment income (investment income – (management fee + other expenses)) = 2.86%

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

Incentive Fee	=	100% × “Catch-Up” + the greater of 0% **AND** (20% × (pre-incentive fee net investment income – 2.5%))
	=	(100% × (2.5% – 2.0%)) + (20% × (2.86% – 2.5%))
	=	0.5% + (20% × 0.36%)
	=	0.5% + 0.07%
	=	0.57%

Example 2—Capital Gains Portion of Incentive Fee:

Alternative 1

Assumptions

- Year 1: $20 million investment made in Company A (“Investment A”), and $30 million investment made in Company B (“Investment B”)
- Year 2: Investment A is sold for $50 million and fair market value (“FMV”) of Investment B determined to be $32 million
- Year 3: FMV of Investment B determined to be $25 million
- Year 4: Investment B sold for $31 million

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

- Year 1: None (no sales transactions)
- Year 2: $6 million (20% multiplied by $30 million realized capital gains on sale of Investment A)
- Year 3: None; $5 million (20% multiplied by $30 million cumulative realized capital gains less $5 million cumulative unrealized capital depreciation) less $6 million (Capital Gains Fee paid in Year 2)
- Year 4: $200,000; $6.2 million (20% multiplied by $31 million cumulative realized capital gains) less $6 million (Capital Gains Fee paid in Year 2)

Alternative 2

Assumptions

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

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

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

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

- Year 5: Investment B sold for $20 million

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

- Year 1: None (no sales transactions)

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

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

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

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

Payment of Our Expenses.

All investment professionals of OFS Advisor and/or its affiliates, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses of personnel allocable to these services to us, are provided and paid for by OFS Advisor and not by us. We bear all other out-of-pocket costs and expenses of our operations and transactions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Key Financial Measures—Expenses.”

Duration and Termination

Unless terminated earlier as described below, the Investment Advisory Agreement will remain in effect from year to year if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, and, in either case, if also approved by a majority of our directors who are not “interested persons” as defined in the 1940 Act. The Investment Advisory Agreement automatically terminates in the event of its assignment, as defined in the 1940 Act, by OFS Advisor and may be terminated by either party without penalty upon not less than 60 days’ written notice to the other. The holders of a majority of our outstanding voting securities may also terminate the Investment Advisory Agreement without penalty upon not less than 60 days’ written notice. See “Item 1A. Risk Factors—Risks Related to our Business and Structure—We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates.”

Administration Agreement

Pursuant to the Administration Agreement, OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, and bookkeeping and record keeping services at such facilities. Under the Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, OFS Services provides managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services’ overhead in performing its obligations under the Administration

Agreement, including rent, information technology, and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and their respective staffs. The Administration Agreement may be renewed annually with the approval of our board of directors, including a majority of our directors who are not "interested persons." The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that OFS Services outsources any of its functions we pay the fees associated with such functions at cost without incremental profit to OFS Services.

Indemnification

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

Board Approval of the Investment Advisory and Administrative Agreements

Our board, including our independent directors, approved the continuation of the Investment Advisory Agreement at a meeting held on April 4, 2019. In reaching a decision to approve the continuation of the Investment Advisory Agreement, the board of directors reviewed a significant amount of information and considered, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by OFS Advisor;
- the fee structures of comparable externally managed BDCs that engage in similar investing activities;
- our projected operating expenses and expense ratio compared to BDCs with similar investment objectives;
- any existing and potential sources of indirect income to OFS Advisor from its relationship with us and the profitability of that relationship, including through the Investment Advisory Agreement;
- information about the services to be performed and the personnel performing such services under the Investment Advisory Agreement; and
- the organizational capability and financial condition of OFS Advisor and its affiliates.

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

Our board also reviewed services provided under the Administrative Agreement, and approved its continuation at the April 4, 2019 meeting.

License Agreement

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

REGULATION

General

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

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

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

The 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so. On October 12, 2016, we received the Order from the SEC to permit us to co-invest in portfolio companies with certain BDCs, registered investment companies and private funds managed by OFS Advisor, or any adviser that controls, is controlled by, or is under common control with, OFS Adviser and is registered as an investment adviser under the Advisers Act, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Pursuant to the Order, we are generally permitted to participate in a co-investment transaction if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We have applied for a new exemptive order (the “New Order”), which, if granted, would supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

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

Qualifying Assets

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

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

- is organized under the laws of, and has its principal place of business in, the United States;
- is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
- satisfies either of the following:
  - does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a $250 million market capitalization maximum; or
  - is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result, the BDC has an affiliated person who is a director of the eligible portfolio company;

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

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

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

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

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

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

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

Managerial Assistance to Portfolio Companies

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (a), (b) or (c) above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance. Where the BDC purchases such securities in conjunction with one or more other persons acting together, the BDC will satisfy this test if one of the other persons in the group makes available such managerial assistance, although this may not be the sole method by which the BDC satisfies the requirement to make available managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. With respect to an SBIC, making available managerial assistance means the making of loans to a portfolio company.

Temporary Investments

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

Warrants and Options

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

Senior Securities

A BDC generally is not permitted to incur indebtedness unless immediately after such borrowing it has an asset coverage ratio for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Certain provisions of the SBCAA permit BDCs to be subject to a minimum asset coverage ratio of 150%, if specific conditions are satisfied, when issuing senior securities (i.e., the amount of debt may not exceed 66 2/3% of the value of our assets). As an approximation, prior to the enactment of the SBCAA, the most that a BDC could borrow for investment purposes was $1 for every $1 of investor equity. Now, for those BDCs that satisfy the SBCAA's approval and disclosure requirements and become subject to the reduced asset coverage ratio, the BDC can borrow $2 for investment purposes for every $1 of investor equity.

The SBCAA provides that in order for a BDC whose common stock is traded on a national securities exchange to be subject to 150% asset coverage, the BDC must either obtain: (i) approval of the required majority of its non-interested directors who have no financial interest in the proposal, which would become effective one year after the date of such approval, or (ii) obtain stockholder approval (of more than 50% of the votes cast for the proposal at a meeting in which quorum is present), which would become effective on the first day after the date of such stockholder approval.

On May 3, 2018, the Board, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements made available under the SBCAA and, as a result, the asset coverage ratio test applicable to us was decreased from 200% to 150%, effective May 3, 2019. See "Item 1A. Risk Factors — Risks Related to our Business and Structure — Because we have received the approval of our Board, we are subject to 150% Asset Coverage effective May 3, 2019." Additionally, we received exemptive relief from the SEC effective November 26, 2013, which allows us to exclude our SBA guaranteed debentures from the definition of senior securities in the statutory asset coverage ratio under the 1940 Act.

We may borrow money when the terms and conditions available are favorable to do so and are aligned with our investment strategy and portfolio composition. The use of borrowed funds or the proceeds of preferred stock to make investments would have its own specific benefits and risks, and all of the costs of borrowing funds or issuing preferred stock would be borne by holders of our common stock.

For a discussion of the risks associated with leverage, see "Item 1A. Risk Factors—Risks Related to BDCs—Regulations governing our operation as a BDC affect our ability to and the way in which we raise additional capital. As a BDC, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage."

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

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

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

Exemptive Relief

We are generally prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. The SEC has interpreted the BDC prohibition on transactions with affiliates to prohibit all “joint transactions” between entities that share a common investment adviser. Further, the 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so.
On October 12, 2016, we received the Order from the SEC to permit us to co-invest in portfolio companies with certain BDCs, registered investment companies and private funds managed by OFS Advisor or any adviser that controls, is controlled by, or is under common control with, OFS Adviser, and is registered as an investment adviser under the Advisers Act, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Pursuant to the Order, we are generally permitted to participate in a co-investment transaction if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. The Order is subject to additional terms and conditions; there can be no assurance that we will be permitted to co-invest with certain of our affiliates other than in the circumstances currently permitted by regulatory guidance and in compliance with conditions of the Order. We have applied for the New Order which, if granted, would supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

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

Small Business Investment Company Regulations

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

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

SBA regulations currently limit the amount that an SBIC may borrow to up to a maximum of $150 million (or $175 million with SBA approval) when it has at least $75 million in regulatory capital (or $87.5 million with approval to borrow up to $175 million), receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

The investments of an SBIC are limited to loans to, and equity securities of, eligible small businesses. Under present SBA regulations, eligible small businesses generally include businesses that (together with their affiliates) have a tangible net worth (total assets less goodwill less total liabilities) not exceeding $19.5 million and have average annual net income after U.S. federal income taxes not exceeding $6.5 million (average net income to be computed without benefit of any carryover loss) for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to “smaller concerns,” as defined by the SBA. A smaller concern generally includes businesses that have a tangible net worth not exceeding $6 million and have average annual net income after U.S. federal income taxes not exceeding $2 million (average net income to be computed without benefit of any net carryover loss) for the two most recent fiscal years. SBA regulations also provide alternative criteria to determine eligibility, which may include, among other things, the industry in which the business is engaged, the number of employees of the business, its gross sales, and the extent to which the SBIC is proposing to participate in a change of ownership of the business. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

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

SBICs must invest idle funds that are not being used to make investments permitted under SBA regulations in the following limited types of securities: (i) direct obligations of, or obligations guaranteed as to principal and interest by, the U.S. government, which mature within 15 months from the date of the investment; (ii) repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government); (iii) certificates of deposit with a maturity of one year or less, issued by a federally insured institution; (iv) a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less; (v) a checking account in a federally insured institution; or (vi) a reasonable petty cash fund.

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

SBIC I LP is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants.

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

As part of our plans to focus on lower-yielding, first lien senior secured loans to larger borrowers, which we believe will improve our overall risk profile, SBIC I LP intends, over time, to repay its outstanding SBA debentures prior to the scheduled maturity dates of its debentures. We do not expect to make new investments through SBIC I LP, other than follow-on investments. We believe that investing in more senior loans to larger borrowers is consistent with our view of the private loan market and will reduce our overall leverage on a consolidated basis.

Other

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

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

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

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

Codes of Ethics

We and OFS Advisor have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to either code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is available, free of charge, on our website at www.ofscapital.com. The code of ethics is available on the EDGAR Database on the SEC's website at http://www.sec.gov. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov.

Proxy Voting Policies and Procedures

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

Introduction

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

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

Proxy Policies

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

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

Proxy Voting Records

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

Privacy Principles

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

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

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

Material U.S. Federal Income Tax Considerations

Election to be Taxed as a RIC

We have elected to be taxed as a RIC under Subchapter M of the Code. As a RIC, we are not required to pay corporate-level U.S. federal income taxes on any income that we distribute to our stockholders from our otherwise taxable earnings and profits. To maintain our qualification as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements, as described below. In addition, to receive RIC tax treatment, we must meet the Annual Distribution Requirement. The excess of net long-term capital gains over net short-term capital losses, if any ("Net Capital Gains"), are not a component of the Annual Distribution Requirement, but impacts taxable income if not distributed as discussed below.

Taxation as a RIC

If we:

- maintain our qualification as a RIC; and
- satisfy the Annual Distribution Requirement;

then we will not be subject to U.S. federal income tax on the portion of our ICTI or Net Capital Gains we distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any ICTI or Net Capital Gain not distributed (or deemed distributed) to our stockholders.

We are also subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income (both long-term and short-term) for the one-year period ending October 31 in that calendar year (or, if we so elect, for that calendar year) and (3) any income and gains recognized, but not distributed, in preceding years and on which we paid no U.S. federal income tax (the “Excise Tax Avoidance Requirement”). We may choose to retain a portion of our ordinary income and/or capital gain net income in any year and pay the 4% U.S. federal excise tax on the retained amounts.

In order to maintain our qualification as a RIC for U.S. federal income tax purposes, we must, among other things:

- continue to qualify as a BDC under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, certain payments with respect to loans of stock and securities, gains from the sale or other disposition of stock, securities, or foreign currencies and other income (including but not limited to gains from options, futures or forward contracts) derived with respect to our business of investing in such stock, securities or currencies, and net income derived from interests in “qualified publicly traded partnerships,” as such term is defined in the Code (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of our assets and 10% of the outstanding voting securities of such issuer; and
  - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that we control (as determined under applicable tax rules) and that are engaged in the same, similar or related trades or businesses or of one or more qualified publicly traded partnerships (the “Diversification Tests”).

We may invest in partnerships, including qualified publicly traded partnerships, which may result in our being subject to state, local or foreign income taxes, franchise taxes, or withholding liabilities.

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

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous. See “Regulation—Senior Securities.”

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (1) treat dividends that would otherwise qualify for the dividends received deduction or constitute qualified dividend income as ineligible for such treatment, (2) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (3) convert lower-taxed long-term capital gain into higher-taxed short-term capital gain or ordinary income, (4) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (5) cause us to recognize income or gain without receipt of a corresponding distribution of cash, (6) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (7) adversely alter the characterization of certain complex financial transactions and (8) produce income that will not be considered "qualifying income" for purposes of the 90% Income Test. We will monitor our transactions and may make certain tax elections to mitigate the potential adverse effect of these provisions, but there can be no assurance that any adverse effects of these provisions will be mitigated.

If we purchase shares in a “passive foreign investment company” (a “PFIC”), we may be subject to U.S. federal income tax on our allocable share of a portion of any “excess distribution” received on, or any gain from the disposition of, such shares even if our allocable share of such income is distributed as a taxable dividend to our stockholders. Additional charges in the nature of interest generally will be imposed on us in respect of deferred taxes arising from any such excess distribution or gain. If we invest in a PFIC and elect to treat the PFIC as a “qualified electing fund” under the Code (a “QEF”), in lieu of the foregoing requirements, we will be required to include in income each year our proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed by the QEF. Alternatively, we may be able to elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income our allocable share of any increase in the value of such shares, and as ordinary loss our allocable share of any decrease in such value to the extent that any such decrease does not exceed prior increases included in its income. Under either election, we may be required to recognize in a year income in excess of distributions from PFICs and proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4% U.S. federal excise tax.

Some of the income and fees that we recognize may result in ICTI that will not be "qualifying income" for the 90% Income Test. In order to ensure that such income and fees do not disqualify us as a RIC for a failure to satisfy the 90% Income Test, we may recognize such income and fees directly or indirectly through one or more entities taxed as corporations for U.S. federal income tax purposes. Such corporations are required to pay U.S. corporate income tax on their earnings, which ultimately reduces our return on such income and fees.

Failure to Qualify as a RIC

If we are unable to maintain our qualification as a RIC, we will be subject to tax on all of our ICTI and Net Capital Gains at regular corporate rates; we will not receive a dividend deduction for any distributions to our stockholders. Distributions would not be required, and any distributions would be taxable to our stockholders as ordinary dividend income that would, for qualifying non-corporate U.S. stockholders, be eligible for the current 20% maximum rate to the extent of our current and accumulated earnings and profits (subject to limitations under the Code). Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder’s tax basis (reducing that basis accordingly), and any remaining distributions would be treated as a capital gain. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our stockholders our earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of five years, in order to qualify as a RIC in a subsequent year.

Conflicts of Interests

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

BDCs may, however, invest alongside certain related parties or their respective other clients in certain circumstances where doing so is consistent with current law and SEC staff interpretations. For example, a BDC may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting the BDC and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that the BDC’s advisor, acting on the BDC’s behalf and on behalf of other clients, negotiates no term other than price. Co-investment with such other accounts is not permitted or appropriate under this guidance when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between the BDC’s interests and those of other accounts.

Conflicts Related to Portfolio Investments

Conflicts may arise when we make an investment in conjunction with an investment being made by another account managed by OFS Advisor or an affiliate of OFS Advisor (each, an "Affiliated Account"), or in a transaction where an Affiliated Account has already made an investment. Investment opportunities are, from time to time, appropriate for more than one account in the same, different or overlapping securities of a portfolio company’s capital structure. Conflicts arise in determining the terms of investments, particularly where these accounts may invest in different types of securities in a single portfolio company. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be restructured, modified or refinanced.

We may invest in debt and other securities of companies in which Affiliated Accounts hold those same securities or different securities, including equity securities. In the event that such investments are made by us, our interests will at times conflict with the interests of such Affiliated Accounts, particularly in circumstances where the underlying company is facing financial distress. Decisions about what action should be taken, particularly in troubled situations, raise conflicts of interest, including, among other things, whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring. The involvement of Affiliated Accounts at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors, including among us or Affiliated Accounts. In certain circumstances, we or an Affiliated Account may be prohibited from exercising voting or other rights and may be subject to claims by other creditors with respect to the subordination of their interest.

In the event that we or an Affiliated Account has a controlling or significantly influential position in a portfolio company, that account may have the ability to elect some or all of the board of directors of such a portfolio company, thereby controlling the policies and operations of such portfolio company, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling account is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such a company. Such management and operational decisions may, at times, be in direct conflict with other accounts that have invested in the same portfolio company that do not have the same level of control or influence over the portfolio company.

If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the accounts may or may not provide such additional capital, and if provided each account will supply such additional capital in such amounts, if any, as determined by OFS Advisor. In addition, a conflict arises in allocating an investment opportunity if the potential investment target could be acquired by us, an Affiliated Account, or a portfolio company of an Affiliated Account. Investments by more than one account of OFS Advisor or its affiliates in a portfolio company also raise the risk of using assets of an account of OFS Advisor or its affiliates to support positions taken by other accounts of OFS Advisor or its affiliates, or that an account may remain passive in a situation in which it is entitled to vote. In addition, there may be differences in timing of entry into, or exit from, a portfolio company for reasons such as differences in strategy, existing portfolio or liquidity needs, different account mandates or fund differences, or different securities being held. These variations in timing may be detrimental to us.

The application of our or an Affiliated Account's governing documents and the policies and procedures of OFS Advisor are expected to vary based on the particular facts and circumstances surrounding each investment by two or more accounts, in particular when those accounts are in different classes of an issuer’s capital structure (as well as across multiple issuers or borrowers within the same overall capital structure) and, as such, there may be a degree of variation and potential inconsistencies, in the manner in which potential or actual conflicts are addressed.

Co-Investment with Affiliates

On October 12, 2016, we received the Order from the SEC that permits us to co-invest in portfolio companies with certain affiliates, provided that we comply with the conditions of the Order. Pursuant to the Order, we are generally permitted to co-invest with BDCs, registered investment companies and private funds managed by OFS Advisor or any adviser that controls, is controlled by, or is under common control with, OFS Advisor, and is registered as an investment adviser under the Advisers Act, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Under the terms of the Order, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We have applied for a new exemptive order (the “New Order”), which, if granted, would supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

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

- investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;
- the status of tax restrictions and tests and other regulatory restrictions and tests;
- risk and return profile of the investment vehicles;
- suitability/priority of a particular investment for the investment vehicles;
- if applicable, the targeted position size of the investment for the investment vehicles
- level of available cash for investment with respect to the investment vehicles;
- total amount of funds committed to the investment vehicles; and
- the age of the investment vehicles and the remaining term of their respective investment periods, if any.

When not relying on the Order, priority as to opportunities will generally be given to clients that are in their “ramp-up” period, or the period during which the account has yet to reach sufficient scale such that its investment income covers its operating expenses, over the accounts that are outside their ramp-up period but still within their investment or re-investment periods. However, application of one or more of the factors listed above, or other factors determined to be relevant or appropriate, may result in the allocation of an investment opportunity to a fund no longer in its ramp-up period over a fund that is still within its ramp-up period.

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

Item 1A. Risk Factors

RISK FACTORS

Investing in our common stock involves a number of significant risks. In addition to the other information contained in this Annual Report on Form 10-K, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business and Structure

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

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

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

OFS Advisor is a subsidiary of OFSAM that has no employees and depends upon access to the investment professionals and other resources of OFS and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. OFS Advisor also depends upon OFS to obtain access to deal flow generated by the professionals of OFS and its affiliates. Under a Staffing Agreement between OFSC, a subsidiary of OFSAM that employs OFS's personnel, and OFS Advisor, OFSC has agreed to provide OFS Advisor with the resources necessary to fulfill these obligations. The Staffing Agreement provides that OFSC will make available to OFS Advisor experienced investment professionals and access to the senior investment personnel of OFSC for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. We are not a party to this Staffing Agreement and cannot assure stockholders that OFSC will fulfill its obligations under the agreement. If OFSC fails to perform, we cannot assure stockholders that OFS Advisor will enforce the Staffing Agreement or that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of OFSC and its affiliates or their information and deal flow.

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

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

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

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

Our ability to achieve our investment objective and grow will depend on our ability to manage our business. This will depend, in turn, on the ability of the Advisor Investment Committees to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon the Advisor Investment Committees' ability to execute our investment process, their ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. OFS Advisor has substantial responsibilities under the Investment Advisory Agreement. OFS Advisor's senior professionals and other personnel of OFS Advisor's affiliates, including OFSC, may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

To the extent PIK interest and PIK dividends constitute a portion of our income, we will be required to include such income in taxable and accounting income prior to receipt of cash representing such income.

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

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

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

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

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

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

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

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

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

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

SBIC I LP is subject to SBA regulations.

Our current investment strategy includes SBIC I LP, which is regulated by the SBA. The SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. If SBIC I LP fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit its ability to make new investments. The SBA, as a creditor, will have a superior claim to SBIC I LP's assets over SBIC I LP's limited partners and our stockholders in the event SBIC I LP is liquidated or the SBA exercises its remedies under the SBA debentures issued by SBIC I LP in the event of a default. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because of our ownership interest in SBIC I LP.

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

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

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

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

On May 3, 2018, the Board, including a "required majority" (as such item is determined in section 57(o) of the 1940 Act) of the Board, approved the application of a reduced 150% asset coverage ratio to us; therefore provided certain conditions are met, we are subject to the reduced asset coverage ratio as of May 3, 2019. See "Item 1A. Risk Factors--Risks Related to our Business and Structure--Because we have received the approval of our Board, we are subject to 150% effective May 3, 2019." As of December 31, 2019, our asset coverage ratio was 180%, excluding the debt held by SBIC I LP.

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

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**—%**	**5%**	**10%**
Corresponding return to common stockholder [1]	(41.9)%	(26.4)%	(10.9)%	4.6%	20.1%

(1) Assumes $516.9 million in investments at fair value, $359.2 million in debt outstanding, $166.6 million in net assets, and an average cost of funds of 5.06%. Assumptions are based on our financial condition and our average cost of funds at December 31, 2019.

Based on our outstanding indebtedness of $359.2 million as of December 31, 2019 and the average cost of funds of 5.06% as of that date, our investment portfolio must experience an annual return of 3.52% at least to cover interest payments on the outstanding debt.

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

The amount of our debt outstanding increased due to the issuance of the Unsecured Notes and the establishment of the BNP Facility.

Our ability to generate sufficient cash flow in the future is, to some extent, subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations to meet the payment obligations of our debt.

Because we have received the approval of our Board, we became subject to 150% Asset Coverage effective May 3, 2019.

The 1940 Act generally prohibits a BDC from incurring indebtedness unless immediately after such borrowing it has an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). However, the SBCAA has modified the 1940 Act by allowing a BDC to increase the maximum amount of leverage it may incur from an asset coverage ratio of 200% to an asset coverage ratio of 150%, if certain requirements are met.

On May 3, 2018 our Board approved the application of the reduced asset coverage ratio to us made available under the SBCAA. As a result, we were able to increase our leverage up to an amount that reduces our asset coverage ratio from 200% to 150% (i.e., the amount of debt may not exceed 66 2/3% of the value of our assets) effective May 3, 2019. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then the additional leverage would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not increased our leverage. Conversely, if the value of our assets decreases, the additional leverage would cause net asset value to decline more sharply than it otherwise would have had we not increased our leverage. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the additional leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not increased our leverage. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique. See "Risks Related to Our Business and Structure - We finance our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us."

In addition, the ability of BDCs to increase their leverage will increase the capital available to BDCs and thus competition for the investments that we seek to make. This may negatively impact pricing on the investments that we do make and adversely affect our net investment income and results of operations.

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

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

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

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

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

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

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

In November 2019, the SEC published a proposed rule regarding the ability of a BDC (or a registered investment company) to use derivatives and other transactions that create future payment or delivery obligations (except reverse repurchase agreements and similar financing transactions). If adopted as proposed, BDCs that use derivatives would be subject to a value-at-risk leverage limit, certain other derivatives risk management program and testing requirements and requirements related to board reporting. These new requirements would apply unless the BDC qualified as a “limited derivatives user,” as defined in the SEC’s proposal. A BDC that enters into reverse repurchase agreements or similar financing transactions would need to aggregate the amount of indebtedness associated with the reverse repurchase agreements or similar financing transactions with the aggregate amount of any other senior securities representing indebtedness when calculating the BDC’s asset coverage ratio. Under the proposed rule, a BDC may enter into an unfunded commitment agreement that is not a derivatives transaction, such as an agreement to provide financing to a portfolio company, if the BDC has a reasonable belief, at the time it enters into such an agreement, that it will have sufficient cash and cash equivalents to meet its obligations with respect to all of its unfunded commitment agreements, in each case as it becomes due. If the BDC cannot meet this test, it is required to treat unfunded commitments as a derivatives transaction subject to the requirements of the rule. Collectively, these proposed requirements, if adopted, may limit our ability to use derivatives and/or enter into certain other financial contracts.

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

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

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

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

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

We may suffer credit losses.

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

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

We have elected to be treated as a RIC under Subchapter M of the Code, but no assurance can be given that we will be able to maintain RIC status. As a RIC, we are not required to pay corporate-level U.S. federal income taxes on our income and capital gains distributed (or deemed distributed) to our stockholders, provided that we satisfy certain distribution and other requirements. To continue to qualify for tax treatment as a RIC under the Code and to be relieved of federal taxes on income and gains distributed to our stockholders, we must meet certain source-of-income, asset diversification and distribution requirements. The distribution requirement for a RIC is satisfied if we distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Because we use debt financing, and may, in the future, issue preferred stock, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements or preferred stock that could, under certain circumstances, restrict us from making distributions necessary to qualify for tax treatment as a RIC. If we are unable to obtain cash from other sources, we may fail to maintain our qualification for the tax benefits available to RICs and, thus, may be subject to corporate-level U.S. federal income tax. To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private or thinly traded public companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to continue to qualify for tax treatment as a RIC for any reason and become subject to corporate-level U.S. federal income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distributions to stockholders and the amount of our distributions and the amount of funds available for new investments. Such a failure would have a material adverse effect on us and our stockholders.

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

In order for us to maintain our tax treatment as a RIC and to minimize corporate-level taxes, we are required to distribute on an annual basis substantially all of our taxable income, which includes income from our subsidiaries and portfolio companies. SBIC I LP may be limited by the SBIC Act and SBA regulations governing SBICs from making certain distributions to us that may be necessary to enable us to continue to qualify as a RIC. We may have to request a waiver of the SBA’s restrictions for SBIC I LP to make certain distributions to maintain our tax treatment as a RIC and we cannot assure stockholders that the SBA will grant such waiver. If our subsidiaries and portfolio companies are unable to make distributions to us, this may result in loss of RIC tax treatment and a consequent imposition of a corporate-level federal income tax on us.

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

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

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to maintain the tax benefits available to RICs. In such a case, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations and sourcings to meet these distribution requirements. If we sell built-in-gain assets, we may be required to recognize taxable income in respect of the built-in-gain on such assets. In such a case, we would have to distribute all of our taxable gain (including the built-in-gain) in respect of such sale to avoid the imposition of entity-level tax on such gain. If we are not able to obtain such cash from other sources, we may fail to maintain the tax benefits available to RICs and thus be subject to corporate-level U.S. federal income tax.

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

We distribute taxable distributions that are payable in cash or shares of our common stock at the election of each stockholder. In accordance with guidance issued by the Internal Revenue Service, a publicly traded RIC should generally be eligible to treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder is permitted to elect to receive his or her distribution in either cash or stock of the RIC (even where there is a limitation on the percentage of the distribution payable in cash, provided that the limitation is at least 20%), subject to the satisfaction of certain guidelines. If too many stockholders elect to receive their distributions in cash, each such stockholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If this and certain other requirements are met, for U.S. federal income tax purposes, the amount of the distribution paid in stock generally will be a taxable distribution in an amount equal to the amount of cash that could have been received instead of stock. If we decide to make any distributions consistent with this guidance that are payable in part in our stock, stockholders receiving such distribution would be required to include the full amount of the distribution (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g., broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

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

We have elected to be taxed for U.S. federal income tax purposes as a RIC under Subchapter M of the Code. If we meet certain requirements, including source of income, asset diversification and distribution requirements, and if we continue to qualify as a BDC, we will continue to qualify for tax treatment as RIC under the Code and will not have to pay corporate-level taxes on income we distribute to our stockholders as dividends, allowing us to substantially reduce or eliminate our corporate-level U.S. federal tax liability. Because we received the approval of our Board, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 150% at the time we issue any debt or preferred stock. See "Item 1A. Risk Factors - Because we received the approval of our Board, we are subject to 150% Asset Coverage, effective May 3, 2019". This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt or preferred stock and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure investors that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue common stock priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

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

The PWB Credit Facility provides us with a senior secured revolving line of credit of up to $100.0 million, with maximum availability equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base and otherwise specified in the PWB Credit Facility. The PWB Credit Facility is guaranteed by OFSCC-MB and secured by all of our current and future assets excluding assets held by SBIC I LP, OFSCC-FS, and our SBIC I LP and SBIC I GP partnership interests. The PWB Credit Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The PWB Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition. The PWB Credit Facility permits us to fund additional investments as long as we are within the conditions set out in the PWB Credit Facility. Our continued compliance with these covenants depends on many factors, some of which are beyond our control, and there are no assurances that we will continue to comply with these covenants. Our failure to satisfy these covenants could result in foreclosure by our lender, which would accelerate our repayment obligations under the PWB Credit Facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders. We had $-0- million outstanding under the PWB Credit Facility as of December 31, 2019. Availability under the PWB Credit Facility as of December 31, 2019 was $69.0 million based on the stated advance rate of 50% under the borrowing base.

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

The current worldwide financial market situation, as well as various social and political tensions in the United States and around the world, may contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets and may cause economic uncertainties or deterioration in the United States and worldwide. The impact of downgrades by rating agencies to the United States government's sovereign credit rating or its perceived creditworthiness as well as potential government shutdowns could adversely affect the United States and global financial markets and economic conditions. Since 2010, several European Union, or EU, countries have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In addition, the fiscal policy of foreign nations, such as Russia and China, may have a severe impact on the worldwide and United States financial markets. The decision made in the United Kingdom referendum to leave the EU (commonly known as "Brexit") has led to volatility in global financial markets and may lead to weakening in consumer, corporate and financial confidence in the United Kingdom and Europe. Since the Brexit referendum, the EU has extended the Brexit deadline several times to allow the UK parliament to ratify a withdrawal agreement, and most recently, under current Prime Minister Boris Johnson, the House of Commons passed the Brexit deal on December 20, 2019. The European Parliment ratified the Brexit deal, and on January 31, 2020, the UK formally left the EU. The UK will now enter into a transition period until December 31, 2020, where agreements surrounding trade and other aspects of the UK's future relationship with the EU will be formalized. It is unclear what form the future relationship between the UK and the EU will take, and it may have a significant impact on the economies of the UK and EU, as well as the broader global economy, which may cause increased volatility and illiquidity. Failure to come to terms on a free trade deal could result in checks and tariffs on UK goods traveling to the EU and thus prolong economic uncertainty. Additionally, volatility in the Chinese stock markets and global markets for commodities and as a result of global health emergencies may affect other financial markets worldwide. We cannot predict the effects of these or similar events in the future on the United States and global economies and securities markets or on our investments. We monitor developments in economic, political and market conditions and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

Events outside of our control, including public health crises, may negatively affect the results of our operations.

Periods of market volatility may continue to occur in response to pandemics or other events outside of our control. These types of events could adversely affect our operating results. For example, in December 2019, a novel strain of coronavirus surfaced in Wuhan, China, which has resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities and factories across China. As the potential impact on global markets from the coronavirus is difficult to predict, the extent to which the coronavirus may negatively affect our operating results or the duration of any potential business disruption is uncertain. Any potential impact to our results will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of the coronavirus and the actions taken by authorities and other entities to contain the coronavirus or treat its impact, all of which are beyond our control. These potential impacts, while uncertain, could adversely affect our operating results.

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

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

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

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

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

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

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

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

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

We may experience fluctuations in our quarterly operating results.

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

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

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

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

In addition, changes to the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy. Such changes could result in material differences to the strategies and plans set forth in this Annual Report on Form 10-K and our accounting practices described in this Annual Report on Form 10-K, and may shift our investment focus from the areas of expertise of OFS Advisor to other types of investments in which OFS Advisor may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of a stockholder’s investment.

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

Legislative or other actions relating to taxes could have a negative effect on us.

Significant U.S. federal tax reform legislation was recently enacted that, among other things, permanently reduces the maximum federal corporate income tax rate, reduces the maximum individual income tax rate (effective for taxable years 2018 through 2025), restricts the deductibility of business interest expense, changes the rules regarding the calculation of net operating loss deductions that may be used to offset taxable income, expands the circumstances in which a foreign corporation will be treated as a “controlled foreign corporation” and, under certain circumstances, requires accrual method taxpayers to recognize income for U.S. federal income tax purposes no later than the income is taken into account as revenue in an applicable financial statement. The impact of this new legislation on us, our stockholders and the entities in which we may invest is uncertain. Prospective investors are urged to consult their tax advisors regarding the effects of the new legislation on an investment in us.

We cannot predict with certainty how any future changes in the tax laws might affect us, our investors or our portfolio investments. New legislation and any U.S. Treasury regulations, administrative interpretations or court decisions interpreting such legislation could significantly and negatively affect our ability to qualify for tax treatment as a RIC or the U.S. federal income tax consequences to us and our investors of such qualification, or could have other adverse consequences. Investors are urged to consult with their tax advisor regarding tax legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our securities.

Changes to United States tariff and import/export regulations may have a negative effect on our portfolio companies and, in turn, harm us.

There has been on-going discussion and commentary regarding potential significant changes to United States trade policies, treaties and tariffs. There is significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties and tariffs. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the impacted nations and the United States. Any of these factors could depress economic activity and restrict our portfolio companies’ access to suppliers or customers and have a material adverse effect on their business, financial condition and results of operations, which in turn would negatively impact us.

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

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

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

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

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

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

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

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

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

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

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

We previously identified a material weakness in our internal control over financial reporting, which has since been remediated. Any future failure to establish and maintain effective internal control over financial reporting could have an adverse effect on our business and stock price.

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

We previously identified a material weakness related to the design and operating effectiveness of controls over the reliability of financial information reported by portfolio companies that is used as financial inputs in the Company’s investment valuations. We addressed the material weakness through, among other things, adding new and/or enhanced existing controls surrounding the valuation process and financial reporting oversight of various controlled/affiliated portfolio companies.

Although we have remediated this material weakness in our internal control over financial reporting, any failure to improve our disclosure controls and procedures or internal control over financial reporting to address any identified weaknesses in the future, if and when they are identified, could prevent us from maintaining accurate accounting records and discovering material accounting errors. Any of these results could adversely affect our business and the value of our common stock.

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

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. While the capital markets have improved, these conditions could deteriorate again in the future. During such market disruptions, we may have difficulty raising debt or equity capital, especially as a result of regulatory constraints.

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

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

We are subject to risks related to corporate social responsibility.

Our business faces increasing public scrutiny related to environmental, social and governance (“ESG”) activities. We risk damage to our brand and reputation if we fail to act responsibly in a number of areas, such as environmental stewardship, corporate governance and transparency and considering ESG factors in our investment processes. Adverse incidents with respect to ESG activities could impact the value of our brand, the cost of our operations and relationships with investors, all of which could adversely affect our business and results of operations. Additionally, new regulatory initiatives related to ESG could adversely affect our business.

Risks Related to OFS Advisor and its Affiliates

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

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

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

There can be no assurance that we will be able to participate in all investment opportunities that are suitable to us. OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy.

We have potential conflicts of interest related to the purchases and sales that OFS Advisor makes on our behalf and/or on behalf of Affiliated Accounts.

Conflicts may arise when we make an investment in conjunction with an investment being made by Affiliated Accounts, or in a transaction where another Affiliated Account has already made an investment. Investment opportunities are, from time to time, appropriate for more than one Affiliated Account in the same, different or overlapping securities of a portfolio company's capital structure. Conflicts arise in determining the terms of investments, particularly where these Affiliated Accounts may invest in different types of securities in a single portfolio company. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be restructured, modified or refinanced.

We may invest in debt and other securities of companies in which other Affiliated Accounts hold those same securities or different securities, including equity securities. In the event that such investments are made by us, our interests will at times conflict with the interests of such other Affiliated Accounts, particularly in circumstances where the underlying company is facing financial distress. Decisions about what action should be taken, particularly in troubled situations, raises conflicts of interest, including, among other things, whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring. The involvement of multiple Affiliated Accounts at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors, including among us and other Affiliated Accounts. In certain circumstances, we or other Affiliated Accounts may be prohibited from exercising voting or other rights and may be subject to claims by other creditors with respect to the subordination of their interest.

For example, in the event that one Affiliated Account has a controlling or significantly influential position in a portfolio company, that Affiliated Account may have the ability to elect some or all of the board of directors of such a portfolio company, thereby controlling the policies and operations, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling Affiliated Account is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such a portfolio company. Such management and operational decisions may, at times, be in direct conflict with us or other Affiliated Accounts that have invested in the same portfolio company that do not have the same level of control or influence over the portfolio company.

If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, we or other Affiliated Accounts may or may not provide such additional capital, and if provided each Affiliated Account will supply such additional capital in such amounts, if any, as determined by OFS Advisor and/or OFS Advisor's affiliates. Investments by more than one Affiliated Account in a portfolio company also raises the risk of using assets of an Affiliated Account of OFS Advisor to support positions taken by other Affiliated Accounts, or that a client may remain passive in a situation in which it is entitled to vote. In addition, there may be differences in timing of entry into, or exit from, a portfolio company for reasons such as differences in strategy, existing portfolio or liquidity needs, different Affiliated Account mandates or fund differences, or different securities being held. These variations in timing may be detrimental to us.

The application of our investment mandate as compared to investment mandates of other Affiliated Accounts and the policies and procedures of OFS Advisor and OFS Advisor's affiliates are expected to vary based on the particular facts and circumstances surrounding each investment by two or more Affiliated Accounts, in particular when those Affiliated Accounts are in different classes of an issuer's capital structure (as well as across multiple issuers or borrowers within the same overall capital structure) and, as such, there may be a degree of variation and potential inconsistencies, in the manner in which potential or actual conflicts are addressed.

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

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

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

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

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

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

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

We have entered into a license agreement with OFSAM under which OFSAM has granted us a non-exclusive, royalty-free license to use the name "OFS." See "Item 1. Business—License Agreement." In addition, we rent office space from a subsidiary of OFSAM and pay to that subsidiary our allocable portion of overhead and other expenses incurred in performing its obligations under the Administration Agreement, such as rent and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer and chief accounting officer. This will create conflicts of interest that our board of directors must monitor.

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

The Investment Advisory Agreement and the Administration Agreement were negotiated between related parties. Consequently, their terms, including fees payable to OFS Advisor, may not be as favorable to us as if they had been negotiated with an unaffiliated third party. In addition, we could choose not to enforce, or to enforce less vigorously, our rights and remedies under these agreements because of our desire to maintain our ongoing relationship with OFS Advisor, OFS Services and their respective affiliates. Any such decision, however, would breach our fiduciary obligations to our stockholders.

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

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

BDCs may, however, invest alongside certain related parties or their respective other clients in certain circumstances where doing so is consistent with current law and SEC staff interpretations. For example, a BDC may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that the BDC's advisor, acting on the BDC's behalf and on behalf of other clients, negotiates no term other than price. Co-investment with such other accounts is not permitted or appropriate under this guidance when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between the BDC's interests and those of other accounts.

On October 12, 2016, we received the Order from the SEC that permits us to co-invest in portfolio companies with certain affiliates, provided that we comply with the conditions of the Order. Pursuant to the Order, we are generally permitted to co-invest with BDCs, registered investment companies and private funds managed by OFS Advisor or any adviser that controls, is controlled by, or is under common control with, OFS Advisor, and is registered as an investment adviser under the Advisers Act, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Under the terms of the Order, a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies.

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

- investment guidelines and/or restrictions, if any, set forth in the applicable organizational, offering or similar documents for the investment vehicles;
- the status of tax restrictions and tests and other regulatory restrictions and tests;
- risk and return profile of the investment vehicles;
- suitability/priority of a particular investment for the investment vehicles;
- if applicable, the targeted position size of the investment for the investment vehicles
- level of available cash for investment with respect to the investment vehicles;
- total amount of funds committed to the investment vehicles; and
- the age of the investment vehicles and the remaining term of their respective investment periods, if any.

When not relying on the Order, priority as to opportunities will generally be given to clients that are in their "ramp-up" period, or the period during which the account has yet to reach sufficient scale such that its investment income covers its operating expenses, over the accounts that are outside their ramp-up period but still within their investment or re-investment periods. However, application of one or more of the factors listed above, or other factors determined to be relevant or appropriate, may result in the allocation of an investment opportunity to a fund no longer in its ramp-up period over a fund that is still within its ramp-up period.

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

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

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

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

The incentive fee payable by us to OFS Advisor may create an incentive for OFS Advisor to make investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to OFS Advisor is determined may encourage OFS Advisor to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor our stockholders.

OFS Advisor receives an incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, OFS Advisor may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

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

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

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

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

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

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

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

Under the Investment Advisory Agreement, OFS Advisor will not assume any responsibility to us other than to render the services called for under that agreement, and it will not be responsible for any action of our board of directors in following or declining to follow OFS Advisor's advice or recommendations. Under the terms of the Investment Advisory Agreement, OFS

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

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

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

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

OFS Services has the right to resign under the Administration Agreement, whether we have found a replacement or not. If OFS Services resigns, we may not be able to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the value of our shares may decline. In addition, the coordination of our internal management and administrative activities is likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by OFS Services. Even if we are able to retain a comparable service provider or individuals to perform such services, whether internal or external, their integration into our business and lack of familiarity with our investment objectives may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

Risks Related to BDCs

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

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, as modified by the SBCAA, we are permitted as a BDC to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 150% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. If the value of our assets decline, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. If we issue senior securities, we will be exposed to typical risks associated with leverage, including an increased risk of loss.

On May 3, 2018, the Board, including a "required majority" (as such item is determined in section 57(o) of the 1940 Act) of the Board, approved the application of a reduced 150% asset coverage ratio to us and, as a result, the reduced asset coverage ratio applicable to us was decreased from 200% to 150% effective May 3, 2019. See "Item 1A. Risk Factors--Risks

Related to our Business and Structure--Because we have received the approval of our Board, we are subject to 150% Asset Coverage beginning on May 3, 2019."

As of December 31, 2019, we had $359.2 million of debt outstanding. Our ability to incur additional debt and remain in compliance with the asset coverage test will be limited. We may seek an additional credit facility to finance investments or for working capital requirements. There can be no assurance that we will be able to obtain such financing on favorable terms or at all. We have received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from our definition of senior securities in our statutory asset coverage ratio under the 1940 Act.

If we issue preferred stock, the preferred stock would rank "senior" to common stock in our capital structure, preferred stockholders would have separate voting rights on certain matters and might have other rights, preferences or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in our stockholders' best interest. Holders of our common stock will directly or indirectly bear all of the costs associated with offering and servicing any preferred stock that we issue. In addition, any interests of preferred stockholders may not necessarily align with the interests of holders of our common stock and the rights of holders of shares of preferred stock to receive dividends would be senior to those of holders of shares of our common stock. We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve any such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and our stockholders might experience dilution.

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

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

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

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

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

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

Risks Related to Our Investments

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

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

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

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

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

Our investments in debt instruments may include "covenant-lite" loans. Covenants are contractual restrictions that lenders place on companies to limit the corporate actions a company may pursue. Generally, the loans in which we expect to invest will have financial maintenance covenants, which are used to proactively address materially adverse changes in a portfolio company's financial performance. However, to a lesser extent, we may invest in "covenant-lite" loans. We use the term "covenant-lite" to refer generally to loans that do not have a complete set of financial maintenance covenants. Generally, "covenant-lite" loans provide borrower companies more freedom to negatively impact lenders because their covenants are incurrence-based, which means they are only tested and can only be breached following an affirmative action of the borrower, rather than by a deterioration in the borrower's financial condition. Accordingly, to the extent we invest in "covenant-lite" loans, we may have fewer rights against a borrower and may have a greater risk of loss on such investments as compared to investments in or exposure to loans with financial maintenance covenants.

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

Investment in private and middle-market companies involves a number of significant risks. Generally, little public information exists about these companies, and we rely on the ability of OFS Advisor's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Middle-market companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees we may have obtained in connection with our investment. Such companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns.

Middle-market companies are more likely to be considered lower grade investments, commonly called "junk bonds," which are either rated below investment grade by one or more nationally-recognized statistical rating agencies at the time of investment, or may be unrated but determined by the OFS Advisor to be of comparable quality. Lower grade securities or comparable unrated securities are considered predominantly speculative regarding the issuer's ability to pay interest and principal, and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for lower grade debt tend to be very volatile and are less liquid than investment grade securities. For these reasons, an investment in our company is subject to the following specific risks: increased price sensitivity to a deteriorating economic environment; greater risk of loss due to default or declining credit quality; adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and if a negative perception of the lower grade debt market develops, the price and liquidity of lower grade securities may be depressed. This negative perception could last for a significant period of time.

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

Investments in equity securities involve a substantial degree of risk.

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

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

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

Our investments in CLOs carry additional risks to the risks associated with investing in private debt.

In addition to the general risks associated with debt securities and structured products discussed herein, CLOs carry additional risks, including, but not limited to (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the possibility that the investments in CLOs are subordinate to other classes or tranches thereof, (iv) the potential of spread compression in the underlying loans of the CLO, which could reduce credit enhancement in the CLOs and (v) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results. CLO equity securities that we may acquire are subordinated to more senior tranches of CLO debt. CLO equity securities are subject to increased risks of default relative to the holders of superior priority interests in the same securities. In addition, at the time of issuance, CLO equity securities are under-collateralized in that the liabilities of a CLO at inception exceed its total assets. When we invest in CLOs, we may be in a first loss or subordinated position with respect to realized losses on the assets of the CLOs in which it is invested. We may recognize phantom taxable income from our investments in the subordinated tranches of CLOs.

Between the closing date and the effective date of a CLO, the CLO collateral manager will generally expect to purchase additional collateral obligations for the CLO. During this period, the price and availability of these collateral obligations may be adversely affected by a number of market factors, including price volatility and availability of investments suitable for the CLO, which could hamper the ability of the collateral manager to acquire a portfolio of collateral obligations that will satisfy specified concentration limitations and allow the CLO to reach the initial par amount of collateral prior to the effective date. An inability or delay in reaching the target initial par amount of collateral may adversely affect the timing and amount of interest or principal payments received by the holders of the CLO debt securities and distributions of the CLO on equity securities and could result in early redemptions which may cause CLO debt and equity investors to receive less than the face value of their investment.

In addition, the portfolios of certain CLOs in which we may invest may contain "covenant-lite" loans. Accordingly, to the extent we are exposed to "covenant-lite" loans, we may have a greater risk of loss on such investments as compared to investments in or exposure to loans with financial maintenance covenants.The failure by a CLO in which we invest to satisfy financial covenants, including with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in the payments we receive from the CLO. In the event that a CLO fails certain tests, holders of CLO senior debt may be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, we may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting CLO or any other investment we may make. If any of these occur, it could adversely affect our operating results and cash flows.

Our CLO investments will be exposed to leveraged credit risk. If a CLO does not meet certain minimum collateral value ratios and/or interest coverage ratios, primarily due to senior secured loan defaults, then cash flow that otherwise would have been available to pay us distributions may instead be used to redeem any senior notes or to purchase additional senior secured loans, until the ratios again exceed the minimum required levels or any senior notes are repaid in full.

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

We will at times take a security interest in the available assets of our portfolio companies, including the equity interests of their subsidiaries and, in some cases, the equity interests of our portfolio companies held by their stockholders. In the event of a default by a portfolio company on a secured loan, we will only have recourse to the assets collateralizing the loan. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success or deterioration of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. Additionally, in the case of certain of our investments, we do not have a first lien position on the collateral and may not receive the full value of the collateral upon liquidation. If the underlying collateral value is less than the loan amount, we will suffer a loss.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of inter-creditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

Borrowers of Broadly Syndicated Loans may be permitted to designate unrestricted subsidiaries under the terms of their financing agreements, which would exclude such unrestricted subsidiaries from restrictive covenants under the financing agreement with the borrower. Without restriction under the financing agreement, the borrower could take various actions with respect to the unrestricted subsidiary including, among other things, incur debt, grant security on its assets, sell assets, pay dividends or distribute shares of the unrestricted subsidiary to the borrower's shareholders. Any of these actions could increase the amount of leverage that the borrower is able to incur and increase the risk involved in our investments in Broadly Syndicated Loans accordingly.

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

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

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

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

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

- a comparison of the portfolio company's securities to publicly traded securities;
- the enterprise value of a portfolio company;
- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments and its earnings and discounted cash flow;
- the markets in which the portfolio company does business; and
- changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

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

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

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

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

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

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

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

- increase or maintain in whole or in part our position as a creditor or equity ownership percentage in a portfolio company;
- exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
- preserve or enhance the value of our investment.

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

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

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

Defaults by our portfolio companies will harm our operating results.

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

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

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

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

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

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

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

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

Cybersecurity risks and cyber incidents may adversely affect our business or the business of our portfolio companies by causing a disruption to our operations or the operations of our portfolio companies, a compromise or corruption of our confidential information or the confidential information of our portfolio companies and/or damage to our business relationships or the business relationships of our portfolio companies, all of which could negatively impact the business, financial condition and operating results of us or our portfolio companies.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the information resources of us or our portfolio companies. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems or those of our portfolio companies for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. We and OFS Advisor's employees have been and expect to continue to be the target of fraudulent calls, emails and other forms of activities. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation damage to business relationships and damage to our competitiveness, stock price, and long-term stockholder value. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. As our and our portfolio companies' reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by OFS Services and third-party service providers, and the information systems of our portfolio companies. OFS Advisor has implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that a cyber incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident. In addition, cybersecurity has become a top priority for regulators around the world, and some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. If we fail to comply with the relevant laws and regulations, we could suffer financial losses, a disruption of our businesses, liability to investors, regulatory intervention or reputational damage.

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

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

The disposition of our investments may result in contingent liabilities.

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

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

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

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

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates could result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged could vary. Moreover, for a variety of reasons, we might not seek to establish a perfect correlation between the hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation could prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it might not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities would likely fluctuate as a result of factors not related to currency fluctuations.

We may not realize gains from our equity investments.

When we invest in senior secured, unitranche, second-lien and mezzanine loans, we may acquire warrants or other equity securities of portfolio companies as well. We may also invest in equity securities directly. To the extent we hold equity investments, except as described below, we will attempt to dispose of them and realize gains upon our disposition of them. However, the equity interests we receive may not appreciate in value and may decline in value. As a result, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. In the case of SBIC I LP, our wholly owned subsidiary, we will not receive direct benefits from the sale of assets in its portfolio. Rather, our return on our investment in such assets will depend on the ability of SBIC I LP's portfolio to generate cash flow in excess of payments required, as appropriate, to be made to other parties under the terms of the SBA debentures, and distribution, subject to SBA regulation, of the excess to us.

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

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

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

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. As a result of this transition, interest rates on financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our financial instruments tied to LIBOR rates. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short term repurchase agreements, backed by Treasury securities, called the Secured Overnight Financing Rate ("SOFR"). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement remains a question and the future of LIBOR at this time is uncertain.

Additionally, on July 12, 2019 the Staff of the SEC's Division of Corporate Finance, Division of Investment Management, Division of Trading and Markets, and Office of the Chief Accountant issued a statement about the potentially significant effects on financial markets and market participants when LIBOR is discontinued in 2021 and no longer available as a reference benchmark rate. The Staff encouraged all market participants to identify contracts that reference LIBOR and begin transitions to alternative rates. On December 30, 2019, the SEC's Chairman, Division of Corporate Finance and Office of the Chief Accountant issued a statement to encourage audit committees in particular to understand management's plans to identify and address the risks associated with the elimination of LIBOR, and, specifically, the impact on accounting and financial reporting and any related issues associated with financial products and contracts that reference LIBOR, as the risks associated with the discontinuation of LIBOR and transition to an alternative reference rate will be exacerbated if the work is not completed in a timely manner.

The elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us, or on our overall financial condition or results of operations. If LIBOR ceases to exist, we may need to renegotiate the credit agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established.

Risks Related to Our Securities

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

We have made distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure stockholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by the impact of one or more of the risk factors described in this Annual Report on Form 10-K. Due to the asset coverage test applicable to us under the 1940 Act as a BDC, we may be limited in our ability to make distributions. Our ability to make distributions may also be affected by our ability to receive distributions from SBIC I LP, which is governed by SBA regulations.

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

The market price of our common stock may fluctuate significantly.

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

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- exclusion of our common stock from certain market indices, such as the Russell 2000 Financial Services Index, which could reduce the ability of certain investment funds to own our common stock and put short-term selling pressure on our common stock;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs, SBICs or BDCs;
- loss of RIC or BDC status;

- failure of SBIC I LP to maintain its status as an SBIC;
- our origination activity, including the pace of, and competition for, new investment opportunities;
- our ability to incur additional leverage pursuant to the SBCAA and the impact of such leverage on our net investment income and results of operations;
- changes or perceived changes in earnings or variations in operating results;
- changes or perceived changes in the value of our portfolio of investments;
- changes in accounting guidelines governing valuation of our investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the inability to secure additional debt or equity capital;
- potential future sales of common stock or debt securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities;
- departure of OFS Advisor's, OFSC's or any of their affiliates' key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

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

The shares of our common stock beneficially owned by our principal stockholders, including OFSAM, are generally available for resale, subject to the provisions of Rule 144 promulgated under the Securities Act unless registered for sale under the Securities Act. We have entered into a registration rights agreement granting OFSAM the right to require us to register its shares for resale. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

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

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

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

If our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. Shares of BDCs, including shares of our common stock, have traded at discounts to their net asset values. As of December 31, 2019, our net asset value per share was $12.46. The daily average closing price of our shares on the Nasdaq Global Select Market for the year ended December 31, 2019 was $11.74. If our common stock trades below net asset value, the higher the cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

Our Unsecured Notes are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future and will rank pari passu with, or equal to, all outstanding and future unsecured, unsubordinated indebtedness issued by us and our general liabilities.

Our Unsecured Notes are not secured by any of our assets or any of the assets of any of our subsidiaries. As a result, the Unsecured Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have outstanding (including the PWB Credit Facility and the BNP Facility) or that we or our subsidiaries may incur in the future (or any indebtedness that is initially unsecured as to which we subsequently grant a security interest) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our secured indebtedness or secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Unsecured Notes.

The Unsecured Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The Unsecured Notes are obligations exclusively of OFS Capital Corporation, and not of any of our subsidiaries. None of our subsidiaries are a guarantor of the Unsecured Notes, and the Unsecured Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. Any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Unsecured Notes. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors of our subsidiaries will have priority over our equity interests in such entities (and therefore the claims of our creditors, including holders of the Unsecured Notes) with respect to the assets of such entities. Even if we are recognized as a creditor of one or more of these entities, our claims would still be effectively subordinated to any security interests in the assets of any such entity and to any indebtedness or other liabilities of any such entity senior to our claims. Consequently, the Unsecured Notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of any of our existing or future subsidiaries, including SBIC I LP and OFSCC-FS. Certain of these entities currently serve as guarantors under the PWB Credit Facility or the BNP Facility, and in the future our subsidiaries may incur substantial additional indebtedness, all of which is and would be structurally senior to the Unsecured Notes.

The indenture under which the Unsecured Notes were issued contains limited protection for holders of the Unsecured Notes.

The indenture under which the Unsecured Notes were issued offers limited protection to holders of the Unsecured Notes. The terms of the indenture and the Unsecured Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have a material adverse impact on your investment in the Unsecured Notes. In particular, the terms of the indenture and the Unsecured Notes will not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Unsecured Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Unsecured Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Unsecured Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in those entities and therefore rank structurally senior to the Unsecured Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in each case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% on and after May 3, 2019) after such borrowings.

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Unsecured Notes, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause our asset coverage to fall below the threshold specified in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time or any successor provisions, giving effect to (i) any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to us if we determine to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by such provisions of Section 61(a) of the 1940 Act as may be applicable to us from time to time in order to maintain the BDC's status as a RIC under Subchapter M of the Code. These provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% (or 150% on and after May 3, 2019) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase;

- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

- enter into transactions with affiliates;

- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture does not require us to make an offer to purchase the Unsecured Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Unsecured Notes do not protect holders of the Unsecured Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, if any, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.

Our ability to recapitalize, incur additional debt (including additional debt that matures prior to the maturity of the Unsecured Notes), and take a number of other actions that are not limited by the terms of the Unsecured Notes may have important consequences for you as a holder of the Unsecured Notes, including making it more difficult for us to satisfy our obligations with respect to the Unsecured Notes or negatively affecting the trading value of the Unsecured Notes.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Unsecured Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for, trading levels, and prices of the Unsecured Notes.

We may choose to redeem the Unsecured Notes when prevailing interest rates are relatively low.

On or after April 30, 2020 for the Unsecured Notes Due April 2025, October 31, 2020 for the Unsecured Notes Due October 2025 or October 31, 2021 for the Unsecured Notes Due October 2026, we may choose to redeem the Unsecured Notes from time to time, especially if prevailing interest rates are lower than the rate borne by the Unsecured Notes. If prevailing rates are lower at the time of redemption, and we redeem the Unsecured Notes, you likely would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Unsecured Notes being redeemed. Our redemption right also may adversely impact your ability to sell the Unsecured Notes as the optional redemption date or period approaches.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We do not own or lease any real estate or other physical properties material to our operation. Our headquarters are located at 10 S. Wacker Drive, Suite 2500, Chicago, IL, 60606, and are provided by OFS Services pursuant to the Administration Agreement. Additional operations are conducted from offices in New York, New York and Los Angeles, California, which are also provided by OFS Services pursuant to the Administration Agreement. We believe that our office facilities are suitable and adequate for our business as we contemplate continuing to conduct it.

Item 3. Legal Proceedings

We, OFS Advisor and OFS Services, are not currently subject to any material pending legal proceedings threatened against us as of December 31, 2019. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock and Holders

Our common stock is traded on the Nasdaq Global Select Market under the symbol "OFS". The last reported sale price for our common stock on the Nasdaq Global Select Market on March 6, 2020 was $10.04 per share. As of March 6, 2020, there were two holders of record of the common stock, one of which was OFSAM. The other holder of record does not identify stockholders for whom shares are held beneficially in “nominee” or “street name.”

The following table lists the high and low closing sale price for our common stock, net asset value per share, and the cash distributions per share that we have declared on our common stock for each fiscal quarter during the last two most recently completed fiscal years and the current fiscal year through March 8, 2020. The stock quotations are inter-dealer quotations and do not include markups, markdowns or commissions.

Period	NAV Per Share(1)	Price Range		Premium (Discount) of High Sales Price to NAV	Premium (Discount) of Low Sales Price to NAV	Cash Distribution per Share(2)
		High	Low			
Fiscal 2020						
First Quarter(3)	*	$11.97	$10.04	*	*	$ 0.34
Fiscal 2019						
Fourth Quarter	$ 12.46	$ 12.01	$ 10.99	-3.6 %	-11.8 %	$ 0.34
Third Quarter	$ 12.74	$ 12.27	$ 10.98	-3.7 %	-13.8 %	$ 0.34
Second Quarter	$ 12.95	$ 12.80	$ 11.85	-1.2 %	-8.5 %	$ 0.34
First Quarter	$ 13.04	$ 12.52	$ 10.77	-4.0 %	-17.4 %	$ 0.34
Fiscal 2018						
Fourth Quarter	$ 13.10	$ 11.95	$ 9.89	-8.8 %	-24.5 %	$ 0.34
Third Quarter	$ 13.75	$ 12.70	$ 11.48	-7.6 %	-16.5 %	$ 0.34
Second Quarter	$ 13.70	$ 12.20	$ 10.65	-10.9 %	-22.3 %	$ 0.34
First Quarter	$ 13.68	$ 12.50	$ 10.98	-8.6 %	-19.7 %	$ 0.71 (4)

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

(2) The return of capital portion of these distributions for the years ended December 31, 2019 and 2018 were $-0- and $-0-, respectively.

(3) Period from January 1, 2020 through March 8, 2020.

(4) Includes a special dividend of $0.37 per share representing undistributed net long-term capital gains realized by the Company in 2017.

* Not determinable at the time of filing.

Issuer Purchases of Equity Securities

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

The following table summarizes the shares of common stock that we repurchased under the Stock Repurchase Program during the years ended December 31, 2019 and 2018 (amount in thousands except shares).

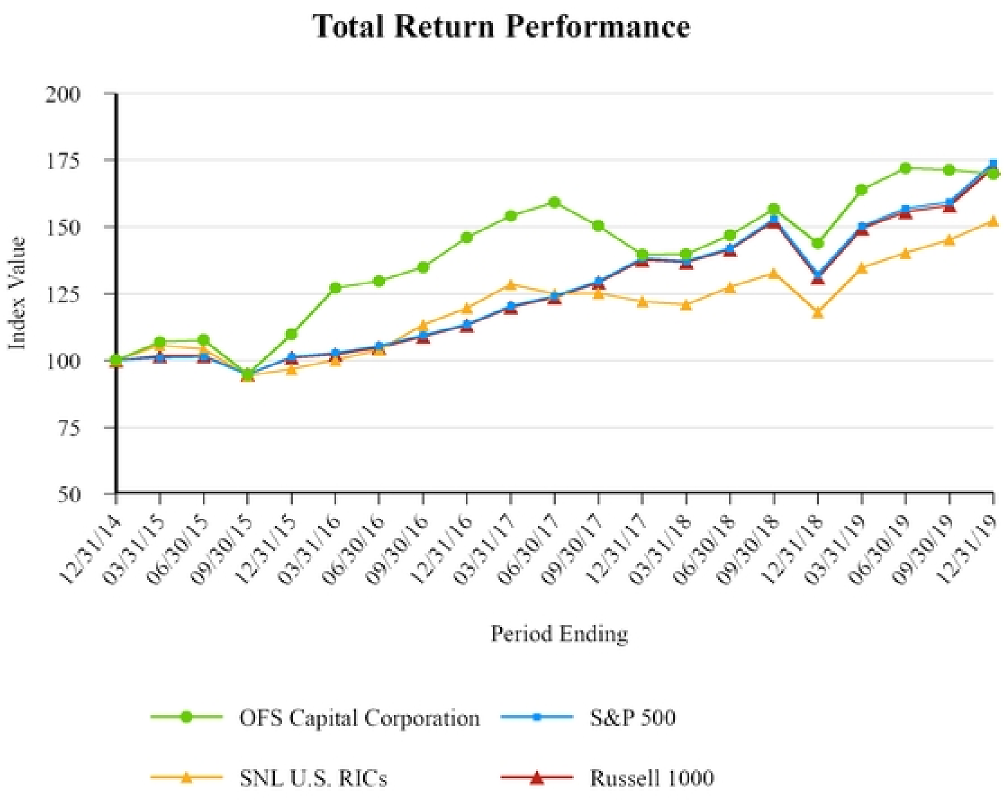
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs
May 22, 2018 through December 31, 2018	300	$ 10.29	300	$ 9,997
January 1, 2019 through December 31, 2019	—	—	—	—
Total	300	$ 10.29	300	$ 9,997

Sales of Unregistered Securities

There was $0.2 million of distributions reinvested during the year ended December 31, 2019 under the DRIP.

Stock Performance Graph

This graph compares the return on our common stock with that of the Standard & Poor’s 500 Stock Index, the Russell 1000 Index and the SNL U.S. RICs Index, for the last five fiscal years. The graph assumes that, on December 31, 2014, a person invested $100 in our common stock, the Standard & Poor’s 500 Stock Index, the Russell 1000 Index and the SNL U.S. RICs Index. The graph measures total stockholder return, which takes into account changes in stock price and assumes reinvestment of all dividends and distributions prior to any tax effect.



	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019
OFS Capital Corporation	100.0	109.7	146.0	139.6	143.8	170.1
S&P 500	100.0	101.4	113.5	138.3	132.2	173.9
SNL U.S. RICs	100.0	96.7	119.6	122.1	118.1	152.3
Russell 1000	100.0	100.9	113.1	137.6	131.0	172.2

The graph and other information under the heading "Stock Performance Graph" in Part II Item 5 of this Annual Report on Form 10-K is "furnished" and shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act and shall not be deemed incorporated by reference in any filing under the Exchange Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

Fees and Expenses

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this Annual Report on Form 10-K contains a reference to fees or expenses paid by “us,” “the Company” or “OFS Capital,” or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in OFS Capital.

Stockholder transaction expenses:		
Sales load borne by us (as a percentage of offering price)	— %	(1)
Offering expenses borne by us (as a percentage of offering price)	— %	(1)
Dividend reinvestment plan fees (per sales transaction fee)	$15.00	(2)
Total Stockholder transaction expenses (as a percentage of offering price)	— %	(1)

Annual expenses (as a percentage of net assets attributable to common stock)[9]:		
Base management fees payable under the Investment Advisory Agreement	5.38 %	(3)
Incentive fees payable under the Investment Advisory Agreement	2.73 %	(4)
Interest payments on borrowed funds	10.91 %	(5)
Other expenses	2.76 %	(6)
Total annual expenses	21.78 %	
Base management fee reduction	(0.08)%	(8)
Total annual expenses, net of fee waiver	21.70 %	(7)

(1) The amounts set forth in this table do not reflect the impact of any sales load, sales commission or other offering expenses borne by the Company and its stockholders. If applicable, the prospectus or prospectus supplement relating to an offering of our common stock will disclose the offering price and the estimated offering expenses and total stockholder transaction expenses borne by the Company and its common stockholders as a percentage of the offering price. In the event that shares of our common stock are sold to or through underwriters, the applicable prospectus or prospectus supplement will also disclose the applicable sales load.

(2) The expenses of the dividend reinvestment plan are included in “other expenses.” The plan administrator’s fees will be paid by us. There will be no brokerage charges or other charges to stockholders who participate in the plan except that, if a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant’s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus a $0.10 per share brokerage commission from the proceeds.

(3) Our base management fee is 1.75% of the average value of our total assets (other than cash and cash equivalents, and the intangible asset and goodwill resulting from the SBIC Acquisitions; but including assets purchased with borrowed amounts, and including assets owned by any consolidated entity). This item represents projected base management fees for the the next twelve month assuming no additional leverage is incurred. We increased our leverage to a level below a 200% asset coverage ratio, as permitted under the SBCAA. As discussed in footnote (8), below, OFS Advisor agreed to reduce a portion of its base management fee on certain assets associated with the increase in leverage; the base management fees of 5.38% presented in the table above does not reflect the effect of the base management fee reduction on certain assets. See “Management and Other Agreements — Investment Advisory Agreement”.

(4) The Part One incentive fee was estimated based on our projected results of operations for the next twelve months including the anticipated impact of additional assets purchased with the added leverage discussed in footnote (5) and assumed yields thereon, and the effects of the expected base management fee waiver discussed in footnote (3). The Part Two incentive fee will be accrued, but not necessarily become payable, if, on a cumulative basis, the sum of net realized capital gains and losses plus net unrealized appreciation and depreciation is positive. Net realized gains and losses result from sales transactions and no such transactions are currently contemplated by OFS Advisor; and unrealized capital gains or losses result from fluctuations in the fair value of our investments, which vary substantially from period to period and cannot be reasonably predicted. Accordingly, the Part Two fee in the table above is -0-%.

The two parts of the incentive fee follows:

- The first ("Part One"), payable quarterly in arrears, equals 20.0% of our pre-incentive fee net investment income initially calculated based on values at the closing of this offering (including income that is accrued but not yet received in cash), subject to a 2.0% quarterly (8.0% annualized) hurdle rate and a “catch-up” provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until our pre-incentive fee net investment income equals the hurdle rate of 2.0% but then receives, as a “catch-up,” 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, OFS Advisor will receive 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply.

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

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

(5) The borrowing costs included in the table above are based on our December 31, 2019 balance sheet (which could be subject to change) at a level equivalent to a debt-to-equity ratio of up to 2.16x (equivalent to $2.16 of debt outstanding for each $1 of equity) which is also equivalent to having an asset coverage ratio of 180% (which excludes the SBA debentures as a result of exemptive relief granted to us by the SEC) as permitted under the SBCAA, and assuming a weighted average interest rate for total outstanding debt of 5.06%.

We may borrow additional funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. We do not expect to issue any preferred stock during the next twelve months and, therefore, have not included the cost of issuing and servicing preferred stock in the table. Availability under the PWB Credit Facility as of December 31, 2019, was $69.0 million based on the stated advance rate of 50% under the borrowing base, and the $-0- million outstanding as of December 31, 2019. Our stockholders will bear directly or indirectly the costs of borrowings under any debt instruments we may enter into.

(6) Includes our overhead expenses, including payments under the Administration Agreement based on our allocable portion of overhead and other expenses incurred by OFS Services. See “Management and Other Agreements — Administration Agreement.”

(7) Our stockholders indirectly bear the expenses of underlying funds or other investment vehicles that would be investment companies under section 3(a) of the 1940 Act but for the exceptions to that definition provided for in sections 3(c)(1) and 3(c)(7) of the 1940 Act (“Acquired Funds”) in which we invest. We do not currently invest in underlying funds or other investment companies and therefore do not expect to incur any acquired fund fees and expenses. **The indirect expenses that will be associated with our Structured Finance Note investments are not included in the fee table presentation, but if such expenses were included in the fee table presentation then our total annual expenses would have been 21.75%.**

(8) OFS Advisor agreed to reduce a portion of its base management fee by reducing the portion of such fee from 1.75% to 1.00% on the average total assets at the end of the two most recently completed quarters on assets held by the Company through OFSCC-FS, LLC, an indirect wholly owned subsidiary of the Company. The base management fee reduction will be renewable on an annual basis and the amount of the base management fee reduction with respect to the OFSCC-FS Assets shall not be subject to recoupment by OFS Advisor.

(9) Estimated.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above. The expense amounts assume an annual base management fee 1.75% for each year. Transaction expenses are not included in the following example.

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

	1 Year	**3 Years**	**5 Years**	**10 Years**
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return	$163	$421	$610	$888

While the examples assume reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date. The market price per share of our common stock may be at, above or below net asset value.

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

SENIOR SECURITIES

Information about our senior securities (including preferred stock, debt securities and other indebtedness) is shown in the following tables for the years ended December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012. The senior securities table as of December 31, 2019 was audited by KPMG LLP and the senior securities table as of December 31, 2018, 2017, 2016, 2015, 2014, 2013, and 2012 were audited by our former independent registered public accounting firm. Information as of December 31, 2013 and 2012 was audited by our previous independent registered public accounting firm. The " — " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities. The reports of our current and former independent registered public accounting firms on the senior securities table are attached as an exhibit to this Annual Report.

(dollar amounts in thousands, except per unit data) Class and Year	Total Amount Outstanding Excluding Treasury Securities(1)	Asset Coverage Per Unit (2)	Involuntary Liquidating Preference Per Unit (3)	Average Market Value Per Unit (4)
BNP Facility				
December 31, 2019	$ 56,450	$ 6,659	—	N/A
5.95% Notes due 2026				
December 31, 2019	$ 54,325	$ 6,920	—	24.75
6.50% Notes due 2025				
December 31, 2019	48,525	$ 7,747	—	25.29
December 31, 2018	48,525	$ 5,817	—	24.43
6.375% Notes due 2025				
December 31, 2019	$ 50,000	$ 7,519	—	25.30
December 31, 2018	$ 50,000	$ 5,645	—	24.84
PWB Credit Facility				
December 31, 2019	$ —	$ —	—	N/A
December 31, 2018	$ 12,000	$ 23,521	—	N/A
December 31, 2017	$ 17,600	$ 11,540	—	N/A
December 31, 2016	$ 9,500	$ 15,821	—	N/A
December 31, 2015	$ —	$ —	—	N/A
WM Credit Facility(6)				
December 31, 2014	$ 72,612	$ 2,847	—	N/A
December 31, 2013	$ 108,955	$ 2,256	—	N/A
December 31, 2012	$ 99,224	$ 2,429	—	N/A
SBA debentures (SBIC I LP)(5)				
December 31, 2019	$ 149,880	$ —	—	N/A
December 31, 2018	$ 149,880	$ —	—	N/A
December 31, 2017	$ 149,880	$ —	—	N/A
December 31, 2016	$ 149,880	$ —	—	N/A
December 31, 2015	$ 149,880	$ —	—	N/A
December 31, 2014	$ 127,295	$ —	—	N/A
December 31, 2013	$ 26,000	$ —	—	N/A
December 31, 2012	$ —	$ —	—	N/A

(dollar amounts in thousands, except per unit data) Class and Year		Total Amount Outstanding Excluding Treasury Securities[1]		Asset Coverage Per Unit [2]	Involuntary Liquidating Preference Per Unit [3]	Average Market Value Per Unit [4]
Total Senior Securities[7]						
December 31, 2019	$	359,180	$	1,796	—	N/A
December 31, 2018	$	260,405	$	2,554	—	N/A
December 31, 2017	$	167,480	$	11,540	—	N/A
December 31, 2016	$	159,380	$	15,821	—	N/A
December 31, 2015	$	149,880	$	—	—	N/A
December 31, 2014	$	199,907	$	2,847	—	N/A
December 31, 2013	$	134,955	$	2,256	—	N/A
December 31, 2012	$	99,224	$	2,429	—	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the class of senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the “Asset Coverage Per Unit.”

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The “ — ” indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

(4) Average market value per unit for our unsecured notes represents the average of the daily closing prices as reported on the Nasdaq Market during the period presented. Not applicable to our PWB Credit Facility, BNP Facility, WM Credit Facility or SBA debentures because these senior securities are not registered for public trading.

(5) The SBA debentures are not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.

(6) The secured revolving line of credit with Wells Fargo Bank, N.A., as lender and OFS Capital WM, LLC, a previous wholly owned investment company subsidiary of the Company, as borrower (the "WM Credit Facility") was terminated on May 25, 2015.

(7) The Asset Coverage Per Unit does not include the SBA debentures as described in footnote 5 above.

Item 6. Selected Consolidated Financial Data

The following selected financial and other data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in this Annual Report on Form 10-K (amounts in thousands, except per share data and number of portfolio companies at period end):

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
Statement of Operations Data:					
Investment income					
Interest income	$ 48,902	$ 38,607	$ 28,124	$ 26,400	$ 27,764
PIK interest income	926	1,193	1,508	1,194	1,206
Dividend income	502	315	482	475	245
Preferred equity PIK dividend income	899	906	1,399	1,433	1,116
Fee income	1,292	1,813	1,913	1,592	1,933
Total investment income	52,521	42,834	33,426	31,094	32,264
Expenses					
Management fees	8,271	6,335	4,999	4,516	5,225
Incentive fees, net of waiver	4,760	4,387	2,962	3,333	2,627
Other expenses	20,439	13,727	9,588	9,100	11,001
Total expenses, net	33,470	24,449	17,549	16,949	18,853
Net investment income	19,098	18,385	15,877	14,145	13,411
Net realized gain (loss) on investments	(3,900)	(4,779)	6,833	2,404	(1,562)
Net unrealized appreciation (depreciation) on investments	(5,645)	(4,034)	(14,800)	(2,721)	6,382
Net increase in net assets resulting from operations	9,553	9,572	7,910	13,828	18,231
Per share data:					
Net asset value	$ 12.46	$ 13.10	$ 14.12	$ 14.82	$ 14.76
Net investment income	1.43	1.38	1.28	1.46	1.39
Net realized gain (loss) on investments	(0.29)	(0.36)	0.55	0.25	(0.17)
Net unrealized appreciation (depreciation) on investments	(0.42)	(0.30)	(1.19)	(0.29)	0.66
Net increase in net assets resulting from operations	0.71	0.72	0.64	1.43	1.89
Distributions declared (1)	1.36	1.73	1.36	1.36	1.36
Total return based on market value (7)	18.3%	3.5%	(4.7)%	32.3%	9.0%
Balance sheet data at period end:					
Investments, at fair value	$ 516,931	$ 396,797	$ 277,499	$ 281,627	$ 257,296
Cash and cash equivalents	13,447	38,172	72,952	17,659	32,714
Other assets	7,810	6,452	7,327	5,744	4,666 (2)
Total assets	538,188	441,421	357,778	305,030	294,676 (2)
Debt	352,478	254,826	164,823	156,343	146,460 (2)
Total liabilities	371,561	266,398	169,442	161,252	151,664 (2)
Total net assets	166,627	175,023	188,336	143,778	143,012
Other data (unaudited):					
Weighted average yield on performing debt and Structured Finance Note investments (3) (6)	10.40%	11.50%	12.11 %	12.08%	11.89%
Weighted average yield on total debt and Structured Finance Note investments (4) (6)	9.94%	11.12%	11.59 %	11.72%	11.84%
Weighted average yield on total investments (5) (6)	9.59%	10.49%	10.35 %	10.88%	10.79%
Number of portfolio companies at end of year	85	50	37	41	39

(1) The return of capital portion of these distributions for the years ended December 31, 2019, 2018, 2017, 2016, and 2015, was $0, $0, $0, $0.09, and $0.23, respectively.

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

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

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

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

(6) The weighted average yield of our investments is not the same as a return on investment for our stockholders but, rather, the gross investment income from our investment portfolio before the payment of all of our fees and expenses. There can be no assurance that the weighted average yield will remain at its current level.

(7) Calculation is ending market value less beginning market value, adjusting for distributions reinvested at prices based on the Company’s dividend reinvestment plan for the respective distributions.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

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

- our ability and experience operating a BDC or an SBIC, or maintaining our tax treatment as a RIC under Subchapter M of the Code;
- our dependence on key personnel;
- our ability to maintain or develop referral relationships;
- our ability to replicate historical results;
- the ability of OFS Advisor to identify, invest in and monitor companies that meet our investment criteria;
- actual and potential conflicts of interest with OFS Advisor and other affiliates of OFSAM;
- constraint on investment due to access to material nonpublic information;
- restrictions on our ability to enter into transactions with our affiliates;
- our ability to comply with SBA regulations and requirements;
- the use of borrowed money to finance a portion of our investments;
- our ability to incur additional leverage pursuant to the SBCAA and the impact of such leverage on our net investment income and results of operations;
- competition for investment opportunities;
- our plans to focus on lower-yielding, first lien senior secured loans to larger borrowers and the impact on our risk profile;
- the percentage of investments that will bear interest on a floating rate or fixed rate basis;
- the ability of SBIC I LP to make distributions enabling us to meet RIC requirements;
- plans by SBIC I LP to repay its outstanding SBA debentures;
- our ability to raise debt or equity capital as a BDC;
- the timing, form and amount of any distributions from our portfolio companies;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the general economy and its impact on the industries in which we invest;
- uncertain valuations of our portfolio investments; and
- the effect of new or modified laws or regulations governing our operations.

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

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

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

Critical Accounting Policies and Significant Estimates

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

Our critical accounting policies and estimates are those relating to revenue recognition and fair value estimates. Management has discussed the development and selection of each critical accounting policy and estimate with the Audit Committee of the Board. For a descriptions of our revenue recognition and fair value policies, see Note 2 to the consolidated financial statements included in "Item 8.–Financial Statements" of this report.

Revenue recognition

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

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

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

These allocations are generally based on the relative fair value of the instruments at the time of the transaction, a process involving fair value estimates which is also a critical accounting policy and significant estimate. Moreover, these allocations and determinations can differ between GAAP and federal income tax bases. Once determined, these allocations directly affect the discount/premium and yield on debt securities, the cost and net gains/losses on equity securities, and capital structuring fees recognized in the statements of operations; and ICTI. These allocations require an understanding of the terms and conditions of the underlying agreements and requires significant management judgment.

Fair value estimates

As of December 31, 2019, total investments representing approximately 96% of our total assets were carried on the consolidated balance sheet at fair value. As discussed more fully in “Item 8.–Financial Statements–Note 2” GAAP requires us to categorize fair value measurements according to a three-level valuation hierarchy. The hierarchy gives the highest priority to quoted, active market prices for identical assets and liabilities (Level 1) and the lowest priority to valuation techniques that require significant management judgment because one or more of the significant inputs are unobservable in the market place (Level 3). All of our investments carried at fair value are classified as Level 2 and Level 3, with a significant portion of our investments classified as Level 3. We typically do not hold equity securities or other instruments that are actively traded on an exchange.

As described in “Item 8.–Financial Statements–Note 5”, we follow a process, under the supervision and review of the Board, to determine these unobservable inputs used to calculate the fair values of our investments. The most significant unobservable inputs in the Level 3 fair value measurements are the discount rates, and EBITDA multiples. Investments classified as Level 2 are measured on the basis of NBIB provided by pricing services.

Our discounted cash flow valuations involve a determination of discount rate commensurate with the risk inherent in each investment. Management uses two primary methods to estimate discount rates: a method based upon a hypothetical recapitalization of the entity given its current operating performance and current market conditions; and a synthetic debt rating method, which assigns a surrogate debt rating to the entity based on known industry standards for assigning such ratings and then estimates the discount rate based on observed market yields for actual rated debt. Management may also use a relative value method to estimate yields, which involves measuring the discount rate of non-traded subject debt investments based on an expected or assumed relationship between NBIB or observed prices on traded debt and the subject debt for a portfolio company. All methods for estimating the discount rate generally involve calibration of unobservable inputs utilized in estimating the discount rate on the subject investment to its internal rate of return at close or purchase date. These methods generally produce a range of discount rates, and we generally select the midpoint of the range for use in fair value measures, subject to limitations on the basis of the borrowers' ability to prepay the debt without penalty.

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

The following table illustrates the impact of our fair value measures if we selected the low or high end of the range for all investments at December 31, 2019 (dollar amounts in thousands):

Investment Type	Fair Value at December 31, 2019	Range of Fair Value	
		Low-end	High-end
Debt investments:			
Senior Secured	$ 375,265	$ 370,126	$ 380,219
Senior Secured (valued at Transaction Price)	33,459	33,459	33,459
Subordinated	43,090	42,352	43,830
Investments:			
Structured Finance Notes	21,610	20,783	22,437
Equity investments:			
Preferred equity	17,729	16,595	20,202
Common equity and warrants	24,278	19,869	27,645
Common equity and warrants (valued at Transaction Price)	1,500	1,500	1,500
	$ 516,931	$ 504,684	$ 529,292

Related Party Transactions

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

- The Investment Advisory Agreement with OFS Advisor to manage our operating and investment activities. Under the Investment Advisory Agreement we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. See "Item 1—Management and Other Agreements" and "Item 8–Financial Statements and Supplementary Data–Note 3."

- The Administration Agreement with OFS Services, an affiliate of OFS Advisor, to provide us with the office facilities and administrative services necessary to conduct our operations. See "Item 1–Management and Other Agreements" and "Item 8–Financial Statements and Supplementary Data–Note 3."

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

On June 11, 2019, OFS Advisor agreed to reduce a portion of its base management fee by reducing the portion of such fee from 0.4375% per quarter (1.75% annualized) to 0.25% per quarter (1.00% annualized) of the OFSCC-FS Assets at the end of the two most recently completed calendar quarters to the extent that such portion of the OFSCC-FS Assets are financed using leverage (also calculated on an average basis) that causes the Company’s statutory asset coverage ratio to fall below 200%. When calculating its statutory asset coverage ratio, the Company excludes its SBA guaranteed debentures from its total outstanding senior securities as permitted pursuant to exemptive relief granted by the SEC dated November 26, 2013. Effective January 1, 2020, OFS Advisor agreed to further reduce the base management fee to 0.25% per quarter (1.00% annualized) of the average value of the portion of total assets held by the Company through OFSCC-FS at the end of the two most recently completed calendar quarters without regard to the statutory asset coverage ratio. The base management fee reduction by OFS Advisor is renewable on an annual basis and the amount of the base management fee reduction with respect to the OFSCC-FS Assets shall not be subject to recoupment by OFS Advisor.

OFS Advisor’s services under the Investment Advisory Agreement are not exclusive to us and OFS Advisor is free to furnish similar services to other entities, including other BDCs managed by OFS Advisor, so long as its services to us are not impaired. OFS Advisor also serves as the investment adviser or collateral manager to CLOs and other assets, including HPCI and OCCI. Additionally, OFS Advisor provides sub-advisory services to CMFT Securities Investments, LLC, a Delaware limited liability company which is a wholly owned subsidiary of CIM Real Estate Finance Trust, Inc., a Maryland corporation that qualifies as a real estate investment trust. Additionally, OFS Advisor expects to provide sub-advisory services to CIM Real Assets & Credit Fund, a newly organized externally managed registered investment company that intends to operate as an interval fund that expects to invest primarily in a combination of real estate, credit and related investments.

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

BDCs may, however, invest alongside certain related parties or their respective other clients in certain circumstances where doing so is consistent with current law and SEC staff interpretations. For example, a BDC may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting the BDC and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that the BDC’s advisor, acting on the BDC’s behalf and on behalf of other clients, negotiates no term other than price. Co-investment with such other accounts is not permitted or appropriate under this guidance when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between the BDC’s interests and those of other accounts.

The 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so. On October 12, 2016, we received the Order from the SEC to permit us to co-invest in portfolio companies with certain BDCs, registered investment companies and private funds managed by OFS Advisor, or any adviser that controls, is controlled by, or is under common control with, OFS Adviser and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Pursuant to the Order, we are generally permitted to participate in a co-investment transaction if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We have applied for the New Order, which, if granted, would supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

Conflicts may arise when we make an investment in conjunction with an investment being made by an Affiliated Account, or in a transaction where an Affiliated Account has already made an investment. Investment opportunities are, from time to time, appropriate for more than one account in the same, different or overlapping securities of a portfolio company’s capital structure. Conflicts arise in determining the terms of investments, particularly where these accounts may invest in different types of securities in a single portfolio company. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be restructured, modified or refinanced. See "Item 1A. Business — Conflicts of Interest", "Item 1A. Risk Factors — Risks Related to OFS Advisor and its Affiliates —We have potential conflicts of interest related to the purchases and sales that OFS Advisor makes on our behalf and/or on behalf of Affiliated Accounts" and ""Item 1A. Risk Factors — Regulations — Conflicts of Interest - Conflicts Related to Portfolio Investments."

Portfolio Composition and Investment Activity

Our portfolio consists of investments in the debt and equity securities of portfolio companies, as well as indirect investments in such securities through investment in other investment companies including CLO structured finance notes.

Portfolio Composition

As of December 31, 2019, the fair value of our debt investment portfolio totaled $451.8 million in 79 portfolio companies, of which 90% and 10% were senior secured loans and subordinated loans, respectively, and approximately $43.5 million in equity investments, at fair value, in 15 portfolio companies in which we also held debt investments. We also have six portfolio companies in which we solely held an equity investment, as well as four investments in Structured Finance Notes with a fair value of $21.6 million. We had unfunded commitments of $4.8 million to four portfolio companies at December 31, 2019. Set forth in the tables and charts below is selected information with respect to our portfolio as of December 31, 2019 and 2018.

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

	December 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Senior secured debt investments [(1)]	$ 421,970	$ 408,724	$ 325,873	$ 319,017
Subordinated debt investments	56,731	43,091	56,212	44,540
Preferred equity	21,925	17,729	19,620	14,613
Common equity and warrants	14,919	25,777	11,606	18,627
Total	$ 515,545	$ 495,321	$ 413,311	$ 396,797
Total number of portfolio companies	85	85	50	50

(1) Includes debt investments in which we have entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of certain co-lenders pursuant to a payment waterfall. The aggregate amortized cost and fair value of these investments was $65,300 and $65,337 at December 31, 2019, respectively, and $68,207 and $67,480, at December 31, 2018, respectively.

As of December 31, 2019, our investment portfolio’s three largest industry groups by fair value, were (1) Health Care and Social Assistance (14.8%), (2) Manufacturing (15.8%), and (3) Information (11.4%), totaling approximately 41.9% of the investment portfolio. For a full summary of our investment portfolio by industry, see "Note 4, Investments" to the consolidated financial statements included in "Part II, Item 8. Financial Statements and Supplementary Data" of this report.

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

	December 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
OFS Capital Corporation (Parent)	$ 181,980	$ 169,230	$ 185,999	$ 178,772
SBIC LP	256,858	246,371	221,559	212,675
OFSCC-FS	88,458	88,936	—	—
OFSCC-MB	11,375	12,394	5,753	5,350
Total investments	$ 538,671	$ 516,931	$ 413,311	$ 396,797

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

	Amortized Cost				Fair Value			
	December 31, 2019		December 31, 2018		December 31, 2019		December 31, 2018	
Up to $4,000	$ 77,809	16.3%	$ 24,785	6.4%	$ 75,033	16.6%	$ 25,117	6.9%
$4,001 to $7,000	71,558	14.9	66,756	17.5	68,806	15.2	60,151	16.5
$7,001 to $10,000	95,567	20.0	92,389	24.2	77,978	17.3	92,687	25.5
$10,001 to $13,000	54,273	11.3	44,527	11.7	53,903	11.9	34,032	9.4
Greater than $13,000	179,494	37.5	153,628	40.2	176,095	39.0	151,570	41.7
Total	$ 478,701	100.0%	$ 382,085	100.0%	$ 451,815	100.0%	$ 363,557	100.0%

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

	December 31,						
	2019				2018		
Weighted Average Yield - Performing Debt Investments (1)	Senior Secured Debt	Subordinated Debt	Structured Finance Notes	Total	Senior Secured Debt	Subordinated Debt	Total
Less than 8%	20.1%	—%	—%	17.3%	0.7%	—%	0.7%
8% – 10%	21.5	—	—	18.5	22.5	—	19.8
10% – 12%	48.8	8.6	—	42.7	42.9	26.9	41.0
12% – 14%	8.4	38.3	25.1	12.0	29.5	56.5	32.7
Greater than 14%	1.2	53.1	74.9	9.5	4.4	16.6	5.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Weighted average yield – performing debt and Structured Finance Note investments (1)	9.80%	13.52%	15.13%	10.40%	11.33%	12.74%	11.50%
Weighted average yield – total debt and Structured Finance Note investments (2)	9.57%	10.57%	15.13%	9.94%	11.33%	9.93%	11.12%

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

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

The weighted average yield on total investments was 9.59% and 10.49%, at December 31, 2019 and 2018, respectively. Weighted average yield on total investments is computed as (a) the sum of (i) the annual stated accruing interest on our debt investments at the balance sheet date, plus the annualized accretion of Net Loan Fees, (ii) plus the annual effective yield on Structured Finance Notes, (iii) plus the effective yield on our performing preferred equity investments, divided by (b) the sum of the amortized cost of our total investment portfolio, in each case, including assets in non-accrual status as of the balance sheet date. The weighted average yield of our investments is not the same as a return on investment for our stockholders but, rather, the gross investment income from our investment portfolio before the payment of all of our fees and expenses. There can be no assurance that the weighted average yield will remain at its current level.

The weighted average yield on our performing debt and Structured Finance Notes decreased from 11.5% at December 31, 2018 to 10.40% at December 31, 2019, primarily due to the deployment of $196.2 million in new originations with a weighted average yield of 9.3% during the year ended December 31, 2019, as well as a decrease in three-month LIBOR of 0.83% from December 31, 2018 to December 31, 2019.

As of December 31, 2019 and 2018, floating rate loans at fair value were 93% and 87% of our debt investment portfolio, respectively, and fixed rate loans at fair value were 7% and 13% of our debt investment portfolio, respectively.

Non-Accrual Loans

At December 31, 2019, we had four loans (Community Intervention Services, Inc., Master Cutlery, LLC, Southern Technical Institute, LLC and Constellis Holdings, LLC) on non-accrual status with respect to all interest and Net Loan Fee amortization, with an aggregate amortized cost and fair value of $22.2 million and $0.7 million, respectively. The change to non-accrual status for our investment in Constellis Holdings, LLC was effective November 1, 2019.

At December 31, 2018, we had three loans (Community Intervention Services, Inc., Master Cutlery, LLC and Southern Technical Institute, LLC) on non-accrual status with respect to all interest and unamortized Net Loan Fees with an aggregate amortized cost and fair value of $12.4 million and $0.9 million, respectively. See "Item 8.–Financial Statements–Note 4" for further information.

PIK and Cash Dividend Accruals

Payment-in-kind dividends on preferred equity securities are recognized at fair value when earned. However, at December 31, 2019, we owned four preferred equity securities (Master Cutlery, LLC, Stancor, L.P., My Alarm Center, LLC and TRS Services, LLC), with an aggregate amortized cost and fair value of $9.9 million and $5.7 million, respectively, for which, notwithstanding the fair value of the preferred equity securities, the fair value of those securities most-recent PIK dividend as of December 31, 2019, was recognized at $-0-. At December 31, 2018, we owned four preferred equity securities (Master Cutlery, LLC, Stancor, L.P., Southern Technical Institute, LLC and TRS Services, LLC), with an aggregate amortized cost and fair value of $9.9 million and $3.8 million, respectively, for which the fair value of the most-recently recognized PIK dividend as of December 31, 2018, was $0. In addition, beginning June 30, 2017, the Company discontinued recognition of the cash preferred dividend from its investment in Master Cutlery, LLC.

Investment Activity

The following is a summary of our Direct Investment cash investment activity for the years ended December 31, 2019 and 2018 (dollar amounts in millions):

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Debt Investments	Equity Investments	Debt Investments	Equity Investments
Investments in new portfolio companies	$ 141.6	$ 5.6	$ 196.4	$ 4.7
Investments in existing portfolio companies:				
Follow-on investments	42.0	—	63.6	1.3
Delayed draw funding	9.6	—	6.2	—
Total investments in existing portfolio companies	51.6	—	69.8	1.3
Total investments in new and existing portfolio companies	$ 193.2	$ 5.6	$ 266.2	$ 6.0
Number of new portfolio company investments	45	3	28	4
Number of existing portfolio company investments	29	—	20	4
Proceeds/distributions from principal payments/equity investments	$ 60.9	$ —	$ 100.7	$ —
Proceeds from investments sold or redeemed	34.8	0.2	39.1	8.3
Total proceeds from principal payments, equity distributions and investments sold	$ 95.7	$ 0.2	$ 139.8	$ 8.3

We also invested $23.4 million in Structure Finance Notes with a weighted average annual effective yield of 15.1% during the year ended December 31, 2019.

Notable investments in new portfolio companies during the year ended December 31, 2019 include Chemical Resources Holdings, Inc. ($13.6 million senior secured loan and $1.8 million in common equity), TTG Healthcare, LLC ($11.9 million senior secured loan and $2.3 million preferred equity), TalentSmart Holdings, LLC ($9.8 million senior secured loan and $1.5 million common equity), as well as $11.5 million and $10.1 million senior secured loans in Milrose Consultants, LLC and SSJA Bariatric, respectively.

The weighted-average yield of direct debt investments in new portfolio companies during the year ended December 31, 2019 was 8.5%.

Non-cash Investment Activity

On January 31, 2019, Maverick Healthcare Equity, LLC was acquired by a third party in a purchase transaction. Proceeds from this transaction were insufficient to redeem the class of equity held by the Company. Accordingly, we received $-0- proceeds and recognized a net loss of $0.1 million, comprised of $0.9 million realized loss net of $(0.8) million unrealized loss reversal, for the year ended December 31, 2019.

In June 2018, our investment in Southern Technical Institute, LLC was restructured. We converted our subordinated note, SP-1 preferred shares, and warrants for a $1.5 million subordinated loan and 1,764,720 shares of Class A-1 common units. Subsequent to the conversion, we sold our Class A-1 common units but retained a significant economic interest in the units. The cost and fair value of the subordinated loan and economic interest were $0 and $0, respectively, as of December 31, 2018. We recognized a realized loss on the restructuring of Southern Technical Institute, LLC of $5.6 million for the year ended December 31, 2018, of which $4.4 million was recognized as unrealized losses as of December 31, 2017.

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

We categorize debt investments into seven risk categories based on relevant information about the ability of borrowers to service their debt. For additional information regarding our risk categories, see “Item 1. Business—Portfolio Review/Risk Monitoring.” The following table shows the classification of our debt investments portfolio by risk category as of December 31, 2019 and 2018 (dollar amounts in thousands):

	As of December 31,			
	2019		2018	
Risk Category	**Debt Investments, at Fair Value**	**% of Debt Investments**	**Debt Investments, at Fair Value**	**% of Debt Investments**
1 (Low Risk)	$ —	—%	$ —	—%
2 (Below Average Risk)	17,953	4.0	3,788	1.0
3 (Average)	387,654	85.8	329,635	90.7
4 (Special Mention)	45,546	10.1	29,284	8.1
5 (Substandard)	—	—	—	—
6 (Doubtful)	662	0.1	850	0.2
7 (Loss)	—	—	—	—
	$ 451,815	100.0%	$ 363,557	100.0%

During the year ended December 31, 2019, we had a debt investment with a risk upgrade from risk category 3 to risk category 2 with a fair value of $14.2 million at December 31, 2019. We also had a debt investment with a risk upgrade from risk category 4 to risk category 3 with a fair value of $14.6 million at December 31, 2019. We had debt investments with risk rating downgrades from risk category 3 to risk category 4 with an aggregate fair value of $34.0 million for the year ended December 31, 2019. We also had a debt investment with risk rating downgrade from risk category 4 to risk category 6 with a fair value of $0.4 million for the year ended December 31, 2019. All other year-over-year changes in the fair value of our debt investments within each category, were a result of new debt investments, the receipt of amortization payments on existing debt investments, repayment of certain debt investments in full, changes in the fair value of our existing debt investments within the categories, and other investment activity.

During the year ended December 31, 2018, we reclassified three debt investments (TRS Services, LLC, GGC Aerospace Topco L.P. and MTE Holdings Corp.) from risk category 3 to risk category 4, with an aggregate fair value of $21.46 million at December 31, 2017, primarily due to declining performance in the underlying businesses of the portfolio companies. We also reclassified our debt investment in Master Cutlery, LLC, with a fair value of $2.87 million at December 31, 2017, from risk category 5 to risk category 6 and classified the investment as non-accrual with respect to PIK interest and Net Loan Fees. All other year-over-year changes in the fair value of our debt investments within each category, were a result of new debt investments, the receipt of amortization payments on existing debt investments, repayment of certain debt investments in full, changes in the fair value of our existing debt investments within the categories, and other investment activity.

Results of Operations

Key Financial Measures

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

Total Investment Income. We generate revenue primarily in the form of interest income on debt investments and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of December 31, 2019, floating rate and fixed rate loans comprised 93% and 7%, respectively, of our current debt investment portfolio at fair value; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will continue to increase. In some cases, our investments provide for PIK interest, or PIK dividends (meaning interest or dividends paid in the form of additional principal amount of the loan or equity security instead of in cash). We also generate revenue in the form of management, valuation, and other contractual fees, which are recognized as the related services are rendered. In the general course of business, we receive certain fees from portfolio companies which are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and loan syndication fees from certain portfolio companies, which are recognized as earned upon closing of the investment. Net Loan Fees are capitalized, and accreted or amortized over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its amortized cost, we recognize the excess principal payment as income in the period it is received.

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

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

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

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

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

Comparison of years ended December 31, 2019, 2018 and 2017.

Consolidated operating results for the years ended December 31, 2019, 2018 and 2017 are as follows (in thousands):

	Years Ended December 31,		
	2019	**2018**	**2017**
Investment income			
Interest income:			
Cash interest income	$ 47,510	$ 36,068	$ 26,444
Net Loan Fee amortization	1,245	2,288	1,450
Other interest income	147	251	230
Total interest income	48,902	38,607	28,124
PIK income:			
PIK interest income	927	1,193	1,508
Preferred equity PIK dividends	898	906	1,399
Total PIK income	1,825	2,099	2,907
Dividend income:			
Preferred equity cash dividends	—	—	165
Common equity dividends	502	315	317
Total dividend income	502	315	482
Fee income:			
Management, valuation, and syndication	773	922	163
Prepayment, structuring, and other fees	519	891	1,750
Total fee income	1,292	1,813	1,913
Total investment income	52,521	42,834	33,426
Total expenses, net	33,423	24,449	17,549
Net investment income	19,098	18,385	15,877
Net loss on investments	(9,545)	(8,813)	(7,967)
Net increase in net assets resulting from operations	$ 9,553	$ 9,572	$ 7,910

Interest and PIK interest income by debt investment type for the years ended December 31, 2019, 2018 and 2017 are summarized below (in thousands):

	Years Ended December 31,		
	2019	**2018**	**2017**
Interest and PIK interest income:			
Senior secured debt investments	$ 41,300	$ 32,127	$ 21,785
Subordinated debt investments	5,667	7,673	7,847
Structured Finance Notes	2,861	—	—
Total interest and PIK interest income	$ 49,828	$ 39,800	$ 29,632

<u>Comparison of investment income for the years ended December 31, 2019 and 2018:</u>

Interest and PIK interest income increased approximately $10.0 million, due to a $12.7 million increase in recurring interest income caused by a $103 million increase in the average outstanding loan balance during 2019 along with a decrease of

$1.8 million in recurring interest income resulting from a 43 basis point decrease in the weighted average yield in our debt portfolio during the year ended December 31, 2019. Acceleration of Net Loan Fees of $0.3 million and $1.1 million were included in interest income for the years ended December 31, 2019 and 2018, respectively, from the repayment of loans prior to their scheduled due dates.

We recognized prepayment fees of $0.4 million resulting from $56.8 million of unscheduled principal payments during the year ended December 31, 2019, compared to $0.9 million from $50.0 million of unscheduled principal payments during the year ended December 31, 2018. We recognized syndication fees of $0.7 million and $0.7 million for the years ended December 31, 2019 and 2018, respectively, resulting from approximately $91.5 million and $64.0 million in loan originations during that period in which OFS Advisor sourced, structured, and arranged the lending group, and for which we were additionally compensated.

Comparison of investment income for the years ended December 31, 2018 and 2017:

Interest and PIK interest income increased approximately $10.2 million, due to a $8.9 million increase in recurring interest income caused by a $76.8 million increase in the average outstanding loan balance during 2018 along with an increase of $0.7 million in recurring interest income resulting from a 23 basis point increase in the weighted average yield in our debt portfolio during the year ended December 31, 2018. Acceleration of Net Loan Fees of $1.1 million and $0.6 million were included in interest income for the years ended December 31, 2018 and 2017, respectively, from the repayment of loans prior to their scheduled due dates.

We recorded prepayment fees of $0.9 million resulting from $50.0 million of unscheduled principal payments during the year ended December 31, 2018, compared to $1.0 million from $60.2 million of unscheduled principal payments during 2017. We recognized capital structuring fees of $0.0 million and $0.5 million for the years ended December 31, 2018 and 2017, respectively, upon the closing of $0 and $55.7 million of debt and equity investments, respectively. We ceased recognition of such fees with the adoption of ASC 606. We recognized syndication fees of $0.7 million and $0.2 million for the years ended December 31, 2018 and 2017, respectively, resulting from approximately $64 million and $21 million in loan originations during that period in which OFS Advisor sourced, structured, and arranged the lending group, and for which we were additionally compensated.

Expenses

	Years Ended December 31,		
	2019	**2018**	**2017**
	(Amounts in thousands)		
Interest expense	$ 15,829	$ 9,232	$ 5,813
Management fees	8,271	6,335	4,999
Incentive fee, net of waiver	4,760	4,387	2,962
Professional fees	1,814	1,245	1,115
Administration fee	1,747	1,601	1,314
General and administrative expenses	1,002	1,649	1,346
Total expenses, net of waiver	$ 33,423	$ 24,449	$ 17,549

Comparison of expenses for the years ended December 31, 2019 and 2018:

Interest expense increased by $6.6 million primarily due to an increase of $100.9 million in the average amount of outstanding borrowings, primarily due to a full year of the Unsecured Notes Due October 2025 outstanding, the establishment of the BNP Facility in June 2019, and the issuance of the Unsecured Notes Due 2026 in October 2019. See "Item 8.–Financial Statements–Note 7" for details.

Management fee expense increased by $2.0 million due to an increase in our average total assets, primarily due to an increase in net investment activity from our increase in leverage through the establishment of the BNP Facility and the issuance of the Unsecured Notes Due 2026.

Incentive fee expense increased by $0.4 million primarily due to a $0.7 million increase in net investment income relating to the increase in our leverage throughout the fiscal year.

Professional fees increased $0.6 million primarily due to the retention of third-party valuation services, as well as an increase in internal and external audit costs.

Administration fees increased by $0.1 million primarily due to the growth in assets.

General and administrative expenses decreased $0.6 million primarily due to non-recurring legal and other offering costs incurred during the first quarter of 2018 in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions.

Comparison of expenses for the years ended December 31, 2018 and 2017:

Interest expense increased by $3.4 million primarily due to interest expense of $3.1 million associated with the Unsecured Notes issued in April and October of 2018.

Management fee expense increased by $1.3 million due to an increase in our average total assets, primarily due to an increase in net investment activity, including deployment of $95.4 million in proceeds from the issuance of the Unsecured Notes.

Incentive fee expense increased by $1.4 million primarily due to a $2.5 million increase in net investment income relating to the deployment of the proceeds from the Unsecured Notes, as well as a decrease in 2017 relating to Part One incentive fees, due to a share issuance adjustment related to the Offering, which raised the hurdle rate to a level that was not exceeded in the second quarter because the Offering proceeds were not fully deployed.

Administration fees increased by $0.3 million primarily due to an increase in allocated accounting labor and software costs.

General and administrative expenses increased $0.3 million primarily due to legal and other offering costs incurred during the first quarter of 2018 in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions.

Net realized and unrealized gain (loss) on investments

	Years Ended December 31,		
	2019	**2018**	**2017**
	(Amounts in thousands)		
Senior secured debt	$ (9,809)	$ (9,020)	$ (4,441)
Subordinated debt	(1,968)	(3,308)	(8,667)
Preferred equity	(89)	(1,993)	5,373
Common equity and warrants	3,837	5,508	(232)
Structured Finance Notes	(1,516)	—	—
Net loss on investments	$ (9,545)	$ (8,813)	$ (7,967)

Year ended December 31, 2019

We recognized net losses of $9.8 million on senior secured debt during the year ended December 31, 2019, primarily as a result of an unrealized loss of $9.0 million on our senior secured debt investment in Constellis Holdings, LLC, offset by unrealized gains of $2.2 million in our remaining senior secured debt investments. We also recognized a realized loss of $2.9 million on the sale of MAI Holdings, LLC.

We recognized net losses of $2.0 million on subordinated debt during the year ended December 31, 2019, primarily as a result of unrealized losses of $1.5 million and $0.6 million on our subordinated debt investments in Online Tech Stores, LLC and Master Cutlery, LLC, respectively, due to the negative impact of specific performance factors.

We recognized net losses of $0.1 million on preferred equity investments for the year ended December 31, 2019, primarily as a result of a $2.3 million unrealized gain on TRS Services, LLC, offset by $2.3 million of unrealized losses on our remaining preferred equity investments. We also recognized a realized loss of $0.1 million on the sale of Maverick Healthcare Equity, LLC.

We recognized net gains of $3.8 million on common equity and warrant investments for the year ended December 31, 2019, as a result of unrealized gains of $3.6 million and $1.6 million on our common equity investments in Pfanstiehl Holdings, Inc. and Professional Pipe Holdings LLC, respectively, offset by net unrealized losses of $1.4 million in our remaining common equity and warrant investments due to net negative impact of portfolio company-specific performance factors.

We recognized net losses of $1.5 million on Structured Finance Notes for the year ended December 31, 2019, as a result of net unrealized losses of $1.5 million, primarily driven by a $0.9 million and $0.6 unrealized loss on Elevation CLO 2017-7, Ltd. and THL Credit Wind River 2019-3 CLO Ltd., respectively.

Year ended December 31, 2018

We recognized net losses of $9.0 million on senior secured debt during the year ended December 31, 2018, primarily as a result of a realized loss of $3.5 million on our senior secured debt investment in Jobson recognized upon the sale in the second quarter of 2018, as well as by the negative net impact of mark-to-market adjustments in the fourth quarter relating to our Broadly Syndicated Loan investments resulting in an unrealized loss of $5.5 million.

We recognized net losses of $3.3 million on subordinated debt during the year ended December 31, 2018, primarily as a result of a realized loss of $3.5 million on the restructuring of the Southern Technical Institute, LLC subordinated debt investment, of which $2.3 million was recognized as unrealized losses in prior years, and net unrealized depreciation of $2.1 from the negative impact of specific performance factors, principally related to Master Cutlery LLC.

We recognized net losses of $2.0 million on preferred equity investments for the year ended December 31, 2018, primarily as a result of a $1.4 million unrealized loss on TRS Services, LLC, and other negative net impact of portfolio company-specific performance factors on other investments resulting in an additional unrealized loss of $0.6 million.

We recognized net gains of $5.5 million on common equity and warrant investments for the year ended December 31, 2018, as a result of net realized gains of $3.7 million, primarily driven by a $4.1 million realized gain on the sale of All Metal Holdings, LLC, and the positive impact of portfolio company-specific performance factors resulting in unrealized appreciation of $1.8 million for the year ended December 31, 2018.

Year ended December 31, 2017

We recognized net losses of $4.4 million on senior secured debt during the year ended December 31, 2017, primarily as a result of a realized loss of $5.0 million on our senior secured debt investment in My Alarm recognized upon restructuring in the third quarter of 2017, offset by the positive net impact of portfolio company-specific performance factors on other investments. We held the My Alarm investment from the fourth quarter of 2015 and recognized unrealized appreciation of $0.2 million and $0 during the years ended December 31, 2016 and 2015, respectively.

We recognized net losses of $8.7 million on subordinated debt during the year ended December 31, 2017, primarily as a result of the net negative impact of portfolio company-specific performance factors, including unrealized depreciation of $5.4 million recognized on our debt investment in Community Intervention Services, Inc., which was placed on non-accrual status during 2016, unrealized depreciation of $2.1 million recognized on our debt investment in Southern Technical Institute, LLC, which was placed on non-accrual status during the fourth quarter of 2017, and $1.6 million of unrealized depreciation on our debt investment in Master Cutlery, LLC.

We recognized net gains of $5.4 million on preferred equity investments for the year ended December 31, 2017, primarily as a result of $7.7 million of net realized gains recognized upon sale of three equity investments, offset by the negative impact from changes to EBITDA multiples used in our valuations and negative impacts of portfolio company-specific performance factors, including a $2.1 million unrealized loss recognized on our equity investment in Southern Technical Institute, LLC. Included in net gains of $7.7 million for the year ended December 31, 2017, were realized gains of $11.0 million we recognized upon sale of the three aforementioned equity investments. We recognized cumulative unrealized appreciation of approximately $3.3 million on these investments through December 31, 2016, which resulted in an aggregate net gain of $7.7 million during the year ended December 31, 2017. In addition, previously recognized cumulative unrealized depreciation of $0.3 million at June 30, 2017, on our preferred equity investment in My Alarm, was realized upon restructuring.

We recognized net losses of $0.2 million on common equity and warrant investments for the year ended December 31, 2017, primarily as a result of the negative impact of portfolio company-specific performance factors, offset by a $0.4 million net gain realized upon sale of a common equity investment, which includes a realized gain of $0.9 million, for which we had recognized cumulative unrealized appreciation of $0.5 million through December 31, 2016.

Liquidity and Capital Resources

At December 31, 2019, we held cash and cash equivalents of $13.4 million, which includes cash and cash equivalents of $1.9 million held by SBIC I LP, our wholly owned SBIC. Our use of cash held by SBIC I LP is restricted by SBA regulation, including limitations on the amount of cash SBIC I LP can distribute to OFS Capital Corporation as parent company (the "Parent"). Any such distributions to the Parent from SBIC I LP are generally restricted to a statutory measure of undistributed accumulated earnings of SBIC I LP under SBA regulation. During the year ended December 31, 2019, the Parent received cash distributions of $19.0 million from SBIC I LP. At December 31, 2019, the Parent had $13.4 million of cash and cash equivalents available for general corporate activities, including approximately $1.9 million held by SBIC I LP that was available for distribution to it. Additionally, as of December 31, 2019, we had $69.0 million of borrowings available through our PWB Credit Facility, as well as unused commitments of $93.6 million under the BNP Facility.

As of December 31, 2019, the aggregate amount outstanding of the senior securities issued by us was $359.2 million, for which our asset coverage was 180%. The SBA debentures are not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC effective November 26, 2013. The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness.

Sources and Uses of Cash and Cash Equivalents

We generate cash through operations from net investment income and the net liquidation of portfolio investments, and use cash in our operations in the net purchase of portfolio investments. Significant variations may exist between net investment income and cash from net investment income, primarily due to the recognition of non-cash investment income, including Net Loan Fee amortization, PIK interest, and PIK dividends, which generally will not be fully realized in cash until we exit the investment. As discussed in "Item 8. Financial Statements—Note 3", we pay OFS Advisor a quarterly incentive fee with respect to our pre-incentive fee net investment income, which includes investment income that has not been received in cash. In addition, we must distribute substantially all our taxable income, which approximates, but will not always equal, the cash we generate from net investment income to maintain our RIC tax treatment. Historically, our distributions have been in excess of taxable income and we have limited history of net taxable gains. We also obtain cash to fund investments or general corporate activities from the issuance of securities and our revolving line of credit. These principal sources and uses of cash and liquidity are presented below (in thousands):

	Years Ended December 31,		
	2019	**2018**	**2017**
Cash from net investment income	$ 20,333	$ 18,782	$ 11,451
Net (purchases and originations) repayments of portfolio investments	(121,969)	(119,870)	(778)
Net cash provided by (used in) operating activities	(101,636)	(101,088)	10,673
Proceeds from common stock offering, net of expenses	—	—	53,423
Proceeds from issuance of the Unsecured Notes, net of discounts	52,270	95,446	—
Distributions paid to stockholders	(17,949)	(22,895)	(16,700)
Net borrowings (repayments) under revolving line of credits	44,450	(5,600)	8,100
Payment of debt issuance costs and other financing costs	(1,860)	(643)	(203)
Net cash provided by financing activities	76,911	66,308	44,620
Net increase (decrease) in cash and cash equivalents	$ (24,725)	$ (34,780)	$ 55,293

Comparison of the years ended December 31, 2019 and 2018:

At December 31, 2019, we held cash and cash equivalents of $13.4 million, a decrease of $24.7 million from December 31, 2018.

Cash from net investment income

Cash from net investment income increased $2.7 million for the year ended December 31, 2019, compared to the prior year. The increase to cash from net investment income was principally due to an increase in interest income resulting from the deployment of the Unsecured Notes proceeds and the establishment of the BNP Facility.

Net (purchases and originations) repayments of portfolio investments

During the year ended December 31, 2019, net purchases and repayments of portfolio investments decreased $3.3 million compared to the prior year primarily due to a decrease of $52.2 million of principal payments and sale proceeds, offset by a decrease $50.0 million in purchases of portfolio companies.

Proceeds from issuance of the Unsecured Notes, net of expenses

During the year ended December 31, 2019, we issued $54.3 million in Unsecured Notes, with net proceeds of $52.3 million after deducting underwriting discounts and offering costs, which was a decrease of $43.2 million in Unsecured Note issuances compared to the prior year.

Cash distributions paid

Cash distributions decreased $4.9 million for the year ended December 31, 2019 compared to the prior year, due to the $4.9 million special dividend paid in the first quarter of 2018 for an undistributed net long-term capital gains realized by the Company in 2017.

Net borrowings (repayments) under revolving line of credits

During the year ended December 31, 2019, net borrowings increased $50.1 million compared to the prior year, primarily due to the establishment of the BNP Facility to purchase additional first lien senior secured loans. Aggregate borrowings under the BNP Faciliy were $56.5 million as of December 31, 2019.

Payment of debt issuance costs and other financing costs

Payment of debt issuance costs increased $1.2 million for the year ended December 31, 2019 compared to the prior year, primarily due to $1.3 million of costs associated with the closing of the BNP Facility.

Comparison of the years ended December 31, 2018 and 2017:

At December 31, 2018, we held cash and cash equivalents of $38.2 million, a decrease of $34.8 million from December 31, 2017.

Cash from net investment income

Cash from net investment income increased $7.3 million for the year ended December 31, 2018, compared to the prior year. The increase to cash from net investment income was principally due to an increase in interest income resulting from the deployment of the Unsecured Notes proceeds.

Net (purchases and originations) repayments of portfolio investments

During the year ended December 31, 2018, net purchases and originations of portfolio investments were primarily due to $272.2 million of cash we used to purchase portfolio investments, offset by $148.0 million of cash we received from amortized cost repayments and sales on our portfolio investments. During the year ended December 31, 2017, net purchases were due to $142.9 million of cash we used to purchase portfolio investments, offset by $142.1 million of cash we received from amortized cost repayments on our portfolio investments.

Proceeds from issuance of the Unsecured Notes, net of expenses

During the year ended December 31, 2018, we issued $98.5 million in Unsecured Notes, with net proceeds of $95.4 million after deducting underwriting discounts and offering costs.

Cash distributions paid

Cash distributions increased $6.2 million for the year ended December 31, 2018 compared to the prior year, mostly due to the $4.9 million special dividend paid in the first quarter of 2018 for an undistributed net long-term capital gains realized by the Company in 2017.

Borrowings

SBA Debentures

SBIC I LP has a SBIC license that allowed it to obtain leverage by issuing SBA-guaranteed debentures. These debentures are non-recourse to us, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate on SBA debentures are fixed at the first pooling date after issuance, which is March and September of each year, at market-driven spreads over U.S. Treasury Notes with ten-year maturities. SBA regulations currently limit the amount that an SBIC may borrow up to a maximum of $150 million (or $175 million with SBA approval) when it has at least $75 million in regulatory capital (or $87.5 million with approval to borrow up to $175 million), receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of December 31, 2019 and 2018, SBIC I LP had fully drawn the $149.9 million of leverage commitments from the SBA, which bears interest at a weighted-average fixed cash interest rate of 3.18%.

The following table shows our outstanding SBA debentures payable as of December 31, 2019 and 2018 (in thousands):

			SBA debentures outstanding	
Pooling Date	**Maturity Date**	**Fixed Interest Rate**	**December 31, 2019**	**December 31, 2018**
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			(1,904)	(2,280)
SBA debentures outstanding, net of unamortized debt issuance costs			$ 147,976	$ 147,600

On a stand-alone basis, SBIC I LP held $249.6 million and $251.1 million in assets at December 31, 2019 and 2018, respectively, which accounted for approximately 46% and 57% of the Company’s total consolidated assets, respectively.

As part of our plans to focus on lower-yielding, first lien senior secured loans to larger borrowers, which we believe will improve our overall risk profile, SBIC I LP intends, over time, to repay its outstanding SBA debentures prior to the scheduled maturity dates of its debentures. We do not expect to make new investments through SBIC I LP, other than follow-on investments. We believe that investing in more senior loans to larger borrowers is consistent with our view of the private loan market and will reduce our overall leverage on a consolidated basis.

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

PWB Credit Facility

We are party to a BLA with Pacific Western Bank, as lender, to provide us with a senior secured revolving credit facility, or 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, which excludes subordinated loan investments (as defined in the BLA) and as otherwise specified in the BLA. The PWB Credit Facility is guaranteed by OFSCC-MB and secured by all of our current and future assets excluding assets held by SBIC I LP, OFSCC-FS, and the Company’s partnership interests in SBIC I LP and SBIC I GP.

The BLA contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The BLA also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition. As of December 31, 2019, we were in compliance with the applicable covenants.

The terms of the PWB Credit Facility as of December 31, 2019 are as follows (amounts in thousands):

	Maximum Availability	**Floor Rate**	**Interest Rate**	**Unused Fee**	**Maturity Date**
PWB Credit Facility	$ 100,000	5.25%	Prime + 0.25%	0.50%	February 28, 2021

Availability under the PWB Credit Facility was $69.0 million, based on the stated advance rate of 50% under the borrowing base, and no outstanding balance as of December 31, 2019.

BNP Facility

On June 20, 2019, we entered into the a revolving credit and security agreement by and among OFSCC-FS, the lenders from time to time parties thereto, BNP Paribas, as administrative agent, OFSCC-FS Holdings, LLC, a wholly owned subsidiary of the Company, as equityholder, the Company, as servicer, Citibank, N.A., as collateral agent and Virtus Group, LP, as collateral administrator, which provides for borrowings in an aggregate principal amount up to $150.0 million. Borrowings under the BNP Facility bear interest of LIBOR plus an applicable spread, which is determined on the basis of industry-recognized portfolio company metrics at the time of funding. The BNP Facility will mature on the earlier of June 20, 2024 or upon certain other events defined in the credit agreement which result in accelerated maturity. The BNP Facility also contains customary events of default, including, without limitation, nonpayment, failure to maintain valid ownership interest in all of the collateral and bankruptcy. Borrowings under the BNP Facility are secured by substantially all of the assets held by OFSCC-FS. OFSCC-FS incurred fees to the lenders as well as legal costs of approximately $1.3 million to establish the BNP Facility, which are amortized over the life of the facility.

As of December 31, 2019, the BNP Facility had the following terms and balances (amounts in thousands):

	Principal	Unused Commitment	Effective Interest Rate(1)	Maturity	2019 Interest Expense(2)
BNP Facility	$ 56,450	$ 93,550	4.72%	June 20, 2024	$ 905

(1) The effective interest rate includes deferred debt issuance cost amortization and unused commitment fees.
(2) Interest expense includes deferred issuance costs amortization and unused commitment fees of $0.1 million and $16,000 for the year ended December 31, 2019. Under the terms of the revolving credit and security agreement, BNP waived the unused commitment fees through December 20, 2019.

Unsecured Notes

In April 2018, we publicly offered the Unsecured Notes Due April 2025 with aggregate principal of $50.0 million. The total net proceeds to us from the Unsecured Notes Due April 2025, after deducting underwriting discounts and offering costs of $1.8 million were $48.2 million. In October and November 2018, we publicly offered the Unsecured Notes Due October 2025 with aggregate principal of $48.5 million, which included a partial exercise of the underwriters overallotment option. The total net proceeds to us from the Unsecured Notes Due October 2025, after deducting underwriting discounts and offering expenses of $1.7 million, were $46.8 million. In October and November 2019, we publicly offered the Unsecured Notes Due October 2026 with an aggregate principal of $54.3 million, which included a partial exercise of the underwriters overallotment option. The total net proceeds to us from the Unsecured Notes Due October 2026, after deducting underwriting discounts and offering costs of $1.9 million were $52.4 million. The Unsecured Notes totaled $152.9 million in aggregate principal debt, with net proceeds of $147.4 million to us.

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

As of December 31, 2019, the Unsecured Notes had the following terms and balances (amounts in thousands):

Unsecured Notes	Principal	Stated Interest Rate (1)	Effective Interest Rate (2)	Maturity (3)	2019 Interest Expense (4)
Unsecured Notes Due April 2025	$ 50,000	6.375%	6.88%	4/30/2025	$ 3,444
Unsecured Notes Due October 2025	48,525	6.50%	7.01%	10/31/2025	3,483
Unsecured Notes Due October 2026	54,325	5.95%	6.49%	10/31/2026	723
Total	$ 152,850				$ 7,650

(1) The weighted-average fixed cash interest rate on the Unsecured Notes as of December 31, 2019 was 6.26%.
(2) The effective interest rate on the Unsecured Notes includes deferred debt issuance cost amortization.
(3) The Unsecured Notes Due April 2025 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after April 30, 2020. The Unsecured Notes Due October 2025 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after October 31, 2020. The Unsecured Notes Due October 2026 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after October 31, 2021.
(4) Interest expense includes deferred issuance costs amortization of $0.6 million for the year ended December 31, 2019.

The average dollar borrowings and average interest rate for all debt the years ended December 31, 2019, 2018 and 2017, were as follows:

Year ended	Average Dollar Borrowings	Weighted Average Interest Rate
December 31, 2019	$ 307,826	4.99%
December 31, 2018	206,936	4.37
December 31, 2017	158,368	3.55

Other Liquidity Matters

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

A BDC generally is not permitted to incur indebtedness unless immediately after such borrowing it has an asset coverage ratio for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Certain provisions of the SBCAA permit BDCs to be subject to a minimum asset coverage ratio of 150%, if specific conditions are satisfied, when issuing senior securities (i.e., the amount of debt may not exceed 66 2/3% of the value of our assets). As an approximation, prior to the enactment of the SBCAA, the most that a BDC could borrow for investment purposes was $1 for every $1 of investor equity. Now, for those BDCs that satisfy the SBCAA's approval and disclosure requirements and become subject to the reduced asset coverage ratio, the BDC can borrow $2 for investment purposes for every $1 of investor equity.

The SBCAA provides that in order for a BDC whose common stock is traded on a national securities exchange to be subject to 150% asset coverage, the BDC must either obtain: (i) approval of the required majority of its non-interested directors who have no financial interest in the proposal, which would become effective one year after the date of such approval, or (ii) obtain stockholder approval (of more than 50% of the votes cast for the proposal at a meeting in which quorum is present), which would become effective on the first day after the date of such stockholder approval.

On May 3, 2018, the Board, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements made available under the SBCAA and, as a result, the asset coverage ratio test applicable to us was decreased from 200% to 150%, effective May 3, 2019. See "Item 1A. Risk Factors — Risks Related to our Business and Structure — Because we have received the approval of our Board, we are subject to 150% Asset Coverage effective May 3, 2019." Additionally, we received exemptive relief from the SEC effective November 26, 2013, which allows us to exclude our SBA guaranteed debentures from the definition of senior securities in the statutory asset coverage ratio under the 1940 Act.

This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our contractual obligations as of December 31, 2019 (in thousands):

	Principal and Interest Payments due by period (2)				
Contractual Obligations (1)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
PWB Credit Facility (3)	$ 496	$ 425	$ 71	$ —	$ —
BNP Facility	61,502	2,021	2,021	57,460	—
SBA Debentures(4)	174,101	4,774	23,522	55,642	90,163
Unsecured Notes	191,189	9,574	9,574	9,574	162,467
Total	$ 427,288	$ 16,794	$ 35,188	$ 122,676	$ 252,630

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

(2) The PWB Credit Facility is scheduled to mature on February 28, 2021. The BNP Facility is scheduled to mature on June 20, 2024. The SBA debentures are scheduled to mature between September 2022 and 2025. The Unsecured Notes are scheduled to mature between April 2025 and October 2026.
(3) Contractual interest is based on LIBOR at December 31, 2019 and assumes no interim additional borrowings or repayments under the credit facilities between December 31, 2019 and maturity.
(4) SBIC I LP intends, over time, to repay its outstanding SBA debentures prior to the scheduled maturity date of its debentures. SBIC I LP does not expect to make new investments, other than follow-on investments.

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

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. We had $4.8 million of total unfunded commitments to four portfolio companies at December 31, 2019. See Note 6 for details.

Distributions

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

Our board of directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount not less than 90-100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend, or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income to a following year. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company's stockholders. For the year ended December 31, 2019, approximately $1.36 per share, $0.00 per share, and $0.00 per share of the Company's distributions represented ordinary income, long-term capital gain, and a return of capital to its stockholders, respectively.

For a detailed description of our distributions paid for the years ended December 31, 2019, 2018, and 2017, see "Item 8.–Financial Statements–Note 10."

Recent Developments

On March 11, 2020, our Board declared a distribution of $0.34 per share for the first quarter of 2019, payable on March 31, 2020 to stockholders of record as of March 24, 2020.

On March 1, 2020, SBIC I LP prepaid $16.11 million of SBA debentures that were contractually due September 1, 2023, March 1, 2024 and September 1, 2024.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates. Changes in interest rates affect both our cost of funding and the valuation of our investment portfolio. As of December 31, 2019, 93% of our debt investments bore interest at floating interest rates and 7% of our debt investments bore fixed interest rates, at fair value. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current rates on a periodic basis. A significant portion of our loans that are subject to the floating LIBOR rates are also subject to a minimum base rate, or floor, that we charge on our loans if the current market rates are below the respective floors. As of December 31, 2019, substantially all of our floating rate loans were based on a floating LIBOR (not subject to a floor).

Our outstanding SBA debentures and Unsecured Notes bear interest at a fixed rate. Our PWB Credit Facility and BNP Facility have floating interest rate provisions based on the Prime Rate and LIBOR, with effective interest rates of 6.03% and 4.72%, respectively, as of December 31, 2019.

Assuming that the consolidated balance sheet as of December 31, 2019, were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following tables show the annualized impact of hypothetical base rate changes in interest rates (in thousands):

Basis point increase	Interest income	Interest expense	Net increase (decrease)
50	$ 1,875	$ (287)	$ 1,588
100	3,941	(573)	3,368
150	6,007	(859)	5,148
200	8,073	(1,145)	6,928
250	10,139	(1,431)	8,708

Basis point decrease	Interest income	Interest expense (1)	Net increase (decrease)
50	$ (2,064)	$ 286	$ (1,778)
100	(3,433)	572	(2,861)
150	(3,833)	858	(2,975)
200	(4,096)	1,091	(3,005)
250	(4,096)	1,091	(3,005)

(1) Our PWB Credit Facility contains a 5.25% interest rate floor, and therefore a decline in the Prime Rate would not materially impact interest expense. The BNP Facility does not contain an interest rate floor.

Although we believe that the foregoing analysis is indicative of our sensitivity to interest rate changes as of December 31, 2019, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets in our portfolio, and other business developments, including borrowings under our credit facility, that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

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

ITEM 8. FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OFS Capital Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of assets and liabilities of OFS Capital Corporation and subsidiaries (the Company), including the consolidated schedule of investments, as of December 31, 2019, the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations, changes in its net assets and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Such procedures also included confirmation of investments owned as of December 31, 2019, by correspondence with the custodian, loan agents, or portfolio companies, or by other appropriate auditing procedures where replies were not received. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/KPMG LLP

We have served as the Company's auditor since 2019.

Chicago, Illinois
March 13, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OFS Capital Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited OFS Capital Corporation and subsidiaries' (the Company's) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of assets and liabilities, including the consolidated schedule of investments, of the Company as of December 31, 2019, the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 13, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company'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 Annual 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/KPMG LLP

Chicago, Illinois
March 13, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
OFS Capital Corporation
Chicago, Illinois

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of assets and liabilities of OFS Capital Corporation (the "Company"), including the consolidated schedule of investments, as of December 31, 2018, the related consolidated statements of operations, changes in net assets, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes, including the financial highlights for each of the four years in the period ended December 31, 2018 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018, and the results of their operations, the changes in their net assets, and their cash flows for each of the two years in the period ended December 31, 2018, and their financial highlights for each of the four years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodian, loan agent, portfolio companies, or by other appropriate auditing procedures where replies were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We served as the Company's auditor from 2014 to 2019.

Chicago, Illinois
March 15, 2019

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

	December 31,	
	2019	**2018**
Assets		
Investments, at fair value		
Non-control/non-affiliate investments (amortized cost of $396,201 and $312,223, respectively)	$ 372,535	$ 297,749
Affiliate investments (amortized cost of $131,950 and $90,751, respectively)	135,679	89,103
Control investment (amortized cost of $10,520 and $10,337, respectively)	8,717	9,945
Total investments at fair value (amortized cost of $538,671 and $413,311, respectively)	516,931	396,797
Cash and cash equivalents	13,447	38,172
Interest receivable	3,349	2,787
Prepaid expenses and other assets	4,461	3,665
Total assets	$ 538,188	$ 441,421
Liabilities		
Revolving line of credits	$ 56,450	$ 12,000
SBA debentures (net of deferred debt issuance costs of $1,904 and 2,280, respectively)	147,976	147,600
Unsecured notes (net of discounts and deferred debt issuance costs of $4,798 and $3,299, respectively)	148,052	95,226
Interest payable	3,505	2,791
Payable to investment adviser and affiliates (Note 3)	4,106	3,700
Payable for investments purchased	10,264	4,151
Accrued professional fees	621	637
Other liabilities	587	293
Total liabilities	$ 371,561	$ 266,398
Commitments and contingencies (Note 6)		
Net Assets		
Preferred stock, par value of $0.01 per share, 2,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2019 and December 31, 2018, respectively	$ —	$ —
Common stock, par value of $0.01 per share, 100,000,000 shares authorized, 13,376,836 and 13,357,337 shares issued and outstanding as of December 31, 2019 and December 31, 2018, respectively	134	134
Paid-in capital in excess of par	187,305	187,540
Total distributable earnings (accumulated losses)	(20,812)	(12,651)
Total net assets	$ 166,627	$ 175,023
Total liabilities and net assets	$ 538,188	$ 441,421
Number of shares outstanding	13,376,836	13,357,337
Net asset value per share	$ 12.46	$ 13.10

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2019	**2018**	**2017**
Investment income			
Interest income:			
Non-control/non-affiliate investments	$ 37,535	$ 27,547	$ 20,078
Affiliate investments	10,364	10,055	6,506
Control investment	1,003	1,005	1,540
Total interest income	48,902	38,607	28,124
Payment-in-kind interest and dividend income:			
Non-control/non-affiliate investments	399	668	1,400
Affiliate investments	1,257	1,321	1,375
Control investment	169	110	132
Total payment-in-kind interest and dividend income:	1,825	2,099	2,907
Dividend income:			
Non-control/non-affiliate investments	—	—	50
Affiliate investments	413	130	140
Control investment	89	185	292
Total dividend income	502	315	482
Fee income:			
Non-control/non-affiliate investments	1,029	987	1,086
Affiliate investments	221	760	675
Control investment	42	66	152
Total fee income	1,292	1,813	1,913
Total investment income	52,521	42,834	33,426
Expenses			
Interest and financing expense	15,829	9,232	5,813
Management fees	8,271	6,335	4,999
Incentive fees	4,760	4,409	2,962
Professional fees	1,814	1,245	1,115
Administration fees	1,747	1,601	1,314
Other expenses	1,002	1,649	1,346
Total expenses before incentive fee waiver	33,423	24,471	17,549
Incentive fee waiver (see Note 3)	—	(22)	—
Total expenses, net of incentive fee waiver	33,423	24,449	17,549
Net investment income	19,098	18,385	15,877
Net realized and unrealized gain (loss) on investments			
Net realized loss on non-control/non-affiliate investments	(3,900)	(4,966)	(3,248)
Net realized gain on affiliate investments	—	187	10,081
Net unrealized depreciation on non-control/non-affiliate investments	(9,610)	(2,484)	(9,715)
Net unrealized appreciation (depreciation) on affiliate investments	5,376	(803)	(5,088)
Net unrealized appreciation (depreciation) on control investment	(1,411)	(747)	3
Net loss on investments	(9,545)	(8,813)	(7,967)
Net increase in net assets resulting from operations	$ 9,553	$ 9,572	$ 7,910
Net investment income per common share - basic and diluted	$ 1.43	$ 1.38	$ 1.28
Net increase in net assets resulting from operations per common share - basic and diluted	$ 0.71	$ 0.72	$ 0.64
Distributions declared per common share	$ 1.36	$ 1.73	$ 1.36
Basic and diluted weighted average shares outstanding	13,364,244	13,348,203	12,403,706

See Notes to Consolidated Financial Statements.

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

	Preferred Stock		Common Stock				
	Number of shares	Par value	Number of shares	Par value	Paid-in capital in excess of par	Total distributable earnings (accumulated losses)	Total net assets
Balances at January 1, 2017	—	$ —	9,700,297	$ 97	$ 134,300	$ 9,381	$ 143,778
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	15,877	15,877
Net realized gain on investments	—	—	—	—	—	6,833	6,833
Unrealized depreciation on investments, net of deferred taxes	—	—	—	—	—	(14,800)	(14,800)
Tax reclassifications of permanent differences	—	—	—	—	(409)	409	—
Distributions to stockholders:							
Common stock issued from reinvestment of stockholder distributions	—	—	14,920	—	195	—	195
Common stock issued from public offering	—	—	3,625,000	36	53,312	—	53,348
Dividends declared	—	—	—	—	—	(16,895)	(16,895)
Net increase (decrease) for the year ended December 31, 2017	—	—	3,639,920	36	53,098	(8,576)	44,558
Balances at December 31, 2017	—	$ —	13,340,217	$ 133	$ 187,398	$ 805	$ 188,336
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	18,385	18,385
Net realized losses on investments	—	—	—	—	—	(4,779)	(4,779)
Unrealized depreciation on investments, net of deferred taxes	—	—	—	—	—	(4,034)	(4,034)
Tax reclassifications of permanent differences	—	—	—	—	(62)	62	—
Distributions to stockholders:							
Common stock issued from reinvestment of stockholder distributions, net of repurchases	—	—	17,420	1	204	—	205
Repurchase of common stock	—	—	(300)	—	—	—	—
Dividends declared	—	—	—	—	—	(23,090)	(23,090)
Net increase (decrease) for the year ended December 31, 2018	—	—	17,120	1	142	(13,456)	(13,313)
Balances at December 31, 2018	—	$ —	13,357,337	$ 134	$ 187,540	$ (12,651)	$ 175,023
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	19,098	19,098
Net realized losses on investments	—	—	—	—	—	(3,900)	(3,900)
Unrealized depreciation on investments, net of deferred taxes	—	—	—	—	—	(5,645)	(5,645)
Tax reclassifications of permanent differences	—	—	—	—	(462)	462	—
Distributions to stockholders:							

	Preferred Stock		Common Stock				
	Number of shares	Par value	Number of shares	Par value	Paid-in capital in excess of par	Total distributable earnings (accumulated losses)	Total net assets
Common stock issued from reinvestment of stockholder distributions	—	—	19,499	—	227	—	227
Dividends declared	—	—	—	—	—	(18,176)	(18,176)
Net increase (decrease) for the year ended December 31, 2019	—	—	19,499	—	(235)	(8,161)	(8,396)
Balances at December 31, 2019	**—**	$ —	13,376,836	$ 134	$ 187,305	$ (20,812)	$ 166,627

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities			
Net increase in net assets resulting from operations	$ 9,553	$ 9,572	$ 7,910
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	3,900	4,779	(6,833)
Net change in unrealized depreciation on investments	5,645	4,034	14,800
Amortization of net loan fees	(1,424)	(2,288)	(1,450)
Amendment fees collected	177	161	175
Payment-in-kind interest and dividend income	(1,825)	(2,099)	(2,907)
Accretion of interest income on structured finance notes	(2,861)	—	—
Amortization and write-off of debt issuance costs	1,332	781	553
Amortization of intangible asset	195	195	195
Purchase and origination of portfolio investments	(222,173)	(272,155)	(142,900)
Proceeds from principal payments on portfolio investments	60,883	100,699	105,078
Proceeds from sale or redemption of portfolio investments	35,033	47,435	37,044
Distributions received from portfolio investments	3,076	—	—
Changes in operating assets and liabilities:			
Interest receivable	(562)	(53)	(964)
Interest payable	714	1,195	(3)
Payable to investment adviser and affiliates	406	1,237	(91)
Payable for investments purchased	6,113	4,151	—
Other assets and liabilities	182	1,268	66
Net cash provided by (used in) operating activities	(101,636)	(101,088)	10,673
Cash flows from financing activities			
Proceeds from common stock offering, net of expenses	—	—	53,423
Payment of common stock offering costs	—	—	(72)
Proceeds from unsecured notes offerings, net of discounts	52,270	95,446	—
Distributions paid to stockholders	(17,949)	(22,895)	(16,700)
Borrowings under revolving line of credit	151,975	96,500	44,700
Repayments under revolving line of credit	(107,525)	(102,100)	(36,600)
Payment of deferred financing costs and other financing costs	(1,860)	(643)	(131)
Net cash provided by financing activities	76,911	66,308	44,620
Net increase (decrease) in cash and cash equivalents	(24,725)	(34,780)	55,293
Cash and cash equivalents — beginning of year	38,172	72,952	17,659
Cash and cash equivalents — end of year	$ 13,447	$ 38,172	$ 72,952
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for interest	$ 13,754	$ 7,256	$ 5,263
Reinvestment of stockholder distributions	227	195	196

See Notes to Consolidated Financial Statements.

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Non-control/Non-affiliate Investments									
Acrisure, LLC (14) (15) (19)	Insurance Agencies and Brokerages								
Senior Secured Loan		6.19%	(L +4.25%)	10/29/2019	11/15/2023	$ 1,995	$ 1,971	$2,004	1.2%
AHP Health Partners (14) (15) (19)	General Medical and Surgical Hospitals								
Senior Secured Loan		6.30%	(L +4.50%)	6/27/2019	6/30/2025	2,607	2,612	2,632	1.6
Albertson's Holdings LLC (14) (15) (19)	Supermarkets and Other Grocery (except Convenience) Stores								
Senior Secured Loan		4.55%	(L +2.75%)	6/24/2019	11/17/2025	1,082	1,081	1,094	0.7
All Star Auto Lights, Inc. (4)	Motor Vehicle Parts (Used) Merchant Wholesalers								
Senior Secured Loan		9.24%	(L +7.50%)	12/19/2019	8/20/2024	13,250	13,119	13,119	7.9
American Bath Group, LLC (14) (15) (19)	Plastics Plumbing Fixture Manufacturing								
Senior Secured Loan		6.05%	(L +4.25%)	6/24/2019	9/30/2023	1,489	1,484	1,498	0.9
AppLovin Corporation (14) (15) (19)	Advertising Agencies								
Senior Secured Loan		5.30%	(L +3.50%)	6/24/2019	8/15/2025	1,985	1,987	2,001	1.2
Asurion, LLC (14) (15) (19)	Communication Equipment Repair and Maintenance								
Senior Secured Loan		4.80%	(L +3.00%)	6/24/2019	11/3/2024	1,985	1,985	1,998	1.2
Senior Secured Loan		4.80%	(L +3.00%)	7/24/2019	11/3/2023	995	997	1,002	0.6
Senior Secured Loan		8.30%	(L +6.50%)	11/19/2019	8/24/2025	1,500	1,511	1,511	0.9
						4,480	4,493	4,511	2.7
Athenahealth, Inc. (14) (15) (19)	Software Publishers								
Senior Secured Loan		6.40%	(L +4.50%)	6/24/2019	2/11/2026	1,985	1,990	1,998	1.2
Bass Pro Group, LLC (14) (15) (19)	Sporting Goods Stores								
Senior Secured Loan		6.80%	(L +5.00%)	6/24/2019	9/25/2024	1,985	1,921	1,983	1.2

Consolidated Schedule of Investments - Continued
December 31, 2019
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
BayMark Health Services, Inc.	Outpatient Mental Health and Substance Abuse Centers								
Senior Secured Loan		10.21%	(L +8.25%)	3/22/2018	3/1/2025	$ 4,000	$ 3,970	$4,000	2.4%
Blackhawk Network Holdings, Inc. (14) (15) (19)	Computer and Computer Peripheral Equipment and Software Merchant Wholesalers								
Senior Secured Loan		4.80%	(L +3.00%)	10/30/2019	6/15/2025	1,995	1,982	1,999	1.2
BrightSpring Health Services (14) (15) (19)	Residential Intellectual and Developmental Disability Facilities								
Senior Secured Loan		6.21%	(L +4.50%)	6/24/2019	3/5/2026	2,985	2,991	3,006	1.8
Brookfield WEC Holdings Inc. (14) (15) (19)	Business to Business Electronic Markets								
Senior Secured Loan		4.67%	(L +3.00%)	7/25/2019	8/1/2025	1,990	2,000	2,000	1.2
Carolina Lubes, Inc.	Automotive Oil Change and Lubrication Shops								
Senior Secured Loan (4) (8)		9.83%	(L +7.73%)	8/23/2017	8/23/2022	20,268	20,172	20,466	12.3
Senior Secured Loan (Revolver) (5)		0.25% (18)	(L +7.25%)	8/23/2017	8/23/2022	—	(8)	(8)	—
						20,268	20,164	20,458	12.3
Charter NEX US, Inc. (14) (15) (19)	Unlaminated Plastics Profile Shape Manufacturing								
Senior Secured Loan		5.30%	(L +3.50%)	10/30/2019	5/16/2024	2,000	1,985	1,985	1.2
CHG Healthcare Services, Inc. (15) (19)	All Other Outpatient Care Centers								
Senior Secured Loan		4.80%	(L +3.00%)	7/24/2019	6/7/2023	1,999	2,001	2,015	1.2
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services								
Senior Secured Loan		10.19%	(L +8.25%)	3/5/2018	10/19/2022	12,564	12,458	12,358	7.4
Senior Secured Loan (Revolver)		10.19%	(L +8.25%)	3/5/2018	10/19/2022	1,408	1,408	1,384	0.8
						13,972	13,866	13,742	8.2
Community Intervention Services, Inc. (4) (6) (10) (11)	Outpatient Mental Health and Substance Abuse Centers								
Subordinated Loan		7.00% cash / 6.00% PIK	N/A	7/16/2015	1/16/2021	9,624	7,639	—	—

OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
December 31, 2019
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Confie Seguros Holdings II Co. (14)	Insurance Agencies and Brokerages								
Senior Secured Loan		10.41%	(L +8.50%)	7/7/2015	11/1/2025	$ 9,678	$ 9,515	$9,382	5.6%
Connect U.S. Finco LLC (14) (15) (19)	Taxi Service								
Senior Secured Loan		6.29%	(L +4.50%)	11/20/2019	12/11/2026	2,000	1,990	1,990	1.2
Constellis Holdings, LLC (6)	Other Justice, Public Order, and Safety Activities								
Senior Secured Loan		10.93%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,846	407	0.2
Convergint Technologies Holdings, LLC	Security Systems Services (except Locksmiths)								
Senior Secured Loan		8.55%	(L +6.75%)	9/28/2018	2/2/2026	3,481	3,430	3,424	2.1
Curium BidCo S.A R.L. (14) (15) (19)	Pharmaceutical and Medicine Manufacturing								
Senior Secured Loan		5.94%	(L +4.00%)	10/29/2019	7/1/2026	848	853	853	0.5
Davis Vision, Inc.	Direct Health and Medical Insurance Carriers								
Senior Secured Loan		8.55%	(L +6.75%)	10/31/2019	12/1/2025	405	395	405	0.2
Dexko Global Inc. (14) (15) (19)	Motor Vehicle Body Manufacturing								
Senior Secured Loan		5.30%	(L +3.50%)	10/30/2019	7/24/2024	1,995	1,970	1,997	1.2
Diamond Sports Group, LLC (14) (15) (19)	Television Broadcasting								
Senior Secured Loan		5.03%	(L +3.25%)	11/19/2019	8/24/2026	1,995	1,997	1,997	1.2
DuPage Medical Group (15) (19)	Offices of Physicians, Mental Health Specialists								
Senior Secured Loan		8.80%	(L +7.00%)	8/22/2017	8/15/2025	10,098	10,170	10,098	6.1
Eblens Holdings, Inc.	Shoe Store								
Subordinated Loan (11)		12.00% cash / 1.00% PIK		7/13/2017	1/13/2023	9,010	8,962	9,025	5.4
Common Equity (71,250 Class A units) (10)				7/13/2017			713	892	0.5
						9,010	9,675	9,917	5.9

Consolidated Schedule of Investments - Continued
December 31, 2019
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Endo International PLC (14) (15) (19)	Pharmaceutical Preparation Manufacturing								
Senior Secured Loan		6.06%	(L +4.25%)	6/24/2019	4/29/2024	$ 1,985	$ 1,897	$1,906	1.1%
Envocore Holding, LLC (FKA LRI Holding, LLC) (4)	Electrical Contractors and Other Wiring Installation Contractors								
Senior Secured Loan		6.00% cash / 5.00% PIK	(L +6.00%)	6/30/2017	6/30/2022	16,367	16,207	14,639	8.8
Preferred Equity (238,095 Series B units) (10)				6/30/2017			300	—	—
Preferred Equity (13,315 Series C units) (10)				8/13/2018			13	—	—
						16,367	16,520	14,639	8.8
Excelin Home Health, LLC	Home Health Care Services								
Senior Secured Loan		11.50%	(L +9.50%)	10/25/2018	4/25/2024	4,250	4,183	4,070	2.4
Explorer Holdings, Inc. (14) (15) (19)	Testing Laboratories								
Senior Secured Loan		5.60%	(L +3.75%)	6/25/2019	5/2/2023	1,985	1,987	2,004	1.2
Garda World Security (14) (15) (19)	Security Systems Services (except Locksmiths)								
Senior Secured Loan		6.66%	(L +4.75%)	10/24/2019	10/30/2026	1,667	1,634	1,680	1.0
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing								
Senior Secured Loan		10.65%	(L +8.75%)	12/29/2017	9/8/2024	5,000	4,912	4,084	2.5
Common Equity (368,852 Class A units) (10)				12/29/2017			450	124	0.1
Common Equity (40,984 Class B units) (10)				12/29/2017			50	5	—
						5,000	5,412	4,213	2.6
Hyland Software, Inc.	Software Publishers								
Senior Secured Loan (14) (15) (19)		5.30%	(L +3.50%)	10/24/2018	7/1/2024	1,660	1,655	1,672	1.0
Senior Secured Loan		8.80%	(L +7.00%)	10/24/2018	7/7/2025	2,601	2,614	2,617	1.6
						4,261	4,269	4,289	2.6
Inergex Holdings, LLC	Other Computer Related Services								
Senior Secured Loan		8.94%	(L +7.00%)	10/1/2018	10/1/2024	16,590	16,389	16,489	9.9
Senior Secured Loan (Revolver) (5) (18)		6.05%	(L +7.00%)	10/1/2018	10/1/2024	1,875	1,853	1,864	1.1
						18,465	18,242	18,353	11.0

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Institutional Shareholder Services, Inc.	Administrative Management and General Management Consulting Services								
Senior Secured Loan		10.44%	(L +8.50%)	3/4/2019	3/5/2027	$ 6,244	$ 6,075	$6,098	3.7%
Intouch Midco Inc. (15) (19)	All Other Professional, Scientific, and Technical Services								
Senior Secured Loan		6.05%	(L +4.25%)	12/20/2019	8/24/2025	1,995	1,925	1,925	1.2
Kindred Healthcare, Inc. (FKA Kindred at Home) (14) (15) (19)	Home Health Care Services								
Senior Secured Loan		5.56%	(L +3.75%)	6/25/2019	7/2/2025	2,985	2,998	3,004	1.8
McAfee, LLC (14) (15) (19)	Software Publishers								
Senior Secured Loan		5.55%	(L +3.75%)	6/25/2019	9/30/2024	1,985	1,987	1,996	1.2
Senior Secured Loan		10.30%	(L +8.50%)	11/15/2019	9/29/2025	2,000	2,002	2,018	1.2
						3,985	3,989	4,014	2.4
Micro Holding Corp (14) (15) (19)	Internet Publishing and Broadcasting and Web Search Portals								
Senior Secured Loan		5.55%	(L +3.75%)	6/25/2019	9/13/2024	1,985	1,969	1,991	1.2
Milrose Consultants, LLC (4) (8)	Administrative Management and General Management Consulting Services								
Senior Secured Loan		8.14%	(L +6.20%)	7/16/2019	7/16/2025	11,500	11,420	11,394	6.7
My Alarm Center, LLC (4) (10) (13)	Security Systems Services (except Locksmiths)								
Preferred Equity (1,485 Class A units), 8% PIK				7/14/2017			1,571	984	0.6
Preferred Equity (1,198 Class B units)				7/14/2017			1,198	—	—
Preferred Equity (335 Class Z units) 25% PIK				9/12/2018			325	1,136	0.7
Common Equity (64,149 units)				7/14/2017			—	—	—
							3,094	2,120	1.3
Online Tech Stores, LLC (4)	Stationery and Office Supplies Merchant Wholesalers								
Subordinated Loan		10.50% cash / 3.00% PIK	N/A	2/1/2018	8/1/2023	16,323	16,113	14,559	8.7
OnSite Care, PLLC (4) (8)	Home Health Care Services								
Senior Secured Loan		9.09%	(L +7.78%)	8/10/2018	8/10/2023	9,541	9,446	9,162	5.5

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Panther BF Aggregator 2 LP (14) (15) (19)	Other Commercial and Service Industry Machinery Manufacturing								
Senior Secured Loan		5.30%	(L +3.50%)	11/19/2019	4/30/2026	$ 1,995	$ 1,978	$2,006	1.2%
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores								
Senior Secured Loan (14) (15) (19)		6.16%	(L +4.25%)	6/25/2019	6/30/2024	87	87	87	0.1
Senior Secured Loan		10.70%	(L +8.75%)	11/16/2017	6/30/2025	6,320	6,332	6,276	3.8
						6,407	6,419	6,363	3.9
Pelican Products, Inc.	Unlaminated Plastics Profile Shape Manufacturing								
Senior Secured Loan		9.49%	(L +7.75%)	9/24/2018	5/1/2026	6,055	6,059	5,969	3.6
Performance Team LLC (4)	General Warehousing and Storage								
Senior Secured Loan		11.80%	(L +10.00%)	5/24/2018	11/24/2023	13,889	13,790	14,165	8.4
PM Acquisition LLC	All Other General Merchandise Stores								
Senior Secured Loan		11.50% cash / 2.50% PIK	N/A	9/30/2017	10/29/2021	4,963	4,903	4,800	2.9
Common Equity (499 units) (10) (13)				9/30/2017			499	220	0.1
						4,963	5,402	5,020	3.0
Quest Software US Holdings Inc. (14) (15) (19)	Computer and Computer Peripheral Equipment and Software Merchant Wholesalers								
Senior Secured Loan		6.18%	(L +4.25%)	6/25/2019	5/16/2025	1,990	1,973	1,978	1.2
Refinitiv (14) (15) (19)	Public Finance Activities								
Senior Secured Loan		5.05%	(L +4.25%)	6/24/2019	10/1/2025	1,987	1,941	2,007	1.2
Resource Label Group, LLC	Commercial Printing (except Screen and Books)								
Senior Secured Loan		10.60%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,777	4,591	2.8
Restaurant Technologies, Inc. (15) (19)	Other Grocery and Related Products Merchant Wholesalers								
Senior Secured Loan		5.05%	(L +3.25%)	8/8/2019	10/1/2025	1,990	1,994	2,003	1.2

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Rocket Software, Inc. (15) (19)	Software Publishers								
Senior Secured Loan		6.05%	(L +4.25%)	11/20/2018	11/28/2025	$ 665	$ 663	$ 649	0.4%
Senior Secured Loan		10.05%	(L +8.25%)	11/20/2018	11/28/2026	6,275	6,167	6,094	3.7
						6,940	6,830	6,743	4.1
RPLF Holdings, LLC (10) (13)	Software Publishers								
Common Equity (254,110 Class A units)				1/17/2018			254	186	0.1
Sentry Centers Holdings, LLC (10) (13)	Other Professional, Scientific, and Technical Services								
Common Equity (5,000 Series C units)				3/31/2014		—	500	1,490	0.9
Southern Technical Institute, LLC (4) (6) (10)	Colleges, Universities, and Professional Schools								
Subordinated Loan		6.00% PIK	N/A	6/27/2018	12/31/2021	1,611	—	—	—
Other				6/27/2018		—	—	—	—
						1,611	—	—	—
Spring Education Group, Inc. (F/K/A SSH Group Holdings, Inc.)	Child Day Care Services								
Senior Secured Loan		6.19%	(L +4.25%)	7/26/2018	7/30/2025	972	970	978	0.6
Senior Secured Loan		10.19%	(L +8.25%)	7/26/2018	7/30/2026	7,216	7,157	7,288	4.4
						8,188	8,127	8,266	5.0
Sprint Communications, Inc. (14) (15) (19)	Wired Telecommunications Carriers								
Senior Secured Loan		4.81%	(L +3.00%)	6/24/2019	2/2/2024	1,985	1,972	1,980	1.2
SSJA Bariatric Management LLC (15) (19)	Offices of Physicians, Mental Health Specialists								
Senior Secured Loan		6.94%	(L +5.00%)	8/26/2019	8/26/2024	9,975	9,883	9,861	5.9
Senior Secured Loan (Revolver) (5)		0.50% (18)	(L +5.00%)	8/26/2019	8/26/2024	—	(6)	(14)	—
						9,975	9,877	9,847	5.9
Stancor, L.P. (4) (10)	Pump and Pumping Equipment Manufacturing								
Preferred Equity (1,250,000 Class A units), 8% PIK				8/19/2014		—	1,501	1,607	1.0
Staples, Inc. (14) (15) (19)	Business to Business Electronic Markets								
Senior Secured Loan		6.69%	(L +5.00%)	6/24/2019	4/16/2026	1,990	1,920	1,960	1.1

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
STS Operating, Inc.	Industrial Machinery and Equipment Merchant Wholesalers								
Senior Secured Loan (14) (15) (19)		6.05%	(L +4.25%)	5/16/2018	12/11/2024	$ 632	$ 631	$ 632	0.4%
Senior Secured Loan		9.80%	(L +8.00%)	5/15/2018	4/30/2026	9,073	9,070	9,030	5.4
						9,705	9,701	9,662	5.8
Sunshine Luxembourg VII SARL (14) (15) (19)	Pharmaceutical Preparation Manufacturing								
Senior Secured Loan		6.19%	(L +4.25%)	11/20/2019	9/25/2026	2,000	2,010	2,021	1.2
Tank Holding Corp. (14) (15) (19)	Unlaminated Plastics Profile Shape Manufacturing								
Senior Secured Loan		6.41%	(L +4.00%)	6/24/2019	3/26/2026	1,995	2,002	2,005	1.2
The Escape Game, LLC (4)	Other amusement and recreation industries								
Senior Secured Loan		8.80%	(L +7.00%)	7/18/2019	3/31/2020	4,667	4,642	4,648	2.8
Senior Secured Loan		10.55%	(L +8.75%)	12/22/2017	12/22/2022	7,000	6,969	6,972	4.2
Senior Secured Loan		10.55%	(L +8.75%)	7/20/2018	12/22/2022	7,000	7,000	6,972	4.2
						18,667	18,611	18,592	11.2
Truck Hero, Inc. (15) (19)	Truck Trailer Manufacturing								
Senior Secured Loan		10.05%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,990	6,690	4.0
United Biologics Holdings, LLC (4) (10)	Medical Laboratories								
Preferred Equity (151,787 units)				4/16/2013		—	9	15	—
Warrants (29,374 units)				7/26/2012	3/05/2022 (12)	—	82	7	—
						—	91	22	—
U.S. Anesthesia Partners (14) (15) (19)	Freestanding Ambulatory Surgical and Emergency Centers								
Senior Secured Loan		4.80%	(L +3.00%)	6/24/2019	6/23/2024	2,980	2,950	2,976	1.8
Verifone Intermediate Holdings, Inc. (14) (15) (19)	Other Commercial and Service Industry Machinery Manufacturing								
Senior Secured Loan		5.90%	(L +4.00%)	6/24/2019	8/20/2025	258	252	256	0.2
Wastebuilt Environmental Solutions, LLC (4)	Industrial Supplies Merchant Wholesalers								
Senior Secured Loan		10.69%	(L +8.75%)	10/11/2018	10/11/2024	7,000	6,883	6,584	4.0

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Total Debt and Equity Investments						$372,094	$373,074	$350,925	210.7%
Structured Finance Note Investments (7)									
Dryden 76 CLO, Ltd.									
Subordinated Notes		15.37% (9)		9/27/2019	10/20/2032 (17)	2,750	2,491	2,509	1.5
Elevation CLO 2017-7, Ltd.									
Subordinated Notes		15.71% (9)		2/6/2019	7/15/2030 (17)	10,000	7,485	6,559	3.9
Flatiron CLO 18, Ltd.									
Subordinated Notes		16.68% (9)		1/2/2019	4/17/2031 (17)	9,680	7,355	7,345	4.4
THL Credit Wind River 2019-3 CLO Ltd.									
Subordinated Notes		12.33% (9)		4/5/2019	4/15/2031 (17)	7,000	5,796	5,197	3.1
Total Structured Finance Note Investments						$ 29,430	$ 23,127	$ 21,610	12.9%
Total Non-control/Non-affiliate Investments						$401,524	$396,201	$372,535	223.6%
Affiliate Investments									
3rd Rock Gaming Holdings, LLC	Software Publishers								
Senior Secured Loan		9.44% cash / 1.00% PIK	(L +7.50%)	3/13/2018	3/12/2023	21,373	21,176	20,099	12.1
Common Equity (2,547,250 units) (10) (13)				3/13/2018		—	2,547	1,044	0.6
						21,373	23,723	21,143	12.7
Chemical Resources Holdings, Inc.	Custom Compounding of Purchased Resins								
Senior Secured Loan (4)(8)		9.82%	(L +7.89%)	1/25/2019	1/25/2024	13,743	13,592	13,746	8.2
Common Equity (1,832 Class A shares) (10) (13)				1/25/2019			1,813	2,662	1.6
						13,743	15,405	16,408	9.8

(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing								
Subordinated Loan		12.00%	N/A	8/5/2015	2/5/2021	$ 8,000	$ 7,995	$8,000	4.8%
Preferred Equity (3,061 Series A shares) 10% PIK (10)				8/5/2015			5,599	5,671	3.4
Common Equity (11,273 shares) (10)				6/28/2016			104	671	0.4
						8,000	13,698	14,342	8.6
DRS Imaging Services, LLC	Data Processing, Hosting, and Related Services								
Senior Secured Loan (4) (8)		11.21%	(L +9.27%)	3/8/2018	11/20/2023	10,741	10,670	10,569	6.3
Common Equity (1,135 units) (10) (13)				3/8/2018			1,135	1,331	0.8
						10,741	11,805	11,900	7.1
Master Cutlery, LLC (4) (6) (10)	Sporting and Recreational Goods and Supplies Merchant Wholesalers								
Subordinated Loan (11)		13.00%	N/A	4/17/2015	4/17/2020	5,947	4,764	255	0.2
Preferred Equity (3,723 Series A units), 8% PIK				4/17/2015		—	3,483	—	—
Common Equity (15,564 units)				4/17/2015		—	—	—	—
						5,947	8,247	255	0.2
NeoSystems Corp. (4) (10)	Other Accounting Services								
Preferred Equity (521,962 convertible shares) 10% PIK				8/14/2014		—	1,698	2,250	1.4
Pfanstiehl Holdings, Inc. (4)	Pharmaceutical Preparation Manufacturing								
Subordinated Loan		10.50%	N/A	1/1/2014	9/29/2022	3,788	3,807	3,788	2.3
Common Equity (400 Class A shares)				1/1/2014		—	217	11,979	7.2
						3,788	4,024	15,767	9.5
Professional Pipe Holdings, LLC	Plumbing, Heating, and Air-Conditioning Contractors								
Senior Secured Loan		10.55% cash / 1.50% PIK	(L +9.27%)	3/23/2018	3/23/2023	7,099	7,008	7,170	4.3
Common Equity (1,414 Class A units) (10)				3/23/2018		—	1,414	2,413	1.4
						7,099	8,422	9,583	5.7

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
TalentSmart Holdings, LLC	Professional and Management Development Training								
Senior Secured Loan (4)		8.50%	(L +6.75%)	10/11/2019	10/11/2024	$ 10,000	$ 9,833	$ 9,833	5.9%
Senior Secured Loan (Revolver) (5) (18)		8.50%	(L +6.75%)	10/11/2019	10/11/2024	250	242	242	0.1
Common Equity (1,500 Class A shares) (10) (13)				10/11/2019		—	1,500	1,500	0.9
						10,250	11,575	11,575	6.9
TRS Services, LLC (4) (11)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance								
Senior Secured Loan		10.55% cash / 1.00% PIK	(L +8.75%)	12/10/2014	3/16/2020	14,624	14,615	14,623	8.8
Preferred Equity (329,266 Class AA units), 15% PIK (10)				6/30/2016		—	545	547	0.3
Preferred Equity (3,000,000 Class A units), 11% PIK (10)				12/10/2014		—	3,374	3,095	1.9
Common Equity (3,000,000 units) (10)				12/10/2014		—	572	—	—
						14,624	19,106	18,265	11.0
TTG Healthcare, LLC	Diagnostic Imaging Centers								
Senior Secured Loan (4)		10.71%	(L +9.00%)	3/1/2019	3/1/2024	12,103	11,938	11,767	7.1
Preferred Equity (2,309 Class B units) (10) (13)				3/1/2019			2,309	2,424	1.5
						12,103	14,247	14,191	8.6
Total Affiliate Investments						$107,668	$131,950	$135,679	81.5%
Control Investment									
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing								
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)		10.26% cash / 4.50% PIK	(L +8.50%)	11/25/2015	11/25/2020	7,464	7,451	7,464	4.5
Common Equity (554 shares)				11/25/2015		—	3,069	1,253	0.8
						7,464	10,520	8,717	5.3
Total Control Investment						$ 7,464	$ 10,520	$ 8,717	5.3%
Total Investments						$516,656	$538,671	$516,931	310.4%

(Dollar amounts in thousands)

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.
(2) Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), generally between 1.7% and 2.1% at December 31, 2019, and reset monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of $420,410 include LIBOR reference rate floor provisions of generally 1% to 2%; at December 31, 2019, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2019. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.
(3) Unless otherwise noted with footnote 14, fair value was determined using significant unobservable inputs for all of the Company's investments and are considered Level 3 under GAAP. See Note 5 for further details.
(4) Investments (or portion thereof) held by SBIC I LP. These assets (or a portion thereof) are held to support the SBA debentures and can not be pledged under any debt obligation of the Company.
(5) Subject to unfunded commitments. See Note 6 for further details.
(6) Investment was on non-accrual status as of December 31, 2019, meaning the Company has ceased recognition of all or a portion of income on the investment. See Note 4 for further details.
(7) Structured Finance Notes are considered CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses.
(8) The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co-lenders pursuant to a payment waterfall. The table below provides additional details as of December 31, 2019:

Portfolio Company	Reported Interest Rate	Interest Rate per Credit Agreement	Additional Interest per Annum
Carolina Lubes, Inc.	9.83%	9.35%	0.48%
Chemical Resources Holdings, Inc.	9.82%	7.93%	1.89%
DRS Imaging Services, LLC	11.21%	9.94%	1.27%
Milrose Consultants, LLC	8.14%	7.44%	0.70%
OnSite Care, PLLC	9.49%	7.96%	1.53%

(9) The rate disclosed is an estimated effective yield based upon the current projection of the amount and timing of distributions in addition to the estimated amount and timing of terminal principal payments. Effective yields for the Company's Structured Finance Note investments are monitored and evaluated at each reporting date. The estimated yield and investment cost may ultimately not be realized.
(10) Non-income producing.
(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of December 31, 2019:

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00%
Eblens Holdings, Inc.	Subordinated Loan	0% or 1.00%	13.00% or 12.00%	1.00%
Master Cutlery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00%
TRS Services, LLC	Senior Secured Loan	0% or 1.00%	12.65% or 1.00%	1.00%

(12) Represents expiration date of the warrants.
(13) All or portion of investment held by OFSCC-MB.
(14) Fair value was determined by reference to observable inputs other than quoted prices in active markets and are considered Level 2 under GAAP. See Note 5 for further details.
(15) Investments (or portion thereof) held by OFSCC-FS. These assets are pledged as collateral of the BNP Credit Facility and can not be pledged under any other debt obligation of the Company.
(16) Amortized cost reflects accretion of effective yield less any cash distributions received or entitled to be received from CLO Structured Finance Note investments.
(17) Maturity represents the contractual maturity date of the structured finance notes. Expected maturity and cash flows, not contractual maturity and cash flows, were utilized in deriving the effective yield of the investments.
(18) Commitment fee on undrawn funds.

See Notes to Financial Statements.

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Non-control/Non-affiliate Investments									
BayMark Health Services	Outpatient Mental Health and Substance Abuse Centers								
Senior Secured Loan		10.60%	(L +8.25%)	3/22/2018	3/1/2025	$ 4,000	$ 3,964	$3,933	2.2%
Brookfield WEC Holdings Inc.,	Business to Business Electronic Markets								
Senior Secured Loan		9.27%	(L +6.75%)	12/6/2018	8/3/2026	1,959	1,959	1,914	1.1
Carolina Lubes, Inc. (4)	Automotive Oil Change and Lubrication Shops								
Senior Secured Loan (8)		10.24%	(L +7.82%)	8/23/2017	8/23/2022	20,840	20,705	20,839	11.9
Senior Secured Loan (Revolver) (7)		9.65%	(L +7.25%)	8/23/2017	8/23/2022	—	(11)	—	—
						20,840	20,694	20,839	11.9
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services								
Senior Secured Loan		11.05%	(L +8.25%)	3/5/2018	10/19/2022	12,926	12,779	12,732	7.3
Senior Secured Loan (Revolver) (7)		11.05%	(L +8.25%)	3/5/2018	10/19/2022	1,280	1,280	1,261	0.7
						14,206	14,059	13,993	8.0
Community Intervention Services, Inc. (4) (6) (10) (11)	Outpatient Mental Health and Substance Abuse Centers								
Subordinated Loan		7.0% cash / 6.0% PIK	N/A	7/16/2015	1/16/2021	9,060	7,639	—	—
Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages								
Senior Secured Loan		11.24%	(L +8.50%)	7/7/2015	11/1/2025	9,678	9,489	9,290	5.3
Constellis Holdings, LLC	Other Justice, Public Order, and Safety Activities								
Senior Secured Loan		11.52%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,832	9,437	5.4
Convergint Technologies Holdings, LLC	Security Systems Services (except Locksmiths)								
Senior Secured Loan		9.27%	(L +6.75%)	9/28/2018	2/2/2026	3,481	3,422	3,327	1.9
Davis Vision, Inc.	Direct Health and Medical Insurance Carriers								
Senior Secured Loan		9.28%	(L +6.75%)	7/17/2018	12/1/2025	5,854	5,700	5,570	3.2

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
DuPage Medical Group	Offices of Physicians, Mental Health Specialists								
Senior Secured Loan		9.50%	(L +7.00%)	8/22/2017	8/15/2025	$ 10,098	$ 10,185	$9,771	5.6%
Eblens Holdings, Inc.	Shoe Store								
Subordinated Loan (11)		12.0% cash / 1.00% PIK	N/A	7/13/2017	1/13/2023	8,920	8,855	8,821	5
Common Equity (71,250 Class A units) (10)				7/13/2017			713	722	0.4
						8,920	9,568	9,543	5.4
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing								
Senior Secured Loan		9.30%	(L +6.50%)	10/31/2011	8/27/2018	3,645	3,645	3,509	2.0
Envocore Holding, LLC (FKA LRI Holding, LLC) (4)	Electrical Contractors and Other Wiring Installation Contractors								
Senior Secured Loan		12.05%	(L +9.25%)	6/30/2017	6/30/2022	17,344	17,212	16,821	9.6
Preferred Equity (238,095 Series B units) (10)				6/30/2017			300	300	0.2
Preferred Equity (13,315 Series C units) (10)				8/13/2018			13	13	—
						17,344	17,525	17,134	9.8
Excelin Home Health, LLC	Home Health Care Services								
Senior Secured Loan		12.31%	(L +9.50%)	10/25/2018	4/25/2024	4,250	4,168	4,168	2.4
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing								
Senior Secured Loan		11.49%	(L +8.75%)	12/29/2017	9/8/2024	5,000	4,894	4,033	2.3
Common Equity (368,852 Class A units) (10)				12/29/2017			450	104	0.1
Common Equity (40,984 Class B units) (10)				12/29/2017			50	4	—
						5,000	5,394	4,141	2.4
GOBP Holdings, Inc.	Supermarkets and Other Grocery (except Convenience) Stores								
Senior Secured Loan		10.05%	(L +7.25%)	10/17/2018	10/22/2026	1,400	1,386	1,349	0.8
Hyland Software, Inc.	Software Publishers								
Senior Secured Loan		6.02%	(L +3.50%)	10/24/2018	7/1/2024	173	173	166	0.1
Senior Secured Loan		9.52%	(L +7.00%)	10/24/2018	7/7/2025	2,601	2,620	2,534	1.4
						2,774	2,793	2,700	1.5

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Inergex Holdings	Other Computer Related Services								
Senior Secured Loan		9.39%	(L +7.00%)	10/1/2018	10/1/2024	$ 13,092	$ 12,904	$ 12,904	7.4%
Senior Secured Loan (Revolver) (7)		0.50%		10/1/2018	10/1/2024	—	(27)	—	—
						13,092	12,877	12,904	7.4
JBR Clinical Research, Inc. (4) (8)	Research and Development in the Social Sciences and Humanities								
Senior Secured Loan		9.10%	(L +6.71%)	8/2/2018	8/2/2023	29,943	29,693	29,016	16.5
MAI Holdings, Inc. (4)	Printing Machinery and Equipment Manufacturing								
Senior Secured Loan		9.50%	N/A	6/21/2018	6/1/2023	5,000	5,000	4,841	2.8
My Alarm Center, LLC (4) (10) (13)	Security Systems Services (except Locksmiths)								
Preferred Equity (1,485 Class A units), 8% PIK				7/14/2017			1,571	1,536	0.9
Preferred Equity (1,198 Class B units)				7/14/2017			1,198	—	—
Preferred Equity (335 Class Z units) 25% PIK				9/12/2018			325	1,038	0.6
Common Equity (64,149 units)				7/14/2017			—	—	—
							3,094	2,574	1.5
Online Tech Stores, LLC (4)	Stationery and Office Supplies Merchant Wholesalers								
Subordinated Loan		10.50% cash / 1.0% PIK	N/A	2/1/2018	8/1/2023	16,150	15,882	15,785	8.9
OnSite Care, PLLC (4) (8)	Home Health Care Services								
Senior Secured Loan		10.22%	(L +7.85%)	8/10/2018	8/10/2023	7,100	7,035	7,008	4.0
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores								
Senior Secured Loan		11.56%	(L +8.75%)	11/16/2017	6/30/2025	6,320	6,334	6,292	3.6
Pelican Products, Inc.	Unlaminated Plastics Profile Shape Manufacturing								
Senior Secured Loan		10.13%	(L +7.75%)	9/24/2018	5/1/2026	6,055	6,060	5,901	3.4
Performance Team LLC (4)	General Warehousing and Storage								
Senior Secured Loan		12.52%	(L +10.00%)	5/24/2018	11/24/2023	20,300	20,118	20,647	11.7

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
PM Acquisition LLC	All Other General Merchandise Stores								
Senior Secured Loan		11.50% cash / 2.50% PIK	N/A	9/30/2017	10/29/2021	$ 5,512	$ 5,431	$5,217	3.0%
Common Equity (499 units) (10) (13)				9/30/2017			499	137	0.1
						5,512	5,930	5,354	3.1
Resource Label Group, LLC	Commercial Printing (except Screen and Books)								
Senior Secured Loan		10.90%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,767	4,772	2.7
Rocket Software, Inc.	Software Publishers								
Senior Secured Loan		6.77%	(L +4.25%)	11/20/2018	11/19/2025	670	667	645	0.4
Senior Secured Loan		10.77%	(L +8.25%)	11/20/2018	11/19/2026	5,187	5,136	5,046	2.9
						5,857	5,803	5,691	3.3
RPLF Holdings, LLC (10) (13)	Software Publishers								
Common Equity (254,110 Class A units)				1/17/2018			254	291	0.2
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services								
Senior Secured Loan (14)		13.50%	(L +11.50%)	1/25/2016	7/24/2020	8,855	8,802	8,753	5.0
Common Equity (5,000 Series C units) (10) (13)				3/31/2014		—	500	983	0.6
						8,855	9,302	9,736	5.6
Southern Technical Institute, LLC (4) (6) (10)	Colleges, Universities, and Professional Schools								
Subordinated Loan		6.00% PIK	N/A	6/27/2018	12/31/2021	1,517	—	—	—
Other				6/27/2018		—	—	—	—
						1,517	—	—	—
SSH Group Holdings, Inc.	Child Day Care Services								
Senior Secured Loan		6.77%	(L +4.25%)	7/26/2018	7/30/2025	982	979	920	0.5
Senior Secured Loan		10.77%	(L +8.25%)	7/26/2018	7/30/2026	7,216	7,147	6,839	3.9
						8,198	8,126	7,759	4.4
Stancor, L.P. (4) (10)	Pump and Pumping Equipment Manufacturing								
Preferred Equity (1,250,000 Class A units), 8% PIK				8/19/2014		—	1,501	1,416	0.8

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
STS Operating, Inc.	Industrial Machinery and Equipment Merchant Wholesalers								
Senior Secured Loan		6.77%	(L +4.25%)	5/16/2018	12/11/2024	$ 638	$ 637	$ 602	0.3%
Senior Secured Loan		10.52%	(L +8.00%)	5/15/2018	4/30/2026	9,073	9,069	8,484	4.8
						9,711	9,706	9,086	5.1
The Escape Game, LLC (4)									
Senior Secured Loan	Other amusement and recreation industries	11.27%	(L +8.75%)	12/22/2017	12/22/2022	7,000	6,958	6,855	3.9
Senior Secured Loan (Delayed Draw) (7)		11.22%	(L +8.75%)	7/20/2018	12/22/2022	3,733	3,733	3,656	2.1
						10,733	10,691	10,511	6.0
Truck Hero, Inc.	Truck Trailer Manufacturing								
Senior Secured Loan		10.76%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,977	6,808	3.9
United Biologics Holdings, LLC (4) (10)	Medical Laboratories								
Preferred Equity (151,787 units)				7/26/2012		—	9	20	—
Warrants (29,374 units)				7/26/2012	3/5/2022	—	82	25	—
						—	91	45	—
Wand Intermediate I LP	Automotive Body, Paint, and Interior Repair and Maintenance								
Senior Secured Loan		9.84%	(L +7.25%)	5/14/2018	9/19/2022	3,770	3,802	3,747	2.1
Wastebuilt Environmental Solutions, LLC	Industrial Supplies Merchant Wholesalers								
Senior Secured Loan		11.27%	(L +8.75%)	10/11/2018	10/11/2024	7,000	6,858	6,858	3.9
Other							900	89	0.1
Total Non-control/Non-affiliate Investments						309,407	312,223	297,749	169.9
Affiliate Investments									
3rd Rock Gaming Holdings, LLC	Software Publishers								
Senior Secured Loan		10.30%	(L +7.50%)	3/13/2018	3/12/2023	21,626	21,353	20,023	11.4
Common Equity (2,547,250 units) (10) (13)				3/13/2018		—	2,547	1,073	0.6
						21,626	23,900	21,096	12.0

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing								
Subordinated Loan		11.50%	N/A	8/5/2015	2/5/2021	$ 8,000	$ 7,990	$8,000	4.6%
Preferred Equity (3,061 Series A shares), 10% PIK				8/5/2015		—	4,944	6,652	3.8
Common Equity (11,273 shares) (10)				6/28/2016		—	104	2,313	1.3
						8,000	13,038	16,965	9.7
DRS Imaging Services, LLC	Data Processing, Hosting, and Related Services								
Senior Secured Loan (4) (8)		12.23%	(L +9.42%)	3/8/2018	11/20/2023	10,864	10,774	10,617	6.1
Common Equity (1,135 units) (10) (13)				3/8/2018		—	1,135	1,197	0.7
						10,864	11,909	11,814	6.8
Master Cutlery, LLC (4) (6) (10)	Sporting and Recreational Goods and Supplies Merchant Wholesalers								
Subordinated Loan (11)		13.00% PIK	N/A	4/17/2015	4/17/2020	5,229	4,764	850	0.5
Preferred Equity (3,723 Series A units), 8% PIK				4/17/2015		—	3,483	—	—
Common Equity (15,564 units)				4/17/2015		—	—	—	—
						5,229	8,247	850	0.5
NeoSystems Corp. (4) (10)	Other Accounting Services								
Preferred Equity (521,962 convertible shares), 10% PIK				8/14/2014		—	1,537	2,250	1.3
Pfanstiehl Holdings, Inc. (4)	Pharmaceutical Preparation Manufacturing								
Subordinated Loan		10.50%	N/A	1/1/2014	9/29/2022	3,788	3,814	3,788	2.2
Common Equity (400 Class A shares)				1/1/2014		—	217	8,360	4.8
						3,788	4,031	12,148	7.0
Professional Pipe Holdings, LLC	Plumbing, Heating, and Air-Conditioning Contractors								
Senior Secured Loan		12.77%	(L +10.25%)	3/23/2018	3/23/2023	7,779	7,647	7,466	4.3
Common Equity (1,414 Class A units) (10)				3/23/2018		—	1,414	769	0.4
						7,779	9,061	8,235	4.7

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December 31, 2018
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
TRS Services, LLC (4) (11)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance								
Senior Secured Loan		11.27% cash / 1.0% PIK	(L +8.75%)	12/10/2014	12/10/2019	$ 14,681	$ 14,617	$ 14,446	8.3%
Preferred Equity (329,266 Class AA units), 15% PIK				6/30/2016		—	465	473	0.3
Preferred Equity (3,000,000 Class A units), 11% PIK (10)				12/10/2014		—	3,374	826	0.5
Common Equity (3,000,000 units) (10)				12/10/2014		—	572	—	—
						14,681	19,028	15,745	9.1
Total Affiliate Investments						71,967	90,751	89,103	51.1
Control Investment									
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing								
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)		14.00% cash / 1.50% PIK	(L +11.50%)	11/25/2015	11/25/2020	7,296	7,268	7,296	4.2
Common Equity (554 shares)				11/25/2015		—	3,069	2,649	1.5
						7,296	10,337	9,945	5.7
Total Control Investment						7,296	10,337	9,945	5.7
Total Investments						$388,670	$413,311	$396,797	226.7%

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.
(2) Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of $420,410 include LIBOR reference rate floor provisions of generally 1% to 2%. At December 31, 2019, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at December 31, 2019. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.
(3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.
(4) Investments (or portion thereof) held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.
(5) Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity through September 26, 2019. The investment shall continue to accrue interest as the borrower has continued to make interest and amortization payments.
(6) Investment was on non-accrual status as of December 31, 2019, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 5 for further details.
(7) Subject to unfunded commitments. See Note 6 for further details.

(Dollar amounts in thousands)

(8) The Company has entered into a contractual arrangement with co-lenders whereby, subject to certain conditions, it has agreed to receive its principal payment after the repayment of certain co-lenders pursuant to a payment waterfall. The table below provides additional details as of December 31, 2018:

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

(9) Reserved.
(10) Non-income producing.
(11)The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of December 31, 2019

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

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

See Notes to Financial Statements.

Note 1. Organization

OFS Capital Corporation (the "Company"), a Delaware corporation, is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended ("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 Code under the Internal Revenue Code of 1986, as amended (the "Code").

The Company's investment objective is to provide stockholders with current income and capital appreciation through its strategic investment focus primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies principally in the United States. OFS Capital Management, LLC, a registered investment advisor under the Advisers Act ("Advisor"), and a wholly owned subsidiary of Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. Corporations ("OFSAM"), manages the day-to-day operations of, and provides investment advisory services to, the Company.

In addition, OFS Advisor also serves as the investment adviser for Hancock Park Corporate Income, Inc. ("HPCI"), a Maryland corporation and a BDC. HPCI's investment objective is similar to that of the Company. OFS Advisor also serves as the investment adviser for OFS Credit Company, Inc. ("OCCI"), a non-diversified, externally managed, closed-end management investment company that has registered as an investment company under the 1940 Act that primarily invests in CLO debt and subordinated securities. In addition, OFSAM owns 2,946,474 shares, or approximately 22%, of the outstanding common stock of the Company.

The Company may make investments directly, or follow-on investments in current portfolio companies held through OFS SBIC I LP ("SBIC LP"), its investment company subsidiary licensed under the U.S. Small Business Administration's ("SBA") small business investment company program ("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, as amended ("SBIC Act"), limitations on the financing terms of investments, and capitalization thresholds that may limit distributions to the Company; and is subject to periodic audits and examinations of its financial statements.

The Company may make investments through OFSCC-FS, LLC ("OFSCC-FS"), a special-purpose vehicle formed in April 2019 for the purpose of acquiring senior secured loan investments. OFSCC-FS entered into a debt financing through a revolving credit and security agreement by and among OFSCC-FS, the lenders from time to time parties thereto, BNP Paribas, as administrative agent, OFSCC-FS Holdings, LLC, a wholly owned subsidiary of the Company, as equity holder, the Company, as servicer, Citibank, N.A., as collateral agent and Virtus Group, LP, as collateral administrator, which provides for borrowings in an aggregate principal amount up to $150,000,000.

The Company may also make investments through OFSCC-MB, LLC ("OFSCC-MB"), a wholly owned subsidiary taxed under subchapter C of the Code and generally holds the equity investments of the Company that are taxed as pass-through entities.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), including ASC Topic 946, Financial Services-Investment Companies, and the requirements for reporting on Form 10-K, the 1940 Act, and Articles 6 and 12 of Regulation S-X. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal and recurring accruals and adjustments, necessary for fair presentation in accordance with GAAP. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation.

Principles of consolidation: The Company consolidates majority-owned investment company subsidiaries. The Company does not own any controlled operating company whose business consists of providing services to the Company, which would also require consolidation. All intercompany balances and transactions are eliminated upon consolidation.

Investments: The Company applies fair value accounting in accordance with ASC Topic 820, Fair Value Measurements, which defines fair value, establishes a framework to measure fair value, and requires disclosures regarding fair value measurements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined through the use of models and other valuation techniques, valuation inputs, and assumptions market participants would use to value the investment. Highest priority is given to prices for identical assets quoted in active markets (Level 1) and the lowest priority is given to unobservable valuation inputs (Level 3). The availability of observable inputs can vary significantly and is affected by many factors, including the type of product, whether the product is new to the market, whether the product is traded on an active exchange or in the secondary market, and the current market conditions. To the extent that the valuation is based on less observable or unobservable inputs, the 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 majority of the Company's investments. See footnote 5 for details.

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

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

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

Cash and cash equivalents:Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities of three months or less. The Company's cash and cash equivalents are maintained with a member bank of the FDIC and at times, such balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Included in cash and cash equivalents was $13,447 and $38,172 held in a US Bank Money Market Deposit Account as of December 31, 2019 and 2018, respectively. In addition, the Company's use of cash and cash equivalents held by SBIC I LP is limited by SBA regulation, including, but not limited to, investment in eligible portfolio companies and general corporate purposes, subject to a statutory measure of undistributed accumulated earnings.

Revenue recognition:

Interest income:Interest income is recorded on an accrual basis and reported as an interest receivable until collected. Interest income is accrued daily based on the outstanding principal amount and the contractual terms of the debt investment. Certain of the Company's investments contain a payment-in-kind interest income provision ("PIK interest"). The PIK interest, computed at the contractual rate specified in the applicable investment agreement, is added to the principal balance of the investment, rather than being paid in cash, and recorded as interest income at fair value, as applicable, on the consolidated statements of operations. The Company discontinues accrual of interest income, including PIK interest, when there is reasonable doubt that the interest income will be collected.

Loan origination fees, original issue discount ("OID"), market discount or premium, and loan amendment fees (collectively, "Net Loan Fees") are recorded as an adjustment to the amortized cost of the investment, and accreted or amortized as an adjustment to interest income over the life of the respective debt investment using a method that approximates the effective interest method. When the Company receives a loan principal payment, the unamortized Net Loan Fees related to the paid principal is accelerated and recognized in interest income.

Further, the Company may acquire or receive equity, warrants or other equity-related securities ("Equity") in connection with the Company's acquisition of, or subsequent amendment to, debt investments. The Company determines the cost basis of Equity based on its fair value, and the fair value of debt investments and other securities or consideration received. Any resulting difference between the face amount of the debt and its recorded cost resulting from the assignment of value to the Equity is treated as OID, and accreted into interest income as described above.

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

Dividend income: Dividend income on common equity securities in limited liability companies, partnerships and other private entities, generally payable in cash, is recorded at the time dividends are declared. Dividend income on preferred equity investments is accrued daily based on the contractual terms of the preferred equity investment. 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. Non-cash dividends payable in additional preferred securities or contractually earned but not declared (“PIK dividends”) are recognized at fair value and recorded as an adjustment to the cost basis of the investment. Distributions in excess of the accumulated net income of the underlying portfolio company are recorded as a reduction in the cost of the common or preferred stock investment.

Fee income: The Company generates revenue in the form of management, valuation, and other contractual fees, that is recognized as the related services are rendered. In the general course of its business, the Company receives certain fees from portfolio companies which are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and fees for capital structuring, loan syndication or advisory services from certain portfolio companies, which are recognized as earned upon closing of the investment.

Investment Transactions and net realized and unrealized gain or loss on investments: Investment transactions are reported on a trade-date basis. Unsettled trades as of the balance sheet date are included in payable for investments purchased. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the amortized cost basis of the investment. Investments are valued at fair value as determined in good faith by Company management under the supervision and review of the Board. After recording all appropriate interest, dividend, and other income, some of which is recorded as an adjustment to the cost basis of the investment as described above, the Company reports changes in the fair value of investments as net changes in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Non-accrual loans: When there is reasonable doubt that principal, cash interest, or PIK interest, will be collected, debt investments are placed on non-accrual status and the Company will cease recognizing cash interest, PIK interest, or Net Loan Fee amortization, as applicable. When an investment is placed on non-accrual status, all interest previously accrued but not collected is reserved against current period interest income. Interest payments subsequently received on non-accrual investments may be recognized as income or applied to principal depending upon management’s judgment. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest, and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal and interest. In the opinion of management, if there is a question as to the ability of the debtor to meet the terms of the loan agreement, or interest or principal is more than 90 days contractually past due, the loan investment will be placed on non-accrual status. Past due status is based on how long after the contractual due date a principal or interest payment is received. See Note 4 for further information.

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 table income ("ICTI") to its stockholders. The Company has made, and intends to continue to make, the requisite distributions to its stockholders, which generally relieves the Company from U.S. federal income taxes.

Depending on the level of ICTI earned in a tax year, the Company may choose to retain ICTI in an amount less than that which would trigger U.S. federal income tax liability under Subchapter M of the Code. However, the Company would be liable for a 4% excise tax on such income. Excise tax liability is recognized when the Company determines its estimated current year annual ICTI, as defined in the Code, exceeds distributions from current year ICTI.

The Company may utilize OFSCC-MB ("OFSCC-MB"), a wholly owned holding company taxed under Subchapter C of the Code, when making equity investments in portfolio companies taxed as pass-through entities to meet its source-of-income requirements as a RIC. OFSCC-MB is an investment company under GAAP, and is consolidated in the Company’s GAAP financial statements and may incur current and deferred federal and state income tax expense with respect to income derived from those investments. Such income, net of applicable income taxes, is not included in the Company’s tax-basis net investment income until distributed by OFSCC-MB which may result in timing and character differences between the Company’s GAAP and tax-basis net investment income and realized gains and losses. Income tax expense from OFSCC-MB related to net investment income is included in general and administrative expenses, or the applicable net realized or unrealized gain (loss) line item from which the federal or state income tax originated for capital gains and losses. See Note 8 for further information.

The Company evaluates tax positions taken in the course of preparing its tax returns to determine whether they are “more-likely-than-not” to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold could result in greater and undistributed ICTI, income and excise tax expense, and, if involving multiple years, a re-assessment of the Company’s RIC status. GAAP requires recognition of accrued interest and penalties related to uncertain tax benefits as income tax expense. There were no uncertain income tax positions at December 31, 2019 and 2018. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

Distributions: Distributions to common stockholders are recognized on the record date. The timing of distributions as well as the amount to be paid out as a distribution is determined by the Board each quarter. Distributions from net investment income and net realized gains are determined in accordance with the Code. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. Distributions paid in excess of ICTI and not capital gains are considered returns of capital to stockholders.

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

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

Deferred debt issuance costs: Deferred debt issuance costs represent fees and other direct incremental costs incurred in connection with the Company’s borrowings. Deferred debt issuance costs are presented as a direct reduction of the related debt liability on the consolidated statements of assets and liabilities 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 statements of assets and liabilities. Unamortized debt issuance costs included in prepaid expenses and other assets on the consolidated statements of assets and liabilities as of December 31, 2019 and 2018 were $1,628 and $180, respectively. Deferred debt issuance costs are amortized to interest expense over the term of the related debt.

Goodwill: On December 4, 2013, in connection with the the Company's acquisition of the remaining ownership interests in SBIC I LP and SBIC I GP, LLC on December 4, 2013, making SBIC I LP a wholly owned subsidiary of the Company ("SBIC Acquisition"), the Company recorded goodwill of $1,077, which is included in prepaid expenses and other assets on the consolidated statements of assets and liabilities. 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 Acquisition.

Intangible asset: On December 4, 2013, in connection with the SBIC Acquisition, 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 annual period through 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 $1,186 and $991 at December 31, 2019 and 2018, respectively, is included in prepaid expenses and other assets in the consolidated statements of assets and liabilities.

Interest expense: Interest expense is recognized on an accrual basis as incurred.

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 this risk of loss is minimal. The amount of loss due to credit risk from debt investments if borrowers fail to perform according to the terms of the contracts, and the collateral or other security for those instruments proved to be of no value to the Company, is equal to the Company's recorded investment in debt instruments and the unfunded loan commitments as disclosed in Note 6.

(Dollar amounts in thousands, except per share data)

New Accounting Standards

The following table discusses recently issued ASUs by the FASB:

Standard	Description	Period of Adoption	Effect of Adoption on the Financial Statements
Standards that were adopted			
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.	Fourth Quarter 2019 prospectively	No material impact to the Company's consolidated financial statements.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	Shortens the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Securities held at a discount are to continue to be amortized to maturity.	Fourth Quarter 2019 prospectively	No material impact to the Company's consolidated financial statements.

Note 3. Related Party Transactions

Investment Advisory and Management Agreement: OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company pursuant to an agreement dated November 7, 2012 ("Investment Advisory Agreement"). The Investment Advisory Agreement was most recently re-approved on April 4, 2019. Under the terms of the Investment Advisory Agreement, which are in accordance with the 1940 Act and subject to the overall supervision of the Company’s Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of OFSAM and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

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

OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% and based on the average value of the Company’s total assets (other than cash 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 Acquisition from the base management fee calculation.

On June 11, 2019, OFS Advisor agreed to reduce a portion of its base management fee by reducing the portion of such fee from 0.4375% per quarter (1.75% annualized) to 0.25% per quarter (1.00% annualized) of the average value of the portion of the total assets held by the Company through OFSCC-FS (the "OFSCC-FS Assets"), at the end of the two most recently completed calendar quarters to the extent that such portion of the OFSCC-FS Assets are financed using leverage (also calculated on an average basis) that causes the Company’s statutory asset coverage ratio to fall below 200%. When calculating its statutory asset coverage ratio, the Company excludes its SBA guaranteed debentures from its total outstanding senior securities as permitted pursuant to exemptive relief granted by the SEC dated November 26, 2013. Effective January 1, 2020, OFS Advisor agreed to further reduce the base management fee to 0.25% per quarter (1.00% annualized) of the average value of the portion of total assets held by the Company through OFSCC-FS at the end of the two most recently completed calendar quarters without regard to the statutory asset coverage ratio. The base management fee reduction by OFS Advisor is renewable on an annual basis and the amount of the base management fee reduced with respect to the OFSCC-FS Assets shall not be subject to recoupment by OFS Advisor.

The base management fee is payable quarterly in arrears and was $8,271, $6,335, and $4,999, for the years ended December 31, 2019, 2018 and 2017, respectively. The Company owed the Advisor management fees of $2,209 and $1,749 as of December 31, 2019 and 2018, 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 and adjusted for any share issuances or repurchases during such quarter. Accordingly, as a result of the follow-on public offering of 3,625,000 shares of common stock in April 2017 (the "Offering"), the Part One incentive fee was reduced by $593 for the three months ended June 30, 2017, determined by adjusting the value of net assets, as defined above, at March 31, 2017 by the daily weighted average of the Offering proceeds available to the Company during the three months ended June 30, 2017. The incentive fee with respect to pre-incentive fee net income is 20.0% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until the net investment income equals the hurdle rate of 2.0%, but then receives, as a "catch-up," 100.0% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, OFS Advisor will receive 20.0% of the pre-incentive fee net investment income.

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

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 Investment 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

(Dollar amounts in thousands, except per share data)

Fee previously accrued such that the amount of Capital Gains Fee accrued is no more than 20% of the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation). OFS Advisor has excluded from the Capital Gain Fee calculation any realized gain with respect to (1) the SBIC Acquisition, and (2) the WM Asset Sale.

The Company incurred incentive fee expense of $4,760, $4,409, and $2,962 for the years ended December 31, 2019, 2018 and 2017, respectively. Incentive fees for the years ended December 31, 2019, 2018 and 2017, included Part One incentive fees (based on net investment income) of $4,760, $4,409, which included an irrevocably waiver of receipt of $22 by OFS Advisor, and $2,962 respectively, which included a share issue adjustment of $(593) related to the Company's Offering, and Part Two incentive fees (based upon net realized and unrealized gains and losses, or capital gains) of $0, $0 and $0, respectively.

The Company owed the Advisor incentive fees of $1,138 and $1,368 as of December 31, 2019 and 2018, respectively.

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

Administration Agreement: OFS Services furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to an Administration Agreement. The Administration Agreement was most recently re-approved by the Board on April 4, 2019. Under the Administration Agreement, OFS Services performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records that the Company is required to maintain and preparing reports to its stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, OFS Services also provides managerial assistance on the Company's behalf to those portfolio companies that have accepted the Company's offer to provide such assistance. Payment under the Administration Agreement is equal to an amount based upon the Company's allocable portion of OFS Services's overhead in performing its obligations under the Administration Agreement, including, but not limited to, rent, information technology services and the Company's allocable portion of the cost of its officers, including its chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and their respective staffs. To the extent that OFS Services outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without profit to OFS Services.

Administration fee expense was $1,747, $1,601 and $1,314 for the years ended December 31, 2019, 2018 and 2017, respectively. The Company owed OFS Services administration fees of $759 and $577 as of December 31, 2019 and 2018, respectively.

Note 4. Investments

As of December 31, 2019, the Company had loans to 79 portfolio companies, of which 90% were senior secured loans and 10% 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 six portfolio companies in which it did not hold a debt investment, as well as four investments in Structured Finance Notes. At December 31, 2019, investments consisted of the following:

		Percentage of Total			Percentage of Total	
	Amortized Cost	**Amortized Cost**	**Net Assets**	**Fair Value**	**Fair Value**	**Net Assets**
Senior secured debt investments	$ 421,970	78.3%	253.2%	$ 408,724	79.1%	245.3%
Subordinated debt investments	56,731	10.5	34.0	43,091	8.3	25.9
Preferred equity	21,925	4.1	13.2	17,729	3.4	10.6
Common equity and warrants	14,919	2.8	9.0	25,777	5.0	15.5
Total debt and equity investments	515,545	95.7%	309.4%	495,321	95.8%	297.3%
Structured Finance Notes	23,126	4.3	14.0	21,610	4.2	12.9
Total	$ 538,671	100.0%	323.4%	$ 516,931	100.0%	310.2%

At December 31, 2019, the Company had four loans (Community Intervention Services, Inc., Southern Technical Institute, LLC, Master Cutlery, LLC and Constellis Holdings, LLC) on non-accrual status with respect to all interest and Net Loan Fee amortization, with an aggregate amortized cost and fair value of $22,249 and $662, respectively. The change to non-accrual status for the Company's investment in Constellis Holdings, LLC was effective November 1, 2019.

(Dollar amounts in thousands, except per share data)

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

At December 31, 2019, the Company had international domiciled debt investments, all denominated in US dollars, with an amortized cost and fair value of $10,309 and $10,374, respectively, and debt and equity investments with an amortized cost and fair value of $505,232 and $484,945 domiciled in the United States. The industry compositions of the Company's debt and equity investment portfolio were as follows:

		Percentage of Total			Percentage of Total	
	Amortized Cost	Amortized Cost	Net Assets	Fair Value	Fair Value	Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	$ 8,158	1.6%	4.9%	$ 7,224	1.5%	4.3%
Temporary Help Services	13,866	2.7	8.3	13,742	2.8	8.2
Arts, Entertainment, and Recreation						
Other Amusement and Recreation Industries	18,611	3.6	11.2	18,592	3.8	11.2
Construction						
Electrical Contractors and Other Wiring Installation Contractors	16,520	3.2	9.9	14,639	3.0	8.8
Plumbing, Heating, and Air-Conditioning Contractors	8,422	1.6	5.1	9,583	1.9	5.8
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Professional and Management Development Training	11,574	2.2	6.9	11,575	2.3	6.9
Finance and Insurance						
Direct Health and Medical Insurance Carriers	395	0.1	0.2	405	0.1	0.2
Insurance Agencies and Brokerages	11,487	2.2	6.9	11,386	2.3	6.8
Health Care and Social Assistance						
All Other Outpatient Care Centers	2,001	0.4	1.2	2,015	0.4	1.2
Child Day Care Services	8,126	1.6	4.9	8,266	1.7	5.0
Diagnostic Imaging Centers	14,247	2.8	8.6	14,191	2.9	8.5
Freestanding Ambulatory Surgical and Emergency Centers	2,950	0.6	1.8	2,976	0.6	1.8
General Medical and Surgical Hospitals	2,612	0.5	1.6	2,632	0.5	1.6
Home Health Care Services	16,627	3.2	10.0	16,236	3.3	9.7
Medical Laboratories	91	—	0.1	22	—	—
Offices of Physicians, Mental Health Specialists	20,047	3.9	12.0	19,945	4.0	12.0
Outpatient Mental Health and Substance Abuse Centers	11,609	2.3	7.0	4,000	0.8	2.4
Residential Intellectual and Developmental Disability Facilities	2,991	0.6	1.8	3,006	0.6	1.8
Information						

	Amortized Cost	Percentage of Total		Fair Value	Percentage of Total	
		Amortized Cost	Net Assets		Fair Value	Net Assets
Data Processing, Hosting, and Related Services	11,805	2.3	7.1	11,900	2.4	7.1
Internet Publishing and Broadcasting and Web Search Portals	1,969	0.4	1.2	1,992	0.4	1.2
Software Publishers	41,054	8.0	24.5	38,373	7.7	22.9
Television Broadcasting	1,997	0.4	1.2	1,997	0.4	1.1
Wired Telecommunications Carriers	1,972	0.4	1.2	1,980	0.4	1.2
Manufacturing						
Commercial Printing (except Screen and Books)	4,778	0.9	2.9	4,591	0.9	2.8
Custom Compounding of Purchased Resins	15,405	3.0	9.2	16,408	3.3	9.8
Motor Vehicle Body Manufacturing	1,970	0.4	1.2	1,997	0.4	1.2
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,412	1.0	3.2	4,213	0.9	2.5
Other Commercial and Service Industry Machinery Manufacturing	2,229	0.4	1.3	2,262	0.5	1.4
Pharmaceutical and Medicine Manufacturing	853	0.2	0.5	853	0.2	0.5
Pharmaceutical Preparation Manufacturing	7,931	1.5	4.8	19,694	4.0	11.8
Plastics Plumbing Fixture Manufacturing	1,484	0.3	0.9	1,498	0.3	0.9
Pump and Pumping Equipment Manufacturing	1,501	0.3	0.9	1,607	0.3	1.0
Travel Trailer and Camper Manufacturing	10,520	2.0	6.3	8,717	1.7	5.2
Truck Trailer Manufacturing	6,990	1.4	4.2	6,690	1.4	4.0
Unlaminated Plastics Profile Shape Manufacturing	10,046	1.9	6.0	9,959	2.0	6.0
Other Services (except Public Administration)						
Automotive Oil Change and Lubrication Shops	20,165	3.9	12.1	20,458	4.0	12.3
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,106	3.7	11.5	18,265	3.7	11.0
Communication Equipment Repair and Maintenance	4,493	0.9	2.7	4,512	0.9	2.7
Professional, Scientific, and Technical Services						
Administrative Management and General Management Consulting Services	17,496	3.4	10.5	17,492	3.5	10.5
Advertising Agencies	1,987	0.4	1.2	2,001	0.4	1.2
All Other Professional, Scientific, and Technical Services	1,925	0.4	1.2	1,925	0.4	1.2
Other Accounting Services	1,698	0.3	1.0	2,250	0.5	1.4
Other Computer Related Services	18,242	3.5	10.9	18,353	3.7	11.0
Other Professional, Scientific, and Technical Services	500	0.1	0.3	1,490	0.3	0.9
Testing Laboratories	1,987	0.4	1.2	2,004	0.4	1.2

(Dollar amounts in thousands, except per share data)

		Percentage of Total			Percentage of Total	
	Amortized Cost	Amortized Cost	Net Assets	Fair Value	Fair Value	Net Assets
Public Administration						
Other Justice, Public Order, and Safety Activities	9,846	1.9	5.9	407	0.1	0.2
Public Finance Activities	1,941	0.4	1.2	2,007	0.4	1.2
Real Estate and Rental and Leasing						
Office Machinery and Equipment Rental and Leasing	13,698	2.7	8.2	14,342	2.9	8.6
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	6,419	1.2	3.9	6,363	1.3	3.8
Shoe Store	9,675	1.8	5.8	9,917	2.0	6.0
Sporting Goods Stores	1,921	0.4	1.2	1,983	0.4	1.2
Supermarkets and Other Grocery (except Convenience) Stores	1,081	0.2	0.6	1,094	0.2	0.7
All Other General Merchandise Stores	5,402	1.0	3.2	5,020	1.0	3.0
Transportation and Warehousing			—			
General Warehousing and Storage	13,790	2.7	8.3	14,165	2.9	8.5
Taxi Service	1,990	0.4	1.2	1,990	0.4	1.2
Wholesale Trade						
Business to Business Electronic Markets	3,920	0.8	2.4	3,960	0.8	2.4
Computer and Computer Peripheral Equipment and Software Merchant Wholesalers	3,955	0.8	2.4	3,976	0.8	2.4
Industrial Machinery and Equipment Merchant Wholesalers	9,700	1.9	5.8	9,662	2.0	5.8
Industrial Supplies Merchant Wholesalers	6,883	1.3	4.1	6,584	1.3	4.0
Motor Vehicle Parts (Used) Merchant Wholesalers	13,119	2.5	7.9	13,119	2.6	7.9
Other Grocery and Related Products Merchant Wholesalers	1,995	0.4	1.2	2,003	0.4	1.2
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	1.6	4.9	255	0.1	0.2
Stationery and Office Supplies Merchant Wholesalers	16,113	3.1	9.7	14,559	2.9	8.7
Total debt and equity investments	$ 515,545	100.0%	309.4%	$ 495,321	100.0%	297.3%
Structured Finance Notes	23,126	—	14.0%	21,610	—	12.9%
Total investments	$ 538,671	100.0%	323.4%	$ 516,931	100.0%	310.2%

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

(Dollar amounts in thousands, except per share data)

At December 31, 2018, investments consisted of the following:

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

In June 2018, the Company's investment in Southern Technical Institute, LLC was restructured. The Company converted its subordinated note, SP-1 preferred shares, and warrants for a $1,471 subordinated loan and 1,764,720 shares of Class A-1 common units. The cost and fair value of the securities received were $-0- and $-0- as of December 31, 2018. The Company recognized a realized loss on the restructuring of $5,608 for the year ended December 31, 2018, of which $4,407 was recognized as unrealized losses as of December 31, 2017.

At December 31, 2018, the Company had three loans (Community Intervention Services, Inc., Southern Technical Institute, LLC and Master Cutlery, LLC) on non-accrual status with respect to all interest and Net Loan Fee amortization, with an aggregate amortized cost and fair value of $12,403 and $850, respectively.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date through September 26, 2019, subject to other terms and conditions. The investment continues to accrue interest as the borrower has continued to make interest and amortization payments. On October 9, 2019 the Company sold the investment for proceeds of $3,361.

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

	Amortized Cost	Percentage of Total: Amortized Cost	Percentage of Total: Net Assets	Fair Value	Percentage of Total: Fair Value	Percentage of Total: Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	$ 6,516	1.6%	3.7%	$ 5,901	1.5%	3.4%
Temporary Help Services	14,059	3.4	8.0	13,993	3.5	8.0
Arts, Entertainment, and Recreation						
Other Amusement and Recreation Industries	10,691	2.6	6.1	10,511	2.6	6.0
Construction						
Electrical Contractors and Other Wiring Installation Contractors	17,525	4.2	10.0	17,134	4.3	9.8
Plumbing, Heating, and Air-Conditioning Contractors	9,061	2.2	5.2	8,235	2.1	4.7
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Finance and Insurance						
Direct Health and Medical Insurance Carriers	5,700	1.4	3.3	5,570	1.4	3.2

(Dollar amounts in thousands, except per share data)

Insurance Agencies and Brokerages	9,489	2.3	5.4	9,290	2.3	5.3
Health Care and Social Assistance						
Child Day Care Services	8,126	2.0	4.6	7,759	2.0	4.4
Home Health Care Services	11,203	2.7	6.4	11,176	2.8	6.4
Medical Laboratories	91	—	0.1	45	—	—
Offices of Physicians, Mental Health Specialists	10,185	2.5	5.8	9,771	2.5	5.6
Outpatient Mental Health and Substance Abuse Centers	11,603	2.8	6.6	3,933	1.0	2.2
Information						
Data Processing, Hosting, and Related Services	11,909	2.9	6.8	11,814	3.0	6.7
Software Publishers	32,750	7.9	18.6	29,778	7.5	16.9
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,645	0.9	2.1	3,509	0.9	2.0
Commercial Printing (except Screen and Books)	4,767	1.2	2.7	4,772	1.2	2.7
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,394	1.3	3.1	4,141	1.0	2.4
Pharmaceutical Preparation Manufacturing	4,031	1.0	2.3	12,148	3.1	6.9
Printing Machinery and Equipment Manufacturing	5,000	1.2	2.9	4,841	1.2	2.8
Pump and Pumping Equipment Manufacturing	1,501	0.4	0.9	1,416	0.4	0.8
Travel Trailer and Camper Manufacturing	10,337	2.5	5.9	9,945	2.5	5.7
Truck Trailer Manufacturing	6,977	1.7	4.0	6,808	1.7	3.9
Unlaminated Plastics Profile Shape Manufacturing	6,060	1.5	3.5	5,901	1.5	3.4
Other Services (except Public Administration)						
Automotive Body, Paint, and Interior Repair and Maintenance	3,802	0.9	2.2	3,747	0.9	2.1
Automotive Oil Change and Lubrication Shops	20,694	5.0	11.8	20,839	5.3	11.9
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,028	4.6	10.9	15,745	4.0	9.0
Professional, Scientific, and Technical Services						
Other Accounting Services	1,537	0.4	0.9	2,250	0.6	1.3
Other Computer Related Services	12,877	3.1	7.4	12,904	3.3	7.4
Other Professional, Scientific, and Technical Services	9,302	2.3	5.3	9,736	2.5	5.6
Research and Development in the Social Sciences and Humanities	29,693	7.2	17.0	29,016	7.3	16.5
Public Administration						
Other Justice, Public Order, and Safety Activities	9,832	2.4	5.6	9,437	2.4	5.4

(Dollar amounts in thousands, except per share data)

Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.2	0.5	89	—	0.1
Office Machinery and Equipment Rental and Leasing	13,038	3.2	7.4	16,965	4.3	9.7
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	6,334	1.5	3.6	6,292	1.6	3.6
Shoe Store	9,568	2.2	5.5	9,543	2.4	5.5
Supermarkets and Other Grocery (except Convenience) Stores	1,386	0.3	0.8	1,349	0.3	0.8
All Other General Merchandise Stores	5,930	1.4	3.4	5,354	1.2	3.1
Transportation and Warehousing						
General Warehousing and Storage	20,118	4.9	11.5	20,647	5.2	11.8
Wholesale Trade						
Business to Business Electronic Markets	1,959	0.5	1.1	1,914	0.5	1.1
Industrial Machinery and Equipment Merchant Wholesalers	9,706	2.3	5.5	9,086	2.3	5.2
Industrial Supplies Merchant Wholesalers	6,858	1.7	3.9	6,858	1.7	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	2.0	4.7	850	0.2	0.5
Stationery and Office Supplies Merchant Wholesalers	15,882	3.7	9.1	15,785	4.0	9.0
	$ 413,311	100.0%	236.1%	$ 396,797	100.0%	226.7%

(Dollar amounts in thousands, except per share data)

Unconsolidated Significant Subsidiaries: In accordance with Regulation S-X and GAAP, the Company is not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which the Company has a controlling interest unless the business of the controlled operating company consists of providing services to the Company. In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under the respective rules. MTE Holding Corp. and Subsidiaries were not considered a significant unconsolidated subsidiary under Regulation S-X Rule 4-08(g) as of December 31, 2019 and 2018, respectively.

As of December 31, 2017, MTE Holding Corp. and Subsidiaries was considered a significant unconsolidated subsidiary under Regulation S-X Rule 4-08(g). The Company's voting ownership in MTE Holding Corp. and Subsidiaries is limited to 50% through a substantive participating voting rights agreement with an unaffiliated investor. Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of MTE Holding Corp. and Subsidiaries is presented below:

	December 31	
Balance Sheet:	**2019**	**2018**
Current assets	$ 4,619	$ 5,900
Noncurrent assets	19,802	25,103
Total assets	$ 24,421	$ 31,003
Current liabilities	$ 19,586	$ 979
Noncurrent liabilities	—	19,886
Total liabilities	19,586	20,865
Non-controlling interest	78	4,526
Controlling interest	4,757	5,612
Total equity	$ 4,835	$ 10,138

	Year Ended December 31		
Summary of Operations:	**2019**	**2018**	**2017**
Net Sales	$ 25,268	$ 29,902	$ 31,614
Gross Profit	6,278	3,216	9,857
Net income (loss)	(4,985)	(597)	2,106
Net income (loss) attributable to MTE Holding Corp.	(766)	191	1,594

Note 5. Fair Value of Financial Instruments

Investments

The Company’s investments are valued at fair value as determined by the Company's board of directors. These fair values are determined in accordance with a documented valuation policy and a consistently applied 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 generally categorizes its investment portfolio into Level 2 and Level 3 of the hierarchy.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the measurement date. Senior securities with a fair value of $2,321, $-0- and $-0- were transfered from Level 3 to Level 2 during the years ended December 31, 2019, 2018 and 2017.

Certain of the Company's investments are exchanged in the non-public market among banks, CLOs and other institutional investors for loans to large U.S. corporations. The Company classifies these loan investments as Level 2 when a sufficient number of market quotations or indicative prices from pricing services or broker/dealers (collectively, "Indicative Prices") are available, and the depth of the market is sufficient to transact to those prices in amounts approximating the Company's investment position at the measurement date. Investments for which sufficient Indicative Prices exist are generally valued consistent with such Indicative Prices.

In addition, each quarter, the Company assesses whether an arm's length transaction occurred in the same security, including the Company's new investments during the quarter, the cost of which ("Transaction Prices"), may be considered a reasonable indication of fair value for up to three months after the transaction date. Senior securities with a fair value of $10,266 were valued at their Transaction Price at December 31, 2019. Based on liquidity and other market factors, these securities are designated as Level 2 in the fair value hierarchy.

Investments that are not valued using Indicative Prices or Transaction Prices are typically valued using two different valuation techniques. The Company typically estimates the fair value of debt investments by a discounted cash flows technique in which a current price is imputed for the investment based upon an assessment of the expected market yield (or discount rate) for similarly structured investments with a similar level of risk. The Company considers the current contractual interest rate, the maturity and other terms of the investment relative to risk of the portfolio company and various market indices. A key determinant of portfolio-company risk is the leverage through the investment relative to earnings metrics of the portfolio company. The fair value of Structured Finance Notes in the Company's portfolio are also estimated primarily by discounted cash flow fair value analytics. In valuing such investments, the Company considers CLO performance metrics, including prepayment rates, default rates, loss-on-default and recovery rates, and other metrics, as well as estimated market yields provided by a recognized industry pricing service as a primary source for discounted cash flow fair value estimates, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers in its estimate of the fair value of such investments. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests, concentration limits, defaults, restructuring activity and prepayment rates on the underlying loans, if applicable.

The fair value of Company's equity investments as well as certain of its non-performing debt investments are estimated through analysis of the portfolio companies' enterprise value under a market approach. Enterprise value means the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. The primary method for determining enterprise value under the market approach involves multiple analysis whereby appropriate multiples are applied to an earnings metric of the portfolio company, typically earnings before net interest expense, income tax expense, depreciation and amortization ("EBITDA"). EBITDA multiples are typically determined based upon review of market comparable transactions and publicly traded comparable companies, if any. The Company may also utilize other portfolio-company earnings metrics to determine enterprise value, such as recurring monthly revenue ("RMR") or a delineated measure of portfolio company EBITDA. Application of these valuation methodologies involves a significant degree of judgment by management.

(Dollar amounts in thousands, except per share data)

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

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

Security	Level 1	Level 2	Level 3	Fair Value at December 31, 2019
Debt investments	$ —	$ 74,666	$ 377,149	$ 451,815
Equity investments	—	—	43,506	43,506
Structured Finance Notes	—	—	21,610	21,610
	$ —	$ 74,666	$ 442,265	$ 516,931

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

(Dollar amounts in thousands, except per share data)

The following tables provide quantitative information about the Company’s significant Level 3 fair value inputs to the Company’s fair value measurements as of December 31, 2019 and 2018. In addition to the techniques and inputs noted in the tables below, according to the Company’s valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company’s fair value measurements. The table below provides information on the significant Level 3 inputs as they relate to the Company’s fair value measurements.

	Fair Value at December 31, 2019	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$ 295,835	Discounted cash flow	Discount rates	5.64% - 17.42% (11.17%)
Senior secured	15,031	Market approach	EBITDA multiples	8.09x - 13.22x (13.08x)
Senior secured	23,193	Market approach	Transaction Price	
Subordinated	35,371	Discounted cash flow	Discount rates	6.38% - 18.86% (14.32%)
Subordinated	7,464	Market approach	EBITDA multiples	4.75x - 6.35x (6.35x)
Subordinated	255	Market approach	Revenue multiple	
Structured Finance Notes:				
Subordinated Notes[(2)]	21,610	Discounted cash flow	Discount rates	14.50% - 19.50% (17.16%)
			Constant default rate[(1)]	1.26% - 1.40% (1.33%)
			Recovery rate	69.30% - 70.00% (69.70%)
Equity investments:				
Preferred equity	13,185	Market approach	EBITDA multiples	6.25x - 13.22x (4.96x)
Preferred equity	2,424	Market approach	Revenue multiples	0.23x - 9.58x (9.58x)
Preferred equity	2,120	Market approach	Recurring monthly revenue	40.00x - 40.00x (40.00x)
Common equity and warrants	22,788	Market approach	EBITDA multiples	4.50x - 13.22x (13.03x)
Common equity and warrants	1,489	Market approach	Revenue multiples	0.23x - 7.00x (7.00x)
Common equity and warrants	1,500	Transaction Price		
	$ 442,265			

(1) Constant default rates for the next twelve months.
(2) The cash flows utilized in the discounted cash flow calculations assume liquidation at current market prices and redeployment of proceeds on all assets currently in default and all assets below specified fair value thresholds.

(Dollar amounts in thousands, except per share data)

	Fair Value at December 31, 2018 [1]	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$ 295,087	Discounted cash flow	Discount rates	6.94% - 19.70% (12.49%)
Senior secured	23,930	Market approach	Transaction Price	
Subordinated	36,394	Discounted cash flow	Discount rates	7.16% - 15.40% (7.21%)
Subordinated	8,146	Market approach	EBITDA multiples	3.50x - 7.65x (5.10x)
Equity investments				
Preferred equity	12,039	Market approach	EBITDA multiples	4.50x - 8.50x (7.42x)
Preferred equity	2,574	Market approach	Reoccurring Monthly Revenue	38.0x - 42.0x (40.0x)
Common equity and warrants	18,627	Market approach	EBITDA multiples	3.50x - 11.00x (8.68x)
	$ 396,797			

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

The following tables present changes in investments measured at fair value using Level 3 inputs for the years ended December 31, 2019 and 2018:

	Year Ended December 31, 2019					
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Structured Finance Notes	Total
Level 3 assets, January 1, 2019	$ 319,017	$ 44,540	$ 14,613	$ 18,627	$ —	$ 396,797
Net realized loss on investments	(3,000)	—	(900)	—	—	(3,900)
Net change in unrealized appreciation (depreciation) on investments	(8,405)	(1,968)	811	3,837	(1,516)	(7,242)
Amortization of net loan origination fees	1,278	86	—	—	—	1,364
Accretion of interest income on Structured Finance Notes	—	—	—	—	2,861	2,861
Capitalized PIK interest, dividends, and fees	489	432	896	—	—	1,817
Purchase and origination of portfolio investments	122,184	—	2,309	3,313	23,341	151,147
Proceeds from principal payments on portfolio investments	(57,150)	—	—	—	—	(57,150)
Sale and redemption of portfolio investments	(38,033)	—	—	—	—	(38,033)
Proceeds from distributions received from portfolio investments	—	—	—	—	(3,076)	(3,076)
Transfers out of Level 3	(2,321)	—	—	—	—	(2,321)
Level 3 assets, December 31, 2019	$ 334,059	$ 43,090	$ 17,729	$ 25,777	$ 21,610	$ 442,264

(Dollar amounts in thousands, except per share data)

	Year Ended December 31, 2018				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2018	$ 195,112	$ 51,198	$ 19,200	$ 11,989	$ 277,499
Net realized gain on investments	(3,076)	(3,469)	(1,889)	3,655	(4,779)
Net unrealized appreciation (depreciation) on investments	(5,944)	161	(104)	1,853	(4,034)
Amortization of Net Loan Fees	2,076	212	—	—	2,288
Capitalized PIK interest and dividends	388	668	907	—	1,963
Amendment fees	(159)	(2)	—	—	(161)
Purchase and origination of portfolio investments	245,278	20,930	338	5,609	272,155
Proceeds from principal payments on portfolio investments	(75,541)	(25,158)	—	—	(100,699)
Sale and redemption of portfolio investments	(39,117)	—	(3,339)	(4,979)	(47,435)
Reclassification between preferred equity and common equity and warrants	—	—	(500)	500	—
Level 3 assets, December 31, 2018	$ 319,017	$ 44,540	$ 14,613	$ 18,627	$ 396,797

The net unrealized appreciation (depreciation) reported in the Company's consolidated statements of operations for the years ended December 31, 2019 and 2018, attributable to the Company's Level 3 assets still held at those respective year ends was as follows:

	Year Ended December 31,	
	2019	2018
Senior secured debt investments	$ (7,793)	$ (6,738)
Subordinated debt investments	(1,968)	138
Preferred equity	—	(2,172)
Common equity and warrants	3,837	2,573
Structured Finance Notes	(1,516)	—
Net unrealized depreciation on investments held	$ (7,440)	$ (6,199)

Other Financial Assets and Liabilities

GAAP requires disclosure of the fair value of financial instruments not reported at fair value on a recurring basis for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. The PWB Credit Facility and BNP Facility are variable rate instruments and fair value is approximately book value.

(Dollar amounts in thousands, except per share data)

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

	December 31, 2019			
Description	**Level 1**	**Level 2**	**Level 3 (1)**	**Total**
PWB Credit Facility	$ —	$ —	$ —	$ —
BNP Facility	—	—	56,450	56,450
OFS Capital Corporation 6.375% Notes due 2025	50,600	—	—	50,600
OFS Capital Corporation 6.5% Notes due 2025	49,282	—	—	49,282
OFS Capital Corporation 5.95% Notes due 2026	54,282	—	—	54,282
SBA-guaranteed debentures	—	—	155,562	155,562
Total debt, at fair value	$ 154,164	$ —	$ 212,012	$ 366,176

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

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

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

	As of December 31, 2019		As of December 31, 2018	
Description	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
PWB Credit Facility	$ —	$ —	$ 12,000	$ 12,000
BNP Facility	56,450	56,450	—	—
OFS Capital Corporation 6.375% Notes due 2025	48,634	50,600	48,377	48,500
OFS Capital Corporation 6.5% Notes due 2025	47,093	49,282	46,849	46,603
OFS Capital Corporation 5.95% Notes due 2026	52,325	54,282	—	—
SBA-guaranteed debentures	147,976	155,562	147,600	147,956
Total debt, at fair value	$ 352,478	$ 366,176	$ 254,826	$ 255,059

Note 6. Commitments and Contingencies

The Company has the following unfunded commitments to portfolio companies as of December 31, 2019:

Name of Portfolio Company	**Investment Type**	**Amount**
Carolina Lubes, Inc.	Senior Secured Loan (Revolver)	$ 2,920
Inergex Holdings	Senior Secured Loan (Revolver)	937
SSJA Bariactric Management LLC	Senior Secured Loan (Revolver)	667
TalentSmart Holdings, LLC	Senior Secured Loan (Revolver)	250
		$ 4,774

(Dollar amounts in thousands, except per share data)

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, 2019.

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

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

Note 7. Borrowings

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

Under present regulations of the SBIC Act, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is $150,000 (or $175,000 with SBA approval). An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. In connection with the SBIC Acquisition, the Company increased its total commitments to SBIC I LP to $75,000, which became a drop down SBIC fund of the Company on December 4, 2013. During 2014, the Company fully funded its $75,000 commitment to SBIC I LP. As of December 31, 2019 and 2018, SBIC I LP had fully drawn the $149,880 of leverage commitments from the SBA.

On a stand-alone basis, SBIC I LP held $249,576 and $251,060 in assets at December 31, 2019 and 2018, respectively, which accounted for approximately 46% and 57% of the Company's total consolidated assets, respectively. These assets can not be pledged under any debt obligation of the Company.

The following table shows the Company's outstanding SBA debentures payable as of December 31, 2019 and 2018:

			SBA debentures outstanding	
Pooling Date	**Maturity Date**	**Fixed Interest Rate**	**December 31, 2019**	**December 31, 2018**
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			(1,904)	(2,280)
SBA debentures outstanding, net of unamortized debt issuance costs			$ 147,976	$ 147,600

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

The effective interest rate on the SBA debentures, which includes amortization of deferred debt issuance costs, was 3.43% as of December 31, 2019 and 2018. Interest expense on the SBA debentures was $5,137, $5,137, and $5,141 for the years ended December 31, 2019, 2018 and 2017, respectively, which includes $377, $377, and $380 of debt issuance costs amortization, respectively.

(Dollar amounts in thousands, except per share data)

The weighted-average fixed cash interest rate on the SBA debentures as of December 31, 2019 and 2018, was 3.18%.

Unsecured Notes: In April 2018, the Company publicly offered the Unsecured Notes Due April 2025 with an aggregate principal of $50,000. The total net proceeds to the Company from the Unsecured Notes Due April 2025, after deducting underwriting discounts and offering costs of $1,804 were $48,196. In October and November 2018, the Company publicly offered the Unsecured Notes Due October 2025 with an aggregate principal of $48,525, which included a partial exercise of the underwriters overallotment option. The total net proceeds to the Company from the Unsecured Notes Due October 2025, after deducting underwriting discounts and offering expenses of $1,724, were $46,801. In October and November 2019, the Company publicly offered the Unsecured Notes Due October 2026 with an aggregate principal of $54,325, which included a partial exercise of the underwriters overallotment option. The total net proceeds to the Company from the Unsecured Notes Due October 2026, after deducting underwriting discounts and offering costs of $2,054 were $52,270. The Unsecured Notes Due April 2025, the Unsecured Notes Due October 2025 and the Unsecured Notes Due October 2026, combined (the “Unsecured Notes”), totaled $152,850 in aggregate principal debt, with net proceeds of $147,267 to the Company.

The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all current and future unsecured indebtedness of the Company. Because the Unsecured Notes are not secured by any of the Company's assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which the Company subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the senior secured revolving credit facility between the Company and Pacific Western Bank ("PWB Credit Facility") and borrowings under the revolving credit and security agreement by and among OFSCC-FS, the lenders from time to time parties thereto, BNP Paribas, as administrative agent, OFSCC-FS Holdings, LLC, a wholly owned subsidiary of the Company, as equityholder, the Company, as servicer, Citibank, N.A., as collateral agent and Virtus Group, LP, as collateral administrator("BNP Facility").

The indenture governing the Unsecured Notes contains certain covenants (i) prohibiting additional borrowings, including through the issuance of additional debt securities, unless the Company's asset coverage, as defined in the 1940 Act, after giving effect to any exemptive relief granted to the Company by the SEC, equals at least 200% (or 150% on and after May 3, 2019) after such borrowings; and (ii) prohibiting (a) the declaration of any cash dividend or distribution upon any class of the Company’s capital stock (except to the extent necessary for the Company to maintain its treatment as a RIC under Subchapter M of the Code), or (b) the purchase of any capital stock if the Company’s asset coverage, as defined in the 1940 Act, were below 200% (or 150% on and after May 3, 2019) at the time of such capital transaction and after deducting the amount of such transaction.

As of December 31, 2019, the Unsecured Notes had the following terms and balances:

Unsecured Notes	Principal	Unamortized Discount and Issuance Costs	Stated Interest Rate (1)	Effective Interest Rate (2)	Maturity (3)	2019 Interest Expense (4)
Unsecured Notes Due April 2025	$ 50,000	$ 1,366	6.375%	6.88%	4/30/2025	$ 3,444
Unsecured Notes Due October 2025	48,525	1,432	6.50%	7.01%	10/31/2025	3,483
Unsecured Notes Due October 2026	54,325	2,000	5.95%	6.49%	10/31/2026	723
Total	$ 152,850	$ 4,798				$ 7,650

(1) The weighted-average fixed cash interest rate on the Unsecured Notes as of December 31, 2019, was 6.26%.
(2) The effective interest rate on the Unsecured Notes includes deferred debt issuance cost amortization.
(3) The Unsecured Notes Due April 2025, the Unsecured Notes Due October 2025, and the Unsecured Notes Due 2026 may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after April 30, 2020, October 31, 2020, and October 31, 2021, respectively.
(4) Interest expense includes debt issuance costs amortization of $584 for the year ended December 31, 2019.

PWB Credit Facility: The Company is party to a business loan agreement ("BLA") with Pacific Western Bank, as lender, to provide the Company with a $100,000 senior secured revolving credit facility. The PWB Credit Facility is available for general corporate purposes including investment funding and is scheduled to mature on February 28, 2021. The maximum availability of the PWB Credit Facility is equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base, which excludes subordinated loan investments and as otherwise specified in the BLA. The PWB Credit

(Dollar amounts in thousands, except per share data)

Facility is guaranteed by OFSCC-MB and secured by all of our current and future assets excluding assets held by SBIC I LP, OFSCC-FS, and the Company's partnership interests in SBIC I LP and SBIC I GP. The PWB Credit Facility bears interest at a variable rate of the Prime Rate plus a 0.25% margin, with a 5.25% floor, and includes an unused commitment fee, payable monthly in arrears, equal to 0.50% per annum on any unused portion. As of December 31, 2019, the stated interest rate of the PWB Credit Facility was 5.25%.

The average dollar amount of borrowings outstanding during the year ended December 31, 2019, was $28,061. The effective interest rate, which includes amortization of deferred debt issuance costs as of December 31, 2019, was 6.03% based on the maximum amount available under the PWB Credit Facility. Interest expense on the PWB Credit Facility was $2,136, $959 and $672 for the years ended December 31, 2019, 2018, and 2017, respectively, which includes $283, $180 and $172 of deferred financing amortization, respectively Unamortized debt issuance costs included in prepaid expenses and other assets on the consolidated statements of assets and liabilities as of December 31, 2019 and 2018 were $399 and $180, respectively.

Availability under the PWB Credit Facility was $69,005 based on the stated advance rate of 50% under the borrowing base, and the $-0- outstanding as of December 31, 2019.

The BLA contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The BLA also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition. As of December 31, 2019, the Company was in compliance with the applicable covenants.

BNP Facility: On June 20, 2019, OFSCC-FS entered into the BNP Facility, which provides for borrowings in an aggregate principal amount up to $150,000, of which $56,450 was drawn as of December 31, 2019. Borrowings under the BNP Facility bear interest of LIBOR plus an applicable spread, which is determined on the basis of industry-recognized portfolio company metrics at the time of funding. The effective interest rate on the BNP Facility was 4.72% at December 31, 2019. The BNP Facility will mature on the earlier of June 20, 2024 or upon certain other events defined in the credit agreement which result in accelerated maturity. The BNP Facility also contains customary events of default, including, without limitation, nonpayment, failure to maintain valid ownership interest in all of the collateral and bankruptcy. Borrowings under the BNP Facility are secured by substantially all of the assets held by OFSCC-FS, which were $92,513 and $-0-, or 17% and 0.0% of the Company's total consolidated assets at December 31, 2019 and 2018, respectively. OFSCC-FS incurred fees to the lenders as well as legal costs of approximately $1,346 to establish the BNP Facility, which are amortized over the life of the facility. Unamortized debt issuance costs included in prepaid expenses and other assets on the consolidated statements of assets and liabilities as of December 31, 2019 and 2018 were $1,229 and $-0-, respectively. The unused commitment under the BNP Facility was $93,550 as of December 31, 2019.

The average dollar amount of borrowings outstanding during the year ended December 31, 2019, was $20,000. Interest expense on the BNP Facility was $905, which included $118 of deferred financing amortization, for the year ended December 31, 2019.

The average dollar borrowings and average interest rate for all Company debt during the years ended December 31, 2019, 2018 and 2017, were as follows:

Year ended	Average Dollar Borrowings	Weighted Average Interest Rate
December 31, 2019	$ 307,826	4.99%
December 31, 2018	206,936	4.37
December 31, 2017	158,368	3.55

(Dollar amounts in thousands, except per share data)

As of December 31, 2019, the Company's debt liabilities are scheduled to mature as follows:

	Principal Due by Year						
Debt liabilities[(1)]	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
PWB Credit Facility	$ —	$ —	$ —	$ —	$ —	$ —	$ —
BNP Facility	56,450	—	—	—	—	56,450	—
SBA Debentures[(2)]	149,880	—	—	14,000	7,000	40,375	88,505
Unsecured Notes	152,850	—	—	—	—	—	152,850
Total	$ 359,180	$ —	$ —	$ 14,000	$ 7,000	$ 96,825	$ 241,355

(1) The PWB Credit Facility is scheduled to mature on February 28, 2021. The BNP Facility is scheduled to mature on June 20, 2024. The SBA debentures are scheduled to mature between September 2022 and 2025. The Unsecured Notes are scheduled to mature between April 2025 and October 2026.

(2) SBIC I LP intends, over time, to repay outstanding SBA debentures prior to the scheduled maturity date of its debentures. See footnote 13 for additional information.

Note 8. Federal Income Tax

Filing status: The Company has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC, the Company is required to distribute annually to its stockholders at least 90% of its ICTI, as defined by the Code. Additionally, to avoid a 4% U.S. federal excise tax on undistributed earnings the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the one-year period ending October 31 of that calendar year, and (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no U.S. federal income tax. Maintenance of the Company's RIC status also requires adherence to certain source of income and asset diversification requirements.

Taxable income and distributions: The Company has met the required distribution, source of income and asset diversification requirements as of December 31, 2019, and intends to continue meeting these requirements. Accordingly, there is no liability for federal income taxes at the Company level. The Company’s ICTI differs from the net increase in net assets resulting from operations primarily due to differences in income recognition on the unrealized appreciation/depreciation of investments, income from Company’s equity investments in pass-through entities, PIK dividends that have not yet been declared and paid by underlying portfolio companies, capital gains and losses and the net creation or utilization of capital loss carryforwards. The Company recognized approximately $18,355 of ordinary taxable income during the year ended December 31, 2019.

The distributions paid to stockholders are reported as ordinary income, long-term capital gains, and returns of capital. The tax character of distributions paid were as follows:

	Years Ended December 31,		
	2019	**2018**	**2017**
Ordinary taxable income	$ 18,176	$ 18,053	$ 14,158
Long-term capital gain	—	5,036	2,738
Total distributions to stockholders	$ 18,176	$ 23,089	$ 16,896

Tax-basis components of distributable earnings (accumulated losses) as of December 31, 2019 and 2018, were as follows:

	December 31,	
	2019	**2018**
Ordinary income	$ 2,578	$ 3,712
Net long-term capital loss carryforward – non-expiring	(8,578)	(5,176)

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. The Company recorded reclassifications to increase (decrease) additional paid-in capital against total distributable earnings (accumulated loss) of $(462), $(62) and $(409) for the years ended December 31, 2019, 2018 and 2017, respectively.

(Dollar amounts in thousands, except per share data)

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, 2019 and 2018, were as follows:

	December 31,	
	2019	2018
Tax-basis amortized cost of investments	$ 531,781	$ 408,715
Tax-basis gross unrealized appreciation on investments	24,326	18,426
Tax-basis gross unrealized depreciation on investments	(39,176)	(30,344)
Tax-basis net unrealized depreciation on investments	(14,850)	(11,918)
Fair value of investments	$ 516,931	$ 396,797

Deferred taxes: The Company recognizes deferred taxes on the unrealized appreciation or depreciation of securities held through Taxable Blockers. Deferred tax assets and liabilities are measured using enacted corporate federal tax rates expected to apply to taxable income in the years in which those unrealized gains and losses are realized. The recoverability of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized on the basis of the projected taxable income or other taxable events in the Taxable Blocker. Deferred tax assets and liabilities, and related valuation allowance, as of December 31, 2019 and 2018, were as follows:

	December 31,	
	2019	2018
Total deferred tax assets	$ 442	$ 310
Total deferred tax liabilities	(838)	(225)
Valuation allowance on net deferred tax assets	—	(85)

Net unrealized appreciation (depreciation) on investments reported in the consolidated statements of operations includes $(416), $(4) and $4 of net deferred tax (benefit) expense for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 9. Financial Highlights

The following is a schedule of financial highlights for the years ended December 31, 2019, 2018, 2017, 2016 and 2015:

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Per share operating performance:					
Net asset value per share at beginning of year	$ 13.10	$ 14.12	$ 14.82	$ 14.76	$ 14.24
Net investment income(10)	1.43	1.38	1.28	1.46	1.39
Net realized gain (loss) on non-control/non-affiliate investments(10)	(0.29)	(0.37)	(0.26)	0.25	(0.31)
Net realized gain on affiliate investments(10)	—	0.01	0.81	—	0.14
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments(10)	(0.72)	(0.19)	(0.78)	(0.69)	0.53
Net unrealized appreciation (depreciation) on affiliate investments(10)	0.40	(0.06)	(0.41)	0.33	0.13
Net unrealized appreciation (depreciation) on control investment(10)	(0.10)	(0.06)	—	0.07	—
Total from investment operations	0.72	0.71	0.64	1.42	1.88
Distributions	(1.36)	(1.73)	(1.36)	(1.36)	(1.36)
Issuance of common stock (5)	—	—	(0.03)	—	—
Other (6)	—	—	0.05	—	—
Net asset value per share at end of year	$ 12.46	$ 13.10	$ 14.12	$ 14.82	$ 14.76
Per share market value, end of period	$ 11.17	$ 10.60	$ 11.90	$ 13.76	$ 11.48
Total return based on market value (1)	18.3%	3.5%	(4.7)%	32.3%	9.0%
Total return based on net asset value (2)	6.7%	7.8%	5.0 %	10.9%	16.0%
Shares outstanding at end of period	13,376,836	13,357,337	13,340,217	9,700,297	9,691,170
Weighted average shares outstanding	13,364,244	13,348,203	12,403,706	9,693,801	9,670,153
Ratio/Supplemental Data (in thousands except ratios)					
Average net asset value (3)	$ 171,889	$ 182,468	$ 171,631	$ 142,818	$ 140,002
Net asset value at end of year	$ 166,627	$ 175,023	$ 188,336	$ 143,778	$ 143,012
Net investment income	$ 19,098	$ 18,385	$ 15,877	$ 14,145	$ 13,411
Ratio of total expenses, net to average net assets (8)	19.4%	13.4%	10.2 %	11.9%	13.5%
Ratio of net investment income to average net assets (9)	11.1%	10.5%	8.4 %	9.8%	9.6%
Portfolio turnover (7)	21.2%	41.9%	50.4 %	18.1%	44.6%

(1) Calculated as ending market value less beginning market value, adjusted for distributions reinvested at prices based on the Company's dividend reinvestment plan for the respective distributions.
(2) Calculated as ending net asset value less beginning net asset value, adjusting for distributions reinvested at the Company's dividend reinvestment plan for the respective distributions.
(3) Based on the average of the net asset value at the beginning of the indicated period and the end of each calendar quarter within the period indicated.
(4) Reserved.
(5) The issuance of common stock on a per share basis reflects the incremental net asset value change as a result of the Offering.
(6) Represents the impact of different share amounts used in calculating per share data as a result of calculating certain per share data based on a weighted average shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.
(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 at the beginning of the indicated period and the end of each calendar quarter within the period indicated.
(8) Ratio of total expenses before incentive fee waiver to average net assets was 13.4% for the year ended December 31, 2018.
(9) Ratio of net investment income before incentive fee waiver to average net assets was 10.5% for the year ended December 31, 2018.
(10) Calculated on the average share method.

(Dollar amounts in thousands, except per share data)

Note 10. Capital Transactions

Distributions: The Company intends to make distributions to stockholders 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. The Company may in the future decide to retain such net investment income and capital gains for investment or corporate purposes.

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 restrictions imposed by the SBA regulations on the Company's wholly owned SBIC subsidiary. In addition, distributions from OFSCC-FS to the Company are restricted by the terms and conditions of the BNP Facility. At December 31, 2019 and December 31, 2018, net assets of SBIC I LP were $99,848 and $101,727, respectively, which included cash of $1,851 and $36,031, of which $1,851 and $9,677 were available for distribution at December 31, 2019 and 2018, respectively. At December 31, 2019 and December 31, 2018, net assets of OFSCC-FS were $25,578 and $-0-, respectively, which included cash of $2,172 and $-0-, of which $-0- and $-0- were available for distribution to the Company at December 31, 2019 and 2018, respectively.

The following table summarizes distributions declared and paid for the years ended December 31, 2019, 2018 and 2017:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Year ended December 31, 2017						
March 9, 2017	March 17, 2017	March 31, 2017	$ 0.34	$ 3,257	2,919	$ 41
May 2, 2017	June 16, 2017	June 30, 2017	0.34	4,483	3,439	49
August 1, 2017	September 15, 2017	September 29, 2017	0.34	4,491	3,196	42
October 31, 2017	December 15, 2017	December 29, 2917	0.34	4,469	5,366	64
			$ 1.36	$ 16,700	14,920	$ 196
Year ended December 31, 2018						
February 12, 2018 (1)	March 22, 2018	March 29, 2018	$ 0.37	$ 4,886	4,459	$ 50
February 27, 2018	March 22, 2018	March 29, 2018	0.34	4,490	4,098	46
May 1, 2018	June 22, 2018	June 29, 2018	0.34	4,518	1,684	20
August 3, 2018	September 14, 2018	September 28, 2018	0.34	4,511	2,366	28
October 30, 2018	December 17, 2018	December 31, 2018	0.34	4,489	4,813	51
			$ 1.73	$ 22,894	17,420	$ 195
Year ended December 31, 2019						
March 5, 2019	March 22, 2019	March 29, 2019	$ 0.34	$ 4,497	3,797	$ 45
April 30, 2019	June 21, 2019	June 28, 2019	0.34	4,479	5,327	64
July 30, 2019	September 23, 2019	September 30, 2019	0.34	4,487	4,990	58
November 6, 2019	December 24, 2019	December 31, 2019	0.34	4,486	5,385	60
			$ 1.36	$ 17,949	19,499	$ 227

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

The following table represents DRIP participation for the years ended December 31, 2019, 2018 and 2017, respectively:

For the Year Ended	DRIP Shares Value	Total Distribution Declared	DRIP Shares Issued	Average Value Per Share
December 31, 2019	227	$ 18,176	19,500	$ 11.62
December 31, 2018	195	23,089	17,420	11.16
December 31, 2017	196	16,896	14,920	13.18

Since the Company’s IPO, distributions to stockholders total $109,040, or $9.72 per share on a cumulative basis.

Distributions in excess of the Company’s current and accumulated ICTI would be treated first as a return of capital to the extent of the stockholder’s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company’s distributions is made annually as of the end of its fiscal year based upon its ICTI for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company's stockholders. For the year ended December 31, 2019, approximately $1.36 per share, $0.00 per share, and $0.00 per share of the Company's distributions represented ordinary income, long-term capital gain, and a return of capital to its stockholders, respectively.

Stock repurchase program: On May 22, 2018, the Board authorized the Company to initiate the Stock Repurchase Program under which the Company may acquire up to $10,000 of its outstanding common stock. Under the Stock Repurchase Program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The Stock Repurchase Program may be extended, modified or discontinued at any time for any reason. The Company expects the Stock Repurchase Program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

The following table summarizes the shares of common stock the Company repurchased under the Stock Repurchase Program during the years ended December 31, 2019 and 2018 (amount in thousands except shares):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs
May 22, 2018 through December 31, 2018	300	$ 10.29	300	$ 9,997
January 1, 2019 through December 31, 2019	—	—	—	—
Total	300	10.29	300	9,997

Note 11. Selected Quarterly Financial Data (Unaudited)

	Three Months Ended			
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Total investment income	$ 13,418	$ 13,858	$ 12,900	$ 12,345
Net investment income	4,557	4,853	4,860	4,828
Net loss on investments	(3,851)	(3,091)	(1,507)	(1,096)
Net increase in net assets resulting from operations	706	1,762	3,353	3,732
Net investment income per share – basic and diluted (1)	$ 0.34	$ 0.36	$ 0.36	$ 0.36
Net increase in net assets resulting from operations per share – basic and diluted (1)	$ 0.05	$ 0.13	$ 0.25	$ 0.28
Net asset value per share (2)	$ 12.46	$ 12.74	$ 12.95	$ 13.04

	Three Months Ended			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Total investment income	$ 12,571	$ 10,982	$ 10,278	$ 9,003
Net investment income	5,321	4,690	4,558	3,816
Net gain (loss) on investments	(9,416)	489	437	(323)
Net increase (decrease) in net assets resulting from operations	(4,095)	5,179	4,995	3,493
Net investment income per share – basic and diluted (1)	$ 0.40	$ 0.35	$ 0.34	$ 0.29
Net increase (decrease) in net assets resulting from operations per share – basic and diluted (1)	$ (0.30)	$ 0.39	$ 0.37	$ 0.26
Net asset value per share (2)	$ 13.10	$ 13.75	$ 13.70	$ 13.67

(1) Based on weighted average shares outstanding for the respective period.

(2) Based on shares outstanding at the end of the respective period.

(Dollar amounts in thousands, except per share data)

Note 12. Consolidated Schedule of Investments In and Advances To Affiliates

		Year Ended December 31, 2019									
Name of Portfolio Company	**Investment Type [(1)]**	**Net Realized Gain (Loss)**	**Net change in unrealized appreciation/ (depreciation)**	**Interest & PIK Interest**	**Dividends**	**Fees**	**Total Income [(2)]**	**December 31, 2018, Fair Value**	**Gross Additions [(3)]**	**Gross Reductions [(4)]**	**December 31, 2019, Fair Value [(5)]**
Control Investment											
MTE Holding Corp.	Subordinated Loan	$ —	$ (15)	$1,172	$ —	$ 42	$1,214	$ 7,296	$ 183	$ (15)	$ 7,464
	Common Equity	—	(1,396)	—	89	—	89	2,649	—	(1,396)	1,253
		—	(1,411)	1,172	89	42	1,303	9,945	183	(1,411)	8,717
Total Control Investment		—	(1,411)	1,172	89	42	1,303	9,945	183	(1,411)	8,717
Affiliate Investments											
3rd Rock Gaming Holdings, LLC	Senior Secured Loan	—	253	2,360	—	—	2,360	20,023	451	(375)	20,099
	Common Equity[(6)]	—	(29)	—	—	—	—	1,073	—	(29)	1,044
		—	224	2,360	—	—	2,360	21,096	451	(404)	21,143
Chemical Resources Holdings, Inc.	Senior Secured Loan	—	154	1,395	—	204	1,599	—	13,932	(186)	13,746
	Common Equity[(6)]	—	849	—	—	—	—	—	2,662	—	2,662
		—	1,003	1,395	—	204	1,599	—	16,594	(186)	16,408
Contract Datascan Holdings, Inc.	Subordinated Loan	—	(5)	931	—	—	931	8,000	5	(5)	8,000
	Preferred Equity[(7)]	—	(1,636)	656	—	—	656	6,652	656	(1,637)	5,671
	Common Equity[(6)]	—	(1,642)	—	—	—	—	2,313	—	(1,642)	671
		—	(3,283)	1,587	—	—	1,587	16,965	661	(3,284)	14,342

(Dollar amounts in thousands, except per share data)

Name of Portfolio Company	Investment Type (1)	Net Realized Gain (Loss)	Net change in unrealized appreciation/ (depreciation)	Interest & PIK Interest	Dividends	Fees	Total Income (2)	December 31, 2018, Fair Value	Gross Additions (3)	Gross Reductions (4)	December 31, 2019, Fair Value (5)
		Year Ended December 31, 2019									
DRS Imaging Services, LLC	Senior Secured Loan	$ —	$ 56	$ 1,317	$ —	$ —	$ 1,317	$ 10,617	$ 75	$ (123)	$ 10,569
	Common Equity(6)	—	134	—	—	—	—	1,197	134	—	1,331
		—	190	1,317	—	—	1,317	11,814	209	(123)	11,900
Master Cutlery, LLC	Subordinated Loan (6)	—	(595)	—	—	—	—	850	718	(1,313)	255
	Preferred Equity(6)	—	—	—	—	—	—	—	—	—	—
	Common Equity(6)	—	—	—	—	—	—	—	—	—	—
		—	(595)	—	—	—	—	850	718	(1,313)	255
NeoSystems Corp.	Preferred Stock(7)	—	(161)	162	—	—	162	2,250	162	(162)	2,250
Pfanstiehl Holdings, Inc.	Subordinated Loan	—	7	390	—	—	390	3,788	8	(8)	3,788
	Common Equity	—	3,619	—	413	—	413	8,360	3,619	—	11,979
		—	3,626	390	413	—	803	12,148	3,627	(8)	15,767
Professional Pipe Holdings, LLC	Senior Secured Loan	—	343	999	—	—	999	7,466	470	(766)	7,170
	Common Equity(6)	—	1,644	—	—	—	—	769	1,644	—	2,413
		—	1,987	999	—	—	999	8,235	2,114	(766)	9,583

(Dollar amounts in thousands, except per share data)

		Year Ended December 31, 2019									
Name of Portfolio Company	**Investment Type (1)**	**Net Realized Gain (Loss)**	**Net change in unrealized appreciation/ (depreciation)**	**Interest & PIK Interest**	**Dividends**	**Fees**	**Total Income (2)**	**December 31, 2018, Fair Value**	**Gross Additions (3)**	**Gross Reductions (4)**	**December 31, 2019, Fair Value (5)**
TalentSmart Holdings, LLC	Senior Secured Loan	$ —	$ —	$ 203	$ —	$ —	$ 203	$ —	$ 10,008	$ (175)	$ 9,833
	Senior Secured Loan (Revolver)	—	—	4	—	—	4	—	251	(9)	242
	Common Equity(6)	—	—	—	—	—	—	—	1,500	—	1,500
		—	—	207	—	—	207	—	11,759	(184)	11,575
TRS Services, Inc.	Senior Secured Loan	—	179	1,842	—	6	1,848	14,446	14,995	(14,818)	14,623
	Preferred Equity (Class AA units)(7)	—	(6)	80	—	—	80	473	80	(6)	547
	Preferred Equity (Class A units)(6)	—	2,269	—	—	—	—	826	2,269	—	3,095
	Common Equity(6)	—	—	—	—	—	—	—	—	—	—
		—	2,442	1,922	—	6	1,928	15,745	17,344	(14,824)	18,265
TTG Healthcare, LLC	Senior Secured Loan	—	(171)	1,282	—	11	1,293	—	14,951	(3,184)	11,767
	Preferred Equity(6)	—	115				—	—	2,424	—	2,424
		—	(56)	1,282	—	11	1,293	—	17,375	(3,184)	14,191
Total Affiliate Investments		—	5,376	11,621	413	221	12,255	89,103	71,014	(24,438)	135,679
Total Control and Affiliate Investments		—	$ 3,965	$12,793	$ 502	$ 263	$13,558	$ 99,048	$ 71,197	$ (25,850)	$ 144,396

(1) Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated schedule of investments. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.

(2) Represents the total amount of interest, fees or dividends included in 2019 income for the portion of the year ended December 31, 2019, that an investment was included in Control or Affiliate Investment categories, respectively.

(Dollar amounts in thousands, except per share data)

(3) Gross additions include increases in cost basis resulting from a new portfolio investment, PIK interest, fees and dividends, accretion of OID, and net increases in unrealized net appreciation or decreases in net unrealized depreciation.
(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any, and net decreases in net unrealized appreciation or net increases in net unrealized depreciation.
(5) Fair value was determined using significant unobservable inputs. See Note 5 for further details.
(6) Non-income producing.
(7) Dividends credited to income include dividends contractually earned but not declared.

		Year ended December 31, 2018									
Name of Portfolio Company	**Investment Type** [1]	**Net Realized Gain (Loss)**	**Net change in unrealized appreciation/ (depreciation)**	**Interest & PIK Interest**	**Dividends**	**Fees**	**Total Income** [2]	**December 31, 2017, Fair Value**	**Gross Additions** [3]	**Gross Reductions** [4]	**December 31, 2018, Fair Value** [5]
Control Investment											
MTE Holding Corp.	Subordinated Secured Loan	$ —	$ 54	$ 1,115	$ —	$ 66	$ 1,181	$ 7,118	$ 177	$ —	$ 7,296
	Common Equity	—	(801)	—	185	—	185	3,450	—	(801)	2,649
		—	(747)	1,115	185	66	1,366	10,568	177	(801)	9,945
Total Control Investment			(747)	1,115	185	66	1,366	10,568	177	(801)	9,945
Affiliate Investments											
3rd Rock Gaming Holdings, LLC	Senior Secured Loan	—	(1,330)	1,777	—	—	1,777	—	21,750	(1,727)	20,023
	Common Equity [6]	—	(1,474)	—	—	—	—	—	2,560	(1,487)	1,073
		—	(2,804)	1,777	—	—	1,777	—	24,310	(3,214)	21,096
All Metals Holding, LLC	Senior Secured Loan	—	(471)	2,748	—	588	3,336	12,759	7,230	(19,989)	—
	Common Equity [6]	4,118	(1,220)	—	—	—	—	1,785	258	(2,043)	—
		4,118	(1,691)	2,748	—	588	3,336	14,544	7,488	(22,032)	—

(Dollar amounts in thousands, except per share data)

		Year ended December 31, 2018									
Name of Portfolio Company	**Investment Type (1)**	**Net Realized Gain (Loss)**	**Net change in unrealized appreciation/ (depreciation)**	**Interest & PIK Interest**	**Dividends**	**Fees**	**Total Income (2)**	**December 31, 2017, Fair Value**	**Gross Additions (3)**	**Gross Reductions (4)**	**December 31, 2018, Fair Value (5)**
Contract Datascan Holdings, Inc.	Subordinated Loan	—	(5)	950	—	—	950	8,000	6	(6)	8,000
	Preferred Equity A (7)	—	91	597	—	—	597	5,964	688	—	6,652
	Common Equity (6)	—	2,053	—	—	—	—	260	2,053	—	2,313
		—	2,139	1,547	—	—	1,547	14,224	2,747	(6)	16,965
DRS Imaging Services, LLC	Senior Secured Loan	—	(157)	659	—	163	822	—	10,802	(185)	10,617
	Common Equity (6)	—	62	—	—	—	—	—	1,197	—	1,197
		—	(95)	659	—	163	822	—	11,999	(185)	11,814
Jobson Healthcare Information (8)	Senior Secured Loan	(3,477)	2,331	905	—	—	905	12,910	2,751	(15,661)	—
	Common Equity (6)	—	—	—	—	—	—	—	—	—	—
	Warrants (6)	(454)	454	—	—	—	—	—	454	(454)	—
		(3,931)	2,785	905	—	—	905	12,910	3,205	(16,115)	—
Master Cutlery, LLC	Subordinated Loan	—	(2,095)	156	—	—	156	2,873	117	(2,140)	850
	Preferred Equity (6)	—	—	—	—	—	—	—	—	—	—
	Common Equity (6)	—	—	—	—	—	—	—	—	—	—
		—	(2,095)	156	—	—	156	2,873	117	(2,140)	850
NeoSystems Corp.	Subordinated Loan	—	(7)	283	—	—	283	2,143	47	(2,190)	—
	Preferred Stock (7)	—	(145)	146	—	—	146	2,248	147	(145)	2,250
		—	(152)	429	—	—	429	4,391	194	(2,335)	2,250

(Dollar amounts in thousands, except per share data)

		Year ended December 31, 2018									
Name of Portfolio Company	**Investment Type (1)**	**Net Realized Gain (Loss)**	**Net change in unrealized appreciation/ (depreciation)**	**Interest & PIK Interest**	**Dividends**	**Fees**	**Total Income (2)**	**December 31, 2017, Fair Value**	**Gross Additions (3)**	**Gross Reductions (4)**	**December 31, 2018, Fair Value (5)**
Pfanstiehl Holdings, Inc.	Subordinated Loan	—	42	392	—	—	392	3,755	42	(9)	3,788
	Common Equity	—	3,605	—	130	—	130	4,755	3,605	—	8,360
		—	3,647	392	130	—	522	8,510	3,647	(9)	12,148
Professional Pipe Holdings, LLC	Senior Secured Loan	—	(181)	845	—	—	845	—	8,355	(889)	7,466
	Common Equity (6)	—	(645)	—	—	—	—	—	1,414	(645)	769
		—	(826)	845	—	—	845	—	9,769	(1,534)	8,235
TRS Services, Inc.	Senior Secured Loan	—	(307)	1,856	—	9	1,865	9,466	7,942	(2,962)	14,446
	Preferred Equity (Class AA units) (7)	—	—	62	—	—	62	409	64	—	473
	Preferred Equity (Class A units) (6)	—	(1,404)	—	—	—	—	2,230	—	(1,404)	826
	Common Equity (6)	—	—	—	—	—	—	—	—	—	—
		—	(1,711)	1,918	—	9	1,927	12,105	8,006	(4,366)	15,745
Total Affiliate Investments		187	(803)	11,376	130	760	12,266	69,557	71,482	(51,936)	89,103
Total Control and Affiliate Investments		$ 187	$ (1,550)	$ 12,491	$ 315	$826	$13,632	$ 80,125	$ 71,659	$ (52,737)	$ 99,048

(1) Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated schedule of investments. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.
(2) Represents the total amount of interest, fees or dividends included in 2018 income for the portion of the year ended December 31, 2018, that an investment was included in Control or Affiliate Investment categories, respectively.
(3) Gross additions include increases in cost basis resulting from a new portfolio investment, PIK interest, fees and dividends, accretion of OID, and net increases in unrealized net appreciation or decreases in net unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any, and net decreases in net unrealized appreciation or net increases in net unrealized depreciation.
(5) Fair value was determined using significant unobservable inputs. See Note 5 for further details.
(6) Non-income producing.
(7) Dividends credited to income include dividends contractually earned but not declared.
(8) Jobson became an affiliate investment effective December 31, 2017, due to an increase in voting ownership interest.

Note 13. Subsequent Events Not Disclosed Elsewhere

On March 11, 2020, the Company's Board declared a distribution of $0.34 per share for the first quarter of 2020, payable on March 31, 2020 to stockholders of record as of March 24, 2020.

On March 1, 2020, SBIC I LP prepaid $16,110 of SBA debentures that were contractually due September 1, 2023, March 1, 2024 and September 1, 2024.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019. The term "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the foregoing evaluation of our disclosure controls and procedures as of December 31, 2019, our Chief Executive Officer and our Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 polices or procedures may deteriorate.

Our management (with the supervision and participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the framework in *Internal Control – Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment, management concluded that, as of December 31, 2019, our internal control over financial reporting is effective based on those criteria.

Attestation Report of the Registered Public Accounting Firm

Our internal control over financial reporting as of December 31, 2019, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8 of Part II of this Annual Report under the heading Report of Independent Registered Public Accounting Firm.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year.

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

The information required by Item 12 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

a. Documents Filed as Part of this Report

1. Financial Statements: See "Part II, Item 8. Financial Statements and Supplementary Data" of this report for a list of financial statements.

2. Financial Statement Schedules: Schedule 12-14 Investments in and Advances to Affiliates—See "Part II, Item 8. Financial Statements and Supplementary Data—Note 12" of this report.

3. Exhibits required to be filed by Item 601 of Regulation S-K: See Item 15b. below.

b. Exhibits

The following table lists exhibits filed as part of this report, according to the number assigned to them in Item 601 of Regulation S-K. All exhibits listed in the following table are incorporated by reference except for those exhibits denoted in the last column. Please note that the agreements included as exhibits to this Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

		Incorporated by Reference		
Exhibit Number	**Description**	**Form and SEC File No.**	**Filing Date with SEC**	**Filed with this 10-K**
3.1	Certificate of Incorporation of OFS Capital Corporation	N-2 (333-166363)	March 18, 2011	
3.2	Certificate of Correction to Certificate of Incorporation of OFS Capital Corporation	10-K (814-00813)	March 26, 2013	
3.3	Bylaws of OFS Capital Corporation	N-2/A (333-166363)	March 18, 2011	
4.1	Form of Stock Certificate of OFS Capital Corporation	N-2/A (333-166363)	March 18, 2011	
4.2	Form of Base Indenture	N-2 (333-200376)	November 19, 2014	
4.3	Form of Warrant Agreement	N-2/A (333-200376)	December 16, 2014	
4.4	Form of Subscription Agent Agreement	N-2/A (333-200376)	December 16, 2014	
4.5	Form of Subscription Certificate	N-2/A (333-200376)	December 16, 2014	
4.6	Form of Certificate of Designation	N-2/A (333-200376)	December 16, 2014	
4.7	First Supplemental Indenture dated as of April 16, 2018, between OFS Capital Corporation and U.S. Bank National Association, as trustee	POS EX (333-217302)	April 16, 2018	
4.8	Form of 6.375% Note due 2025 (incorporated by reference to Exhibit 4.8 hereto and Exhibit A therein)	POS EX (333-217302)	April 16, 2018	

Exhibit Number	Description	Incorporated by Reference		Filed with this 10-K
		Form and SEC File No.	Filing Date with SEC	
4.9	Second Supplemental Indenture dated as of October 16, 2018 between OFS Capital Corporation and U.S. Bank National Association, as trustee	POS EX (333-222419)	October 16, 2018	
4.10	Form of 6.50% Note due 2025 (incorporated by reference to Exhibit 4.10 hereto and Exhibit A therein)	POS EX (333-222419)	October 16, 2018	
4.11	Third Supplemental Indenture dated as of October 15, 2019 between OFS Capital Corporation and U.S. National Bank Association, as trustee	POS EX	October 15, 2019	
4.12	Form of 5.95% Note due 2026 (incorporated by reference to Exhibit 4.11 hereto and Exhibit A therein)	POS EX	October 15, 2019	
4.13	Description of Securities			*
10.1	Form of Dividend Reinvestment Plan	N-2/A (333-166363)	March 18, 2011	
10.2	Investment Advisory and Management Agreement between OFS Capital Corporation and OFS Capital Management, LLC	10-Q (814-00813)	November 7, 2014	
10.3	Form of Custody Agreement	N-2/A (333-166363)	March 18, 2011	
10.4	Administration Agreement between OFS Capital Corporation and OFS Capital Services, LLC	N-2/A (333-166363)	March 18, 2011	
10.5	License Agreement between OFS Capital Corporation and Orchard First Source Asset Management, LLC	N-2/A (333-166363)	March 18, 2011	
10.6	Form of Indemnification Agreement between OFS Capital Corporation and each of its directors and executive officers	N-2/A (333-166363)	March 18, 2011	
10.7	Form of Registration Rights Agreement between OFS Capital Corporation and Orchard First Source Asset Management, LLC	N-2/A (333-166363)	July 24, 2012	
10.9	Business Loan Agreement between OFS Capital Corporation and Pacific Western Bank dated March 7, 2018	10-K (814-00813)	March 12, 2018	
10.10	Promissory Note between OFS Capital Corporation and Pacific Western Bank dated November 5, 2015	10-Q (814-00813)	November 6, 2015	
10.11	Change in terms to the Business Loan Agreement between OFS Capital Corporation and Pacific Western Bank dated March 7, 2018	10-K (814-00813)	March 12, 2018	
10.13	Business Loan Agreement between OFS Capital Corporation and Pacific Western Bank, dated April 10, 2019	Form 8-K (333-00813)	April 15, 2019	
10.14	Change in terms to the Business Loan Agreement between OFS Capital Corporation and Pacific Western Bank, dated April 10, 2019	Form 8-K (333-00813)	April 15, 2019	

Exhibit Number	Description	Incorporated by Reference: Form and SEC File No.	Incorporated by Reference: Filing Date with SEC	Filed with this 10-K
10.15	Commercial Guaranty Agreement between OFS Capital Corporation and Pacific Western Bank, dated April 10, 2019	Form 8-K (333-00813)	April 15, 2019	
10.16	Commercial Guaranty Agreement between among OFS Capital Corporation, OFSCC-MB, Inc., and Pacific Western Bank, dated April 10, 2019	Form 8-K (333-00813)	April 15, 2019	
10.17	Revolving Credit and Security Agreement by and among OFSCC-FS, LLC, as borrower, the lenders from time to time parties thereto, BNP Paribas, as administrative agent, OFSCC-FS Holdings LLC, as equityholder, OFS Capital Corporation, LLC, as servicer, and Citibank, N.A., as collateral agent, dated June 20, 2019.	Form 8-K (814-00813)	June 24, 2019	
10.18	Securities Account Control Agreement by and among OFSCC-FS, LLC, as pledgor, BNP Paribas, as administrative agent, and Citibank, N.A., as secured party and securities intermediary, dated June 20, 2019.	Form 8-K (814-00813)	June 24, 2019	
10.19	Custodian and Loan Administration Agreement by and among OFSCC-FS, LLC, Citibank, N.A., as custodian, and Virtus Group, LP, as collateral administrator, dated June 20, 2019.	Form 8-K (814-00813)	June 24, 2019	
10.2	Loan Sale and Contribution Agreement by and between OFSCC-FS, LLC, as the buyer, and OFSCC-FS Holdings, LLC, as the seller, dated June 20, 2019.	Form 8-K (814-00813)	June 24, 2019	
11.1	Computation of Per Share Earnings			+
14.1	Joint Code of Ethics of OFS Capital Corporation and OFS Advisor	10-K (814-00813)	March 15, 2019	
21.1	List of Subsidiaries			*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended			*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended			*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			†
32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			†
99.1	Report of Independent Registered Public Accounting Firm			*
99.2	Report of Independent Registered Public Accounting Firm			*

* Filed herewith.

\+ Included in the notes to the financial statements contained in this report

† Furnished herewith

Item 16. Form 10-K Summary

None.

SIGNATURES

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

	OFS Capital Corporation
Date: March 13, 2020	/s/ Bilal Rashid
	Bilal Rashid Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Date: March 13, 2020	/s/ Bilal Rashid
	Bilal Rashid, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
Date: March 13, 2020	/s/ Marc Abrams
	Marc Abrams, Director
Date: March 13, 2020	/s/ Robert J. Cresci
	Robert J. Cresci, Director
Date: March 13, 2020	/s/ Elaine E. Healy
	Elaine E. Healy, Director
Date: March 13, 2020	/s/ Jeffrey A. Cerny
	Jeffrey A. Cerny, Chief Financial Officer, Treasurer (Principal Financial Officer) and Director
Date: March 13, 2020	/s/ Jeffery S. Owen
	Jeffery S. Owen, Chief Accounting Officer (Principal Accounting Officer)

Exhibit 4.13

DESCRIPTION OF SECURITIES

As of December 31, 2019, OFS Capital Corporation (the “Company,” “we,” “our,” or “us”) had two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: (1) our common stock and (2) our debt securities.

Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Annual Report on Form 10-K to which this Description of Securities is attached as an exhibit.

A. Common Stock, $0.01 par value per share

As of December 31, 2019, the authorized capital stock of OFS Capital Corporation consisted of 100,000,000 shares of common stock, par value $0.01 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share. Our common stock is quoted on The Nasdaq Global Select Market under the symbol “OFS.”

Common Stock

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except when their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will not be able to elect any directors.

Our certificate of incorporation authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Delaware law and by our certificate of incorporation to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption for each class or series.

Provisions of the DGCL and Our Certificate of Incorporation and Bylaws

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

The indemnification of our officers and directors is governed by Section 145 of the DGCL, our certificate of incorporation and bylaws. Our certificate of incorporation provides that our directors will not be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the current DGCL or as the DGCL may hereafter be amended. DGCL Section 102(b)(7) provides that the personal liability of a director to a corporation or its stockholders for breach of fiduciary duty as a director may be eliminated except for liability (a) for any breach of the director’s duty of loyalty to the registrant or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL, relating to unlawful payment of distributions or unlawful stock purchases or redemption of stock or (d) for any transaction from which the director derives an improper personal benefit.

Our bylaws provide for the indemnification of any person to the full extent permitted by law as currently in effect or as may hereafter be amended. In addition, we have entered into indemnification agreements with each of our directors and officers in order to effect the foregoing.

Delaware Anti-Takeover Law

The DGCL and our certificate of incorporation and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. These measures may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders. We believe, however, that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors helps to ensure the continuity and stability of our management and policies.

Number of Directors; Removal; Vacancies

Our certificate of incorporation provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. Under our certificate of incorporation and bylaws, any vacancy on the board of directors, including a vacancy resulting from an enlargement of the board of directors, may be filled only by vote of a majority of the directors then in office. The limitations on the ability of our stockholders to fill vacancies could make it more difficult for a third party to acquire, or discourage a third-party from seeking to acquire, control of us.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (a) by or at the direction of the board of directors, (b) pursuant to our notice of meeting or (c) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. Nominations of persons for election to the board of directors at a special meeting may be made only by or at the direction of the board of directors, and provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Action by Stockholders

Under the DGCL, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting, unless the certificate of incorporation provides for stockholder action by less than unanimous written consent (which our certificate of incorporation does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposed until the next annual meeting.

Stockholder Meetings

Our certificate of incorporation and bylaws provide that, except as otherwise required by law, special meetings of the stockholders can only be called by the chairman of the board, the vice chairman of the board, the president, the board of directors or stockholders who own of record a majority of the outstanding shares of each class of stock entitled to vote at the meeting. In addition, our bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to the board of directors. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors, or by a stockholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to the secretary of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying until the next stockholder meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the DGCL or any provision of our certificate of incorporation or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

B. **Debt Securities**

– *6.375% Notes due 2025*
– *6.50% Notes due 2025*
– *5.95% Notes due 2026*

In April 2018, we issued $50,000,000 in aggregate principal amount of notes due April 2025 (the "April 2025 Notes"). The April 2025 Notes bear interest at a rate of 6.375% per year payable quarterly on January 31, April 31, July 31 and October 31 of each year, commencing July 31, 2018. The April 2025 Notes are issued in minimum denominations of $25 and integral multiples of $25 in excess thereof. The April 2025 Notes were issued under a certain Indenture, dated April 16, 2018 (the "Base Indenture"), by and between the Company and U.S. Bank National Association (the "Trustee"), as supplemented by the First Supplemental Indenture, dated April 16, 2018 (the "First Supplemental Indenture"). As of December 31, 2019, we had $50,000,000 in aggregate principal amount of April 2025 Notes outstanding. The April 2025 Notes are scheduled to mature on April 30, 2025. Additionally, the April 2025 Notes will not be subject to any sinking fund and are subject to defeasance and covenant defeasance by us. We have listed the April 2025 Notes on The Nasdaq Global Select Market under the trading symbol "OFSSL."

In October 2018, we issued $46,000,000 in aggregate principal amount of notes due October 2025 (the "October 2025 Notes"). The October 2025 Notes bear interest at a rate of 6.50% per year payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing January 15, 2019. The October 2025 Notes are issued in minimum denominations of $25 and integral multiples of $25 in excess thereof. The October 2025 Notes were issued under the Base Indenture, by and between the Company and the Trustee, as supplemented by the Second Supplemental Indenture, dated October 16, 2018 (the "Second Supplemental Indenture"). As of December 31, 2019, we had $46,000,000 in aggregate principal amount of October 2025 Notes outstanding. The October 2025 Notes are scheduled to mature on October 30, 2025. Additionally, the October 2025 Notes will not be subject to any sinking fund and are subject to defeasance and covenant defeasance by us. We have listed the October 2025 Notes on The Nasdaq Global Select Market under the trading symbol "OFSSZ."

In October 2019, we issued $54,325,000 in aggregate principal amount of notes due October 2026 (the "October 2026 Notes", and collectively with the April 2025 Notes and the October 2025 Notes, the "Notes"). The October 2026 Notes bear interest at a rate of 5.95% per year payable quarterly on January 31, April 31, July 31 and October 31 of each year, commencing January 31, 2020. The October 2026 Notes are issued in minimum denominations of $25 and integral multiples of $25 in excess thereof. The October 2026 Notes were issued under the Base Indenture, by and between the Company and the Trustee, as supplemented by the Third Supplemental Indenture, dated October 15, 2019 (the "Third Supplemental Indenture", and collectively with the Base Indenture, the First Supplemental Indenture, and the Second Supplemental Indenture, the "Indentures"). As of December 31, 2019, we had $54,325,000 in aggregate principal amount of October 2026 Notes outstanding. The October 2026 Notes are scheduled to mature on October 31, 2026. Additionally, the October 2026 Notes will not be subject to any sinking fund and are subject to defeasance and covenant defeasance by us. We have listed the October 2026 Notes on The Nasdaq Global Select Market under the trading symbol "OFSSI."

General

For purposes of this exhibit, any reference to the payment of principal of or premium or interest, if any, on the Notes will include additional amounts if required by the terms of the Notes.

The Indentures do not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the Indentures, when a single trustee is acting for all debt securities issued under the Indentures, are called the "Indenture Securities." The Indentures also provides that there may be more than one trustee thereunder, each with respect to one or more different series of Indenture Securities. See "Resignation of Trustee" section below. At a time when two or more trustees are acting under the Indentures, each with respect to only certain series, the term "Indenture Securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the Indentures, the powers and trust obligations of each trustee described in the applicable prospectus supplement will extend only to the one or more series of Indenture Securities for which it is trustee. If two or more trustees are acting under the Indentures, then the Indenture Securities for which each trustee is acting would be treated as if issued under separate Indentures.

We have the ability to issue Indenture Securities with terms different from those of Indenture Securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of Indenture Securities and issue additional Indenture Securities of that series unless the reopening was restricted when that series was created.

We expect that we will usually issue debt securities in book entry only form represented by global securities.

When we refer to "you" in this exhibit, we mean those who invest in the debt securities being offered under the Indentures, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Global Securities

The Notes were issued as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under "- Termination of a Global Security." As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below;
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities;
- an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;
- an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

- the depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;
- if we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series;
- an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee;
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds; your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security; and
- financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities; there may be more than one financial intermediary in the chain of ownership for an investor; we do not monitor and are not responsible for the actions of any of those intermediaries.

Termination of a Global Security

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders.

The applicable prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the applicable prospectus supplement. If a global security is terminated, only the depositary, and not we or the applicable trustee, is responsible for deciding the investors in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, often approximately two weeks in advance of the interest due date, is called the "record date." Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest."

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants.

Payment when Offices are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the Indentures as if they were made on the original due date, except as otherwise indicated in the applicable prospectus supplement. Such payment will not result in a default under any debt security or the Indentures, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Events of Default

You will have rights if an Event of Default occurs in respect of the Notes and is not cured, as described later in this subsection.

The term "Event of Default" in respect of our debt securities means any of the following (unless the prospectus supplement relating to such debt securities states otherwise):

- we do not pay the principal of, or any premium on, any of the Notes on the due dates, and do not cure this default within five days;
- we do not pay interest on the Notes when due, and such default is not cured within 30 days;
- we do not deposit any sinking fund payment in respect of the Notes on the due date, and do not cure this default within five days;
- we remain in breach of a covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of the respective series of Notes;
- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days;
- on the last business day of each of 24 consecutive calendar months, we have an asset coverage of less than 100%; and
- any other Event of Default in respect of the Notes as described in the applicable prospectus supplement occurs.

An Event of Default for a particular series of Notes does not necessarily constitute an Event of Default for any other series of Notes issued under the same or any other indenture. The trustee may withhold notice to the holders of Notes of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series.

The trustee is not required to take any action under the Indentures at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- the holder must give your trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60 day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:

- the payment of principal, any premium or interest; or
- in respect of a covenant that cannot be modified or amended without the consent of each holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the Indentures and the debt securities, or else specifying any default.

Merger or Consolidation

Under the terms of the Indentures, we are generally permitted to consolidate or merge with another entity. We may also be permitted to sell all or substantially all of our assets to another entity. However, unless the prospectus supplement relating to certain debt securities states otherwise, we may not take any of these actions unless all the following conditions are met:

- where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities;
- immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing;
- under the Indentures, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (a) the mortgage, lien or other encumbrance could be created pursuant to the limitation on liens covenant in the Indentures without equally and ratably securing the Indenture Securities or (b) the Indenture Securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance;
- we must deliver certain certificates and documents to the trustee; and
- we must satisfy any other requirements specified in the applicable prospectus supplement relating to a particular series of the Notes.

Modification or Waiver

There are three types of changes we can make to the Indentures and the debt securities issued thereunder.

Changes Requiring Approval

First, there are changes that we cannot make to debt securities without specific approval of all of the holders. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on a debt security;
- reduce any amounts due on a debt security;
- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;
- adversely affect any right of repayment at the holder’s option;
- change the place (except as otherwise described in the applicable prospectus or prospectus supplement) or currency of payment on a debt security;
- impair your right to sue for payment;
- adversely affect any right to convert or exchange a debt security in accordance with its terms;
- modify the subordination provisions in the Indentures in a manner that is adverse to holders of the debt securities;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the Indentures;
- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the Indentures or to waive certain defaults;
- modify any other aspect of the provisions of the Indentures dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the Indentures after the change takes effect.

Changes Requiring Majority Approval

Any other change to the Indentures and the debt securities would require the following approval:

- if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under "- Changes Requiring Approval."

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;
- for debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement; and
- for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance - Full Defeasance."

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding Indenture Securities that are entitled to vote or take other action under the Indentures. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding Indenture Securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the Indenture or the debt securities or request a waiver.

Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the Indentures under which the particular series was issued. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions as described under the "Indenture Provisions - Subordination" section below. In order to achieve covenant defeasance, we must do the following:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;
- we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity; and
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;
- we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit; and
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under "Indenture Provisions - Subordination."

Form, Exchange and Transfer of Certificated Registered Securities

The Notes are represented by global securities that were deposited and registered in the name of DTC or its nominee. Beneficial interests in the Notes are represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of Indenture Securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of Indenture Securities under the Indentures, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions - Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any Indenture Securities denominated as subordinated debt securities is to be subordinated to the extent provided in the Indentures in right of payment to the prior payment in full of all senior indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on senior indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all senior indebtedness is paid in full, the payment or distribution must be paid over to the holders of the senior indebtedness or on their behalf for application to the payment of all the senior indebtedness remaining unpaid until all the senior indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the senior indebtedness. Subject to the payment in full of all senior indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the senior indebtedness to the extent of payments made to the holders of the senior indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The Indentures provide that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the Indentures.

Senior indebtedness is defined in the Indentures as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than Indenture Securities issued under the Indentures and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities; and
- renewals, extensions, modifications and refinancings of any of this indebtedness.

The applicable prospectus supplement will set forth the approximate amount of our senior indebtedness outstanding as of a recent date.

The Trustee under the Indenture

U.S. Bank National Association will serve as the trustee under the Indentures.

Exhibit 21.1

LIST OF SUBSIDIARIES

OFSCC-FS, LLC, a Delaware limited liability company.

OFSCC-FS Holdings, LLC, a Delaware limited liability company.

OFSCC-MB, LLC, a Delaware limited liability company.

OFS SBIC I GP, LLC, a Delaware limited liability company.

OFS SBIC I, LP, a Delaware limited liability company.

Exhibit 31.1

Certification of Chief Executive Officer

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

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

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

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

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

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to 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;

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

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

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

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

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

Dated this 13th day of March 2020.

By: /s/ Bilal Rashid

Bilal Rashid

Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

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

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

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

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

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

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to 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;

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

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

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

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

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

Dated this 13th day of March 2020.

By: /s/ Jeffrey A. Cerny

Jeffrey A. Cerny
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer

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

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2019 (the “Report”) of OFS Capital Corporation (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Bilal Rashid, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, that:

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

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

	/s/ Bilal Rashid
Name:	**Bilal Rashid**
Date:	**March 13, 2020**

Exhibit 32.2

Certification of Chief Financial Officer

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

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2019 (the "Report") of OFS Capital Corporation (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey A. Cerny, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, that:

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

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

	/s/ Jeffrey A. Cerny
Name:	**Jeffrey A. Cerny**
Date:	**March 13, 2020**

Report of Independent Registered Public Accounting Firm on Supplemental Information

To the Stockholders and Board of Directors

OFS Capital Corporation:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated statement of assets and liabilities of OFS Capital Corporation and subsidiaries (the Company), including the consolidated schedule of investments, as of December 31, 2019, the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 13, 2020 expressed an unqualified opinion on those consolidated financial statements.

The senior securities information as of December 31, 2019 included in Part II, Item 5 of the Annual Report on Form 10-K of the Company under the caption “Senior Securities” (the senior securities table) has been subjected to audit procedures performed in conjunction with the audit of the Company’s consolidated financial statements. The senior securities table is the responsibility of the Company’s management. Our audit procedures included determining whether the senior securities table reconciles to the Company’s consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the senior securities table. In forming our opinion on the senior securities table, we evaluated whether the senior securities table, including its form and content, is presented in conformity with the instructions to Form N-2. In our opinion, the senior securities table as of December 31, 2019, is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

/s/KPMG LLP

Chicago, Illinois
March 13, 2020

Report of Independent Registered Public Accounting Firm on Supplemental Information

To the Board of Directors and Stockholders
OFS Capital Corporation
Chicago, Illinois

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of OFS Capital Corporation and Subsidiaries (the “Company”) as of December 31, 2018, and for each of the two years in the period ended December 31, 2018, included in the Annual Report on Form 10-K, and have expressed an unqualified opinion therein dated March 15, 2019. We have also previously audited the consolidated financial statements of the Company as of and for the years ended December 31, 2017, 2016, 2015 and 2014 (not presented herein), and we expressed an unqualified opinion on those consolidated financial statements.

The senior securities table included in Part II, Item 5 of the Annual Report on Form 10-K of the Company under the caption “Senior Securities” (the “Senior Securities Table”) has been subjected to audit procedures performed in conjunction with the audit of the Company’s consolidated financial statements for the aforementioned years. The Senior Securities Table is the responsibility of the Company’s management. Our audit procedures included determining whether the Senior Securities Table reconciles to the consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Senior Securities Table. In forming our opinion on the Senior Securities Table, we evaluated whether the Senior Securities Table, including its form and content, is presented in conformity with Item 4.3 and the Instructions to Item 4.3 of Form N-2. In our opinion, the Senior Securities Table for each of the five years in the period ended December 31, 2018 is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

/s/ BDO USA, LLP

Chicago, Illinois

March 15, 2019, except for the additions related to Total Senior Securities and related information reflected in the Senior Securities Table, as to which the date is June 21, 2019.