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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

☐ **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 other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

10 S. Wacker Drive, Suite 2500
Chicago, Illinois 60606
(Address of principal executive office)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	x
Non-accelerated filer	☐ (do not check if a smaller reporting company)	Smaller reporting company	☐

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

The number of shares of the issuer's Common Stock, $0.01 par value, outstanding as of November 7, 2014 was 9,638,061.

OFS CAPITAL CORPORATION

TABLE OF CONTENTS

OFS Capital Corporation and Subsidiaries

Consolidated Balance Sheets
(Dollar amounts in thousands, except per share data)

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Investments, at fair value		
Non-control/non-affiliate investments (cost of $223,703 and $201,209, respectively)	$ 219,936	$ 197,338
Affiliate investments (cost of $38,982 and $32,618, respectively)	40,692	32,735
Control investment (cost of $8,991 and $9,596, respectively)	5,551	7,846
Total investments at fair value	266,179	237,919
Cash and cash equivalents	14,288	28,569
Restricted cash and cash equivalents	-	450
Interest receivable	704	644
Receivable from investment sold	-	4,493
Prepaid expenses and other assets	266	174
Intangible asset, net of accumulated amortization of $161 and $0, respectively	2,339	2,500
Goodwill	1,077	1,077
Due from affiliated entity	-	218
Deferred financing closing costs, net of accumulated amortization of $2,320 and $1,851, respectively	4,258	3,043
Total assets	$ 289,111	$ 279,087
Liabilities		
Accrued professional fees	$ 496	$ 613
Interest payable	804	1,044
Management fees payable	2,757	1,168
Administration fee payable	972	280
Other payables	251	260
Deferred loan fee revenue	592	389
SBA debentures payable	61,375	26,000
Revolving line of credit	84,763	108,955
Total liabilities	152,010	138,709
Commitments and Contingencies (Note 7)		
Net Assets		
Preferred stock, par value of $0.01 per share, 2,000,000 shares authorized, 0 shares issued and outstanding as of September 30, 2014 and December 31, 2013	-	-
Common stock, par value of $0.01 per share, 100,000,000 shares authorized, 9,638,061 and 9,629,797 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	96	96
Paid-in capital in excess of par	143,231	143,126
Distributions in excess of net investment income	(7,491)	(4,103)
Accumulated net realized gain	2,742	2,742
Net unrealized depreciation on investments	(1,477)	(1,483)
Total net assets	137,101	140,378
Total liabilities and net assets	$ 289,111	$ 279,087
Number of shares outstanding	9,638,061	9,629,797
Net asset value per share	$ 14.22	$ 14.58

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Operations (unaudited)
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Investment income				
Interest income				
Non-control/non-affiliate investments	$ 4,420	$ 4,017	$ 11,730	$ 12,618
Affiliate investments	896	-	2,515	-
Control investment	277	-	843	-
Total interest income	5,593	4,017	15,088	12,618
Dividend and fee income				
Non-control/non-affiliate investments	205	-	213	-
Affiliate investments	424	-	541	-
Control investment	(25)	-	25	-
Total dividend and fee income	604	-	779	-
Total investment income	6,197	4,017	15,867	12,618
Expenses				
Interest expense	1,001	821	2,989	2,530
Amortization and write-off of deferred financing closing costs	167	168	469	803
Amortization of intangible asset	49	-	161	-
Management fees	543	744	2,341	2,345
Incentive fee	723	-	723	-
Professional fees	382	418	1,112	1,177
Administrative fee	212	200	972	657
General and administrative expenses	227	238	708	770
Total expenses	3,304	2,589	9,475	8,282
Net investment income	2,893	1,428	6,392	4,336
Net realized and unrealized gain (loss) on investments				
Net realized gain on non-control/non-affiliate investments	17	-	17	5
Net realized gain on affiliate investment	-	-	28	-
Net change in unrealized depreciation on non-control/non-affiliate investments	427	(1,501)	106	554
Net change in unrealized appreciation/depreciation on affiliate investments	964	439	1,591	1,599
Net change in unrealized depreciation on control investment	(466)	-	(1,691)	-
Net realized and unrealized gain (loss) on investments	942	(1,062)	51	2,158
Net increase in net assets resulting from operations	$ 3,835	$ 366	$ 6,443	$ 6,494
Net investment income per common share - basic and diluted	$ 0.30	$ 0.15	$ 0.66	$ 0.45
Net increase in net assets resulting from operations per common share - basic and diluted	$ 0.40	$ 0.04	$ 0.67	$ 0.67
Dividends and distributions declared per common share - basic and diluted	$ 0.34	$ 0.34	$ 1.02	$ 1.02
Basic and diluted weighted average shares outstanding	9,635,943	9,626,336	9,633,214	9,616,637

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets (unaudited)
(Dollar amounts in thousands, except per share data)

	Common Stock		Paid-in Capital in Excess	Distributions in Excess of Net Investment	Accumulated Net Realized	Net Unrealized Depreciation on	Total Net
	Shares	Par	of Par	Income	Gain	Investments	Assets
Balance at January 1, 2013	9,578,691	$ 96	$ 142,408	$ (94)	$ -	$ (611)	$ 141,799
Net increase in net assets resulting from operations	-	-	-	4,336	5	2,153	6,494
Stock issued in connection with dividend reinvestment plan	48,296	-	684	-	-	-	684
Dividends and distributions (1)	-	-	-	(9,809)	(5)	-	(9,814)
Balance at September 30, 2013	9,626,987	$ 96	$ 143,092	$ (5,567)	$ -	$ 1,542	$ 139,163
Balance at January 1, 2014	9,629,797	$ 96	$ 143,126	$ (4,103)	$ 2,742	$ (1,483)	$ 140,378
Net increase in net assets resulting from operations	-	-	-	6,392	45	6	6,443
Stock issued in connection with dividend reinvestment plan	8,264	-	105	-	-	-	105
Dividends and distributions (1)	-	-	-	(9,780)	(45)	-	(9,825)
Balance at September 30, 2014	9,638,061	$ 96	$ 143,231	$ (7,491)	$ 2,742	$ (1,477)	$ 137,101

(1) If the tax characteristics of these distributions were determined as of September 30, 2014 and 2013, the Company estimated that approximately 66% and 34% of the distributions would have represented ordinary income and return of capital, respectively, as of September 30, 2014, and approximately 46% and 54% would have represented ordinary income and return of capital, respectively, as of September 30, 2013. See Note 10 - Financial Highlights for detailed disclosure of the tax characteristics of these distributions.

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)
(Dollar amounts in thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash Flows From Operating Activities		
Net increase in net assets resulting from operations	$ 6,443	$ 6,494
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Amortization and write-off of deferred financing closing costs	469	803
Amortization of discounts and premiums	(895)	(972)
Amortization of deferred loan fee revenue	(199)	(88)
Amortization of intangible asset	161	-
Cash collection of deferred loan fee revenue	294	253
Payment-in-kind interest and dividends	(765)	-
Reversal of PIK interest income on non-accrual loans	64	-
Net realized gain on non-control/non-affiliate investments	(17)	(5)
Net realized gain on affiliate investment	(28)	-
Net change in unrealized depreciation on non-control/non-affiliate investments	(106)	(554)
Net change in unrealized appreciation/depreciation on affiliate investments	(1,591)	(1,599)
Net change in unrealized depreciation on control investment	1,691	-
Purchase of portfolio investments	(90,662)	(30,591)
Additional equity investment in SBIC I LP	-	(5,157)
Proceeds from principal payments on portfolio investments	59,132	46,976
Proceeds from sale of portfolio investments	9,493	4,713
Cash distribution received from equity investment	11	-
Changes in operating assets and liabilities:		
Interest receivable	(46)	610
Prepaid expenses and other assets	95	207
Accrued professional fees	(117)	160
Due to/from affiliated entities, net	218	(9)
Interest payable	(240)	(397)
Management fees payable	1,590	164
Administration fee payable	692	90
Other payables	(81)	(5)
Net cash provided by (used in) operating activities	(14,394)	21,093
Cash Flows From Investing Activities		
Change in restricted cash	450	97
Net cash provided by investing activities	450	97
Cash Flows From Financing Activities		
Net repayments of advances from affiliated entities	(15)	-
Cash dividends and distributions paid	(9,720)	(7,485)
Net repayments under revolving lines of credit	(24,192)	(15,140)
Draw down on SBA debentures	35,375	-
Change in other liabilities	83	-
Deferred common stock offering costs paid	(184)	-
Deferred financing closing costs paid	(1,684)	-
Net cash used in financing activities	(337)	(22,625)
Net decrease in cash and cash equivalents	(14,281)	(1,435)
Cash and cash equivalents — beginning of period	28,569	8,270
Cash and cash equivalents — end of period	$ 14,288	$ 6,835
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	$ 3,228	$ 2,927
Supplemental Disclosure of Noncash Financing Activities:		
Dividends and distributions paid by issuance of common stock	$ 105	$ 684
Dividends and distributions payable	-	3,273
Accrued deferred common stock offering costs	2	-

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments (unaudited)
September 30, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Aerospace & Defense								
Aero-Metric, Inc.	Senior Secured Term Loan	6.75%	(L +5.50%)	8/27/17	$ 2,661	$ 2,637	$ 2,631	1.9%
Whitcraft LLC	Senior Secured Term Loan	6.75%	(L +5.25%)	12/16/15	3,878	3,860	3,812	2.8
					6,539	6,497	6,443	4.7
Automotive								
Trico Products Corporation	Senior Secured Term Loan	6.37%	(L +4.75%)	7/22/16	4,080	4,056	4,080	3.0
					4,080	4,056	4,080	3.0
Banking, Finance, Insurance & Real Estate								
Captive Resources Midco LLC	Senior Secured Term Loan	6.50%	(L +5.00%)	1/2/19	4,816	4,767	4,646	3.4
CSI Financial Services, LLC (5)	Senior Secured Term Loan	7.00%	(L +5.75%)	12/12/18	3,249	3,213	3,210	2.3
MYI Acquiror Limited (5)	Senior Secured Term Loan A	5.75%	(L +4.50%)	5/28/19	4,887	4,856	4,837	3.5
Townsend Acquisition LLC	Senior Secured Term Loan	5.25%	(L +4.25%)	5/21/20	4,341	4,300	4,293	3.1
					17,293	17,136	16,986	12.3
Beverage, Food & Tobacco								
Sizzling Platter, LLC (4)	Senior Secured Initial Term Loan	8.50%	(L +7.50%)	4/28/19	7,000	6,936	6,879	5.0
					7,000	6,936	6,879	5.0
Capital Equipment								
Dorner MFG, Corp.	Senior Secured Term Loan	5.75%	(L +4.50%)	6/15/17	3,104	3,070	3,002	2.2
Elgin Fasteners Group	Senior Secured Term Loan	6.00%	(L +4.75%)	8/26/16	4,711	4,657	4,627	3.4
Stancor, Inc. (4)	Senior Secured Term Loan	8.75%	(L +8.00%)	8/19/19	13,500	13,385	13,385	9.8
	1,250,000 Class A Units in SCT Holdings, LLC					1,250	1,250	0.9
					13,500	14,635	14,635	10.7
					21,315	22,362	22,264	16.3
Chemicals, Plastics & Rubber								
Actagro, LLC	Senior Secured Term Loan	5.50%	(L +4.25%)	12/30/16	3,201	3,179	3,100	2.3
DASH Accella Holdings LLC (f/k/a Dash Materials LLC)	Senior Secured Term Loan	5.50%	(L +4.50%)	4/30/19	4,645	4,629	4,629	3.4
ICM Products Inc	Senior Secured Term Loan	5.50%	(L +4.50%)	3/31/19	2,095	2,071	1,974	1.4
Inhance Technologies Holdings LLC	Senior Secured Term Loan A	5.50%	(L +4.50%)	2/7/18	2,401	2,386	2,294	1.7
KODA Distribution Group, Inc.	Senior Secured Term Loan A	6.00%	(L +5.00%)	4/9/18	3,859	3,846	3,810	2.8
VanDeMark Chemical Inc.	Senior Secured Term Loan	6.50%	(L +5.25%)	11/30/17	2,715	2,681	2,663	1.9
					18,916	18,792	18,470	13.5
Construction & Building								
Jameson LLC	Senior Secured Term Loan	7.50%	(L +5.50%)	10/1/15	1,618	1,612	1,618	1.2
					1,618	1,612	1,618	1.2
Consumer goods: Non-durable								
Phoenix Brands LLC	Senior Secured Term Loan A	8.00%	(P +5.75%)	1/31/16	2,144	2,133	2,081	1.5
					2,144	2,133	2,081	1.5
Containers, Packaging & Glass								
Mold-Rite Plastics, LLC	Senior Secured Term Loan	5.50%	(L +4.25%)	6/30/16	4,074	4,051	4,009	2.9
					4,074	4,051	4,009	2.9
Energy: Oil & Gas								
ANS Distributing, INC.	Senior Secured Term Loan	8.00%	(L +6.50%)	11/1/17	2,849	2,814	2,848	2.1
Charter Brokerage LLC	Senior Secured Term Loan A	8.00%	(L +6.50%)	10/10/16	4,072	4,043	4,072	3.0
					6,921	6,857	6,920	5.1
Environmental Industries								
Apex Companies, LLC.	Senior Secured Term Loan	5.50%	(L +4.50%)	3/28/19	3,763	3,741	3,545	2.6
JWC Environmental, LLC.	Senior Secured Term Loan	6.00%	(L +4.50%)	8/3/16	3,874	3,859	3,801	2.8
					7,637	7,600	7,346	5.4

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments (unaudited) - Continued
September 30, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Healthcare & Pharmaceuticals								
Accelerated Health Systems LLC	Senior Secured Term Loan	5.75%	(L +4.50%)	7/22/17	4,831	4,808	4,715	3.4
Behavioral Health Group	Senior Secured Term Loan A	5.75%	(L +4.50%)	8/18/16	4,564	4,546	4,462	3.3
Elements Behavioral Health, Inc.	Senior Secured Term Loan A	5.25%	(L +4.25%)	2/12/19	4,694	4,655	4,612	3.4
HealthFusion, Inc. (4)	Senior Secured Loan	13.00%	N/A	10/7/18	5,750	5,681	5,802	4.2
	Common Stock Warrants (1,910,302 shares)					-	354	0.3
					5,750	5,681	6,156	4.5
Hygenic Corporation	Senior Secured Term Loan	6.00%	(L +4.75%)	10/11/18	4,695	4,648	4,695	3.4
Vention Medical, Inc. (f/k/a MedTech Group, Inc.)	Senior Secured Term Loan	6.50%	(L +5.25%)	9/7/16	4,575	4,548	4,575	3.3
South Bay Mental Health Center, Inc. (4)	Subordinated Loan	12.0% cash / 2.5% PIK	N/A	10/12/17	3,011	3,011	3,011	2.2
Strata Pathology Services, Inc. (6)	Senior Secured Term Loan	11.00%	(L +9.50%)	6/30/16	4,037	3,988	765	0.6
Studer Group LLC	Senior Secured Term Loan	6.00%	(L +4.75%)	7/31/18	3,495	3,473	3,358	2.4
United Biologics Holdings, LLC (4)	Senior Secured Loan	12.0% cash / 2.0% PIK	N/A	3/5/17	4,162	4,098	4,135	3.0
	Class A-1 Units (2,686 units) and Kicker Units (2,015 units)					9	22	-
	Class A-1 Warrants (2,272 units) and Kicker Warrants (1,704 units)					8	19	-
	Class A Warrants (10,160 units)					67	107	0.1
	Class B Warrants (15,238 units)					7	39	-
					4,162	4,189	4,322	3.1
					43,814	43,547	40,671	29.6
High Tech Industries								
Anaren, Inc. (4)	Senior Secured Term Loan	5.50%	(L +4.50%)	2/18/21	2,978	2,950	2,976	2.2
B&B Electronics Manufacturing Company	Senior Secured Term Loan A	6.50%	(L +5.00%)	4/4/15	2,486	2,479	2,467	1.8
OnePath Systems, LLC	Senior Secured Term Loan	7.50%	(L +6.00%)	6/6/17	2,251	2,227	2,251	1.6
					7,715	7,656	7,694	5.6
Media: Advertising, Printing & Publishing								
Content Marketing, LLC	Senior Secured Term Loan	7.50%	(L +6.25%)	12/21/17	3,039	3,010	3,039	2.2
Jobson Healthcare Information, LLC (4)	Senior Secured Term Loan	12.93%	(L +8.13%)	7/21/19	14,600	14,204	14,204	10.4
	Warrants (1,056,428 member units)					454	454	0.3
					14,600	14,658	14,658	10.7
Media Source	Senior Secured Term Loan	5.25%	(L +4.25%)	7/16/19	2,392	2,369	2,368	1.7
					20,031	20,037	20,065	14.6
Media: Broadcasting & Subscription								
Campus Televideo, Inc.	Senior Secured Term Loan	7.25%	(L +5.75%)	10/23/17	3,701	3,644	3,690	2.7
					3,701	3,644	3,690	2.7
Retail								
Tharpe Company, Inc.	Senior Secured Term Loan	6.00%	(L +4.75%)	10/19/17	3,639	3,606	3,596	2.6
					3,639	3,606	3,596	2.6
Services: Business								
Accuvant Finance, LLC (4)	Senior Secured Initial Loans	5.75%	(L +4.75%)	10/22/20	5,985	5,929	5,914	4.3
BCC Software, LLC (4)	Senior Secured Revolver	N/A	(L +8.00%)	6/19/19	-	(15)	(16)(2)	-
BCC Software, LLC (4)	Senior Secured Term Loan	9.00%	(L +8.00%)	6/19/19	6,956	6,858	6,854	5.0
C7 Data Centers, Inc. (4)	Senior Secured Term Loan	9.50%	(L +7.50%)	9/30/19	7,500	7,500	7,500	5.5
C7 Data Centers, Inc. (4)	Senior Secured Line of Credit	9.50%	(L +7.50%)	9/30/19	500	500	500	0.4
Community Investors, Inc. (4)(8)	Senior Secured Term Loan	11.83%	(L +7.25%)	9/30/19	7,000	6,931	6,931	5.1
Revspring Inc. (f/k/a Dantom Systems, Inc.)	Senior Secured Term Loan	5.50%	(L +4.25%)	8/3/17	4,515	4,493	4,515	3.3
Young Innovations, Inc.	Senior Secured Term Loan A	5.25%	(L +4.25%)	1/30/19	2,670	2,641	2,636	1.9
					35,126	34,837	34,834	25.5

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments (unaudited) - Continued
September 30, 2014
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Services: Consumer								
smarTours, LLC (4)	Senior Secured Loan	9.25%	N/A	10/11/18	5,023	4,936	4,936	3.6
	Preferred Equity A (500,000 units)					489	594	0.4
					5,023	5,425	5,530	4.0
Telecommunications								
Barcodes LLC	Senior Secured Term Loan	7.00%	(L +5.75%)	11/2/17	2,815	2,789	2,787	2.0
NHR Holdings, LLC	Senior Secured Term Loan A	5.50%	(L +4.25%)	11/30/18	2,072	2,051	1,973	1.4
NHR Holdings, LLC	Senior Secured Term Loan B	5.50%	(L +4.25%)	11/30/18	2,100	2,079	2,000	1.5
					6,987	6,919	6,760	4.9
Total Non-control/Non-affiliate Investments					223,573	223,703	219,936	160.4
Affiliate Investments								
Aerospace & Defense								
Malabar International (4)	Subordinated Loan	12.5% cash / 2.5% PIK	N/A	5/21/17	7,218	7,288	7,351	5.4
	Preferred Stock (1,644 shares)					4,283	4,612	3.4
					7,218	11,571	11,963	8.8
Healthcare & Pharmaceuticals								
Pfanstiehl Holdings, Inc (4)	Subordinated Loan	12.0% cash / 2.0% PIK	N/A	9/29/18	3,769	3,861	3,845	2.8
	Class A Common Equity (400 shares)					217	1,011	0.7
					3,769	4,078	4,856	3.5
Services: Business								
Contract Datascan Holdings, Inc. (4)(9)	Senior Secured Term Loan B	10.75%	(L +9.75%)	12/17/18	9,265	9,187	9,308	6.8
	Preferred Equity A (2,463 shares)					2,045	2,337	1.7
	Preferred Equity B (382 shares)					692	441	0.3
	Common Equity (9,069 shares)					-	-	-
					9,265	11,924	12,086	8.8
NeoSystems Corp.	Subordinated Loan	10.5% cash / 2.25% PIK	N/A	8/13/19	4,514	4,470	4,470	3.3
	Convertible Preferred Stock (570,865 shares)					1,003	1,003	0.7
					4,514	5,473	5,473	4.0
Sentry Centers Holdings, LLC (4)	Senior Secured Loan	14.00%	N/A	6/28/18	5,075	4,962	5,071	3.7
	Senior Secured Loan	14.00%	N/A	1/15/16	1,000	974	1,010	0.7
	Preferred Equity A (83 units)					-	233	0.2
					6,075	5,936	6,314	4.6
					19,854	23,333	23,873	17.4
Total Affiliate Investments					30,841	38,982	40,692	29.7
Control Investment								
Services: Business								
Tangible Software, Inc. (4)(6)	Senior Secured Loan	12.5% cash / 1.5% PIK	N/A	9/28/16	8,323	8,318	5,551	4.0
	Common Equity B (1,485,000 units)					519	-	-
	Common Equity B-1 (1,022,562 units)					77	-	-
	Common Equity B-2 (615,080 units)					77	-	-
					8,323	8,991	5,551	4.0
Total Control Investment					8,323	8,991	5,551	4.0
Total Investments					262,737	271,676	266,179	194.1

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments (unaudited) - Continued
September 30, 2014
(Dollar amounts in thousands)

Name of Portfolio Company	Investment Type	Principal Amount	Cost	Fair Value	Percent of Net Assets
Money Market					
WF Prime INVT MM #1752 (7)	Money Market	N/A	1,172(3)	1,172(3)	0.9
US Bank Money Market Deposit Account	Money Market	N/A	7,404(3)	7,404(3)	5.4
Total Money Market			8,576	8,576	6.3
Total Investments and Money Market (United States)		$ 262,737	$ 280,252	$ 274,755	200.4%

(1) The majority of the investments bear interest at a rate that may be determined by reference to LIBOR (L) or Prime (P) and which is reset daily, quarterly or semi-annually. For each investment, we have provided the spread over LIBOR and current interest rate in effect at September 30, 2014. Certain investments are subject to a LIBOR or Prime interest rate floor.
(2) The negative fair value is the result of the unfunded commitment being valued below par.
(3) Included in cash and cash equivalents on the consolidated balance sheets.
(4) Investments held by SBIC I LP. All other investments are held by OFS Capital WM, and are pledged as collateral under the OFS Capital WM credit facility.
(5) Indicates assets that the Company deems not "qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
(6) Non-accrual loan.
(7) Money market accounts held by OFS Capital WM, and pledged as collateral under the OFS Capital WM credit facility.
(8) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed to receive its payment after the repayment of its co-lenders pursuant to a payment waterfall. The all-in interest rate of 11.83% at September 30, 2014 includes an interest rate of 3.58% per annum as specified under the contractual arrangement SBIC I LP entered into with the co-lenders in connection with the credit agreement.
(9) SBIC I LP has entered into a contractual arrangement whereby, subject to certain conditions being satisfied, it has agreed to receive its payment pursuant to a payment waterfall after repayment of certain other lenders in connection with the credit agreement.

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments
December 31, 2013
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments								
Aerospace & Defense								
Aero-Metric, Inc.	Senior Secured Term Loan	6.75%	(L +5.50%)	8/27/17	$ 2,713	$ 2,683	$ 2,705	1.9%
Whitcraft LLC	Senior Secured Term Loan	6.50%	(L +5.00%)	12/16/15	4,188	4,157	3,882	2.8
					6,901	6,840	6,587	4.7
Automotive								
Tectum Holdings Inc	Senior Secured Term Loan A	6.50%	(L +5.25%)	12/3/15	3,013	2,999	3,005	2.1
Trico Products Corporation	Senior Secured Term Loan	6.25%	(L +4.75%)	7/22/16	4,196	4,162	4,156	3.0
					7,209	7,161	7,161	5.1
Banking, Finance, Insurance & Real Estate								
AssuredPartners Capital, Inc.	Senior Secured Term Loan A	5.75%	(L +4.50%)	12/14/18	4,840	4,840	4,840	3.4
Captive Resources Midco LLC	Senior Secured Term Loan	7.75%	(P +4.50%)	10/31/18	4,938	4,878	4,878	3.5
CSI Financial Services, LLC (6)	Senior Secured Term Loan	7.00%	(L +5.75%)	12/12/18	3,379	3,332	3,332	2.4
MCMC LLC	Senior Secured Term Loan A	7.50%	(L +6.00%)	9/30/16	3,946	3,912	3,946	2.8
MYI Acquiror Limited (6)	Senior Secured Term Loan A	6.25%	(L +4.75%)	9/13/16	4,899	4,857	4,842	3.4
Personable Holdings, Inc.	Senior Secured Term Loan	8.25%	(P +5.00%)	5/16/18	2,887	2,863	2,887	2.1
Townsend Acquisition LLC	Senior Secured Term Loan	6.25%	(L +4.75%)	5/18/16	4,413	4,353	4,377	3.1
					29,302	29,035	29,102	20.7
Beverage, Food & Tobacco								
Columbus Manufacturing, Inc.	Senior Secured Term Loan B	6.50%	(L +5.25%)	4/17/18	3,960	3,914	3,915	2.8
Phillips Feed & Pet Supply	Senior Secured Term Loan	6.05%	(L +4.25%)	10/13/17	3,184	3,158	3,184	2.3
					7,144	7,072	7,099	5.1
Capital Equipment								
Dorner MFG, Corp.	Senior Secured Term Loan	6.00%	(L +4.75%)	6/15/17	3,228	3,184	3,142	2.2
Elgin Fasteners Group	Senior Secured Term Loan	6.00%	(L +4.75%)	8/26/16	4,844	4,766	4,766	3.4
					8,072	7,950	7,908	5.6
Chemicals, Plastics & Rubber								
Actagro, LLC	Senior Secured Term Loan	5.76%	(L +4.50%)	12/30/16	3,423	3,394	3,339	2.4
Dash Materials LLC	Senior Secured Term Loan	8.75%	(L +7.50%)	12/26/17	4,811	4,790	4,811	3.4
ICM Products Inc	Senior Secured Term Loan	7.50%	(L +6.00%)	2/1/17	2,149	2,123	2,149	1.5
Inhance Technologies Holdings LLC	Senior Secured Term Loan A	9.00%	(L +7.50%)	1/4/17	2,574	2,551	2,574	1.8
KODA Distribution Group, Inc.	Senior Secured Term Loan A	6.00%	(L +5.00%)	4/9/18	3,936	3,919	3,826	2.7
VanDeMark Chemical Inc.	Senior Secured Term Loan	6.50%	(L +5.25%)	11/30/17	2,864	2,819	2,827	2.0
					19,757	19,596	19,526	13.8
Construction & Building								
Jameson LLC	Senior Secured Term Loan	7.50%	(L +5.50%)	10/1/15	1,888	1,874	1,888	1.3
					1,888	1,874	1,888	1.3
Consumer goods: Non-durable								
Pacific World	Senior Secured Term Loan	5.75%	(L +4.75%)	10/31/16	4,682	4,634	4,574	3.3
Phoenix Brands LLC	Senior Secured Term Loan A	9.25%	(L +7.75%)	1/31/16	3,031	3,008	2,854	2.0
					7,713	7,642	7,428	5.3
Containers, Packaging & Glass								
Mold-Rite Plastics, LLC	Senior Secured Term Loan	6.25%	(L +4.50%)	6/30/16	4,268	4,235	4,231	3.0
					4,268	4,235	4,231	3.0
Energy: Oil & Gas								
ANS Distributing, INC.	Senior Secured Term Loan	8.00%	(L +6.50%)	11/1/17	2,966	2,920	2,966	2.1
Charter Brokerage LLC	Senior Secured Term Loan A	8.00%	(L +6.50%)	10/10/16	4,269	4,228	4,269	3.0
					7,235	7,148	7,235	5.1
Environmental Industries								
Apex Companies, LLC.	Senior Secured Term Loan	6.75%	(L +5.50%)	12/10/18	3,859	3,829	3,811	2.7
JWC Environmental, LLC.	Senior Secured Term Loan	6.00%	(L +4.50%)	8/3/16	4,010	3,989	3,943	2.8
					7,869	7,818	7,754	5.5

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments - Continued
December 31, 2013
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Healthcare & Pharmaceuticals								
Accelerated Health Systems LLC	Senior Secured Term Loan	5.75%	(L +4.50%)	7/22/17	4,888	4,857	4,727	3.4
Aegis Sciences Corporation	Senior Secured Term Loan A	6.50%	(L +5.25%)	10/21/16	4,700	4,651	4,675	3.3
Behavioral Health Group	Senior Secured Term Loan A	5.75%	(L +4.50%)	8/18/16	4,604	4,578	4,501	3.3
Elements Behavioral Health, Inc.	Senior Secured Term Loan A	7.50%	(L +6.00%)	8/14/17	4,754	4,703	4,753	3.4
HealthFusion, Inc. (5)	Senior Secured Loan	13.00%	N/A	10/7/18	5,750	5,668	5,668	4.0
	Common Stock Warrants (1,910,302 shares)					-	-	-
					5,750	5,668	5,668	4.0
Hygenic Corporation	Senior Secured Term Loan	5.75%	(L +4.50%)	10/11/18	4,731	4,675	4,508	3.2
Vention Medical, Inc. (f/k/a MedTech Group, Inc.)	Senior Secured Term Loan	6.50%	(L +5.25%)	9/7/16	4,667	4,629	4,644	3.3
NeuroTherm, Inc	Senior Secured Term Loan	6.50%	(L +5.00%)	2/1/16	3,696	3,668	3,690	2.6
Strata Pathology Services, Inc. (7)	Senior Secured Term Loan	11.00%	(L +9.50%)	6/30/16	4,037	3,988	1,051	0.7
Studer Group LLC	Senior Secured Term Loan	6.00%	(L +4.75%)	7/31/18	3,738	3,706	3,614	2.6
The Ritedose Corporation	Senior Secured Term Loan	6.75%	(L +5.00%)	11/10/16	3,182	3,151	3,172	2.3
United Biologics Holdings, LLC (5)	Senior Secured Loan	12.0% cash / 2.0% PIK	N/A	3/5/17	3,290	3,217	3,218	2.3
	Class A-1 Units (2,686 units) and Kicker Units (2,015 units)					9	15	-
	Class A-1 Warrants (2,272 units) and Kicker Warrants (1,704 units)					8	12	-
	Class A Warrants (10,160 units)					67	83	0.1
	Class B Warrants (15,238 units)					7	25	-
					3,290	3,308	3,353	2.4
					52,037	51,582	48,356	34.5
High Tech Industries								
B&B Electronics Manufacturing Company	Senior Secured Term Loan A	6.50%	(L +5.00%)	4/4/15	2,715	2,697	2,577	1.8
OnePath Systems, LLC	Senior Secured Term Loan	7.50%	(L +6.00%)	6/6/17	2,344	2,312	2,344	1.7
					5,059	5,009	4,921	3.5
Media: Advertising, Printing & Publishing								
Content Marketing, LLC	Senior Secured Term Loan	7.50%	(L +6.25%)	12/21/17	3,508	3,466	3,508	2.5
Media Source	Senior Secured Term Loan B	7.50%	(L +6.00%)	11/7/16	3,460	3,420	3,460	2.5
Media Source	Senior Secured Term Loan A	6.75%	(L +5.25%)	11/7/16	1,223	1,209	1,223	0.9
Pamarco Technologies, Inc.	Senior Secured Revolver	N/A	(L +3.75%)	12/31/14	-	(4)	(6)(2)	-
Pamarco Technologies, Inc.	Senior Secured Term Loan A	6.00%	(L +3.75%)	12/31/14	1,522	1,518	1,516	1.1
					9,713	9,609	9,701	7.0
Media: Broadcasting & Subscription								
Campus Televideo, Inc.	Senior Secured Term Loan	7.25%	(L +5.75%)	10/23/17	4,305	4,223	4,305	3.1
					4,305	4,223	4,305	3.1
Retail								
Tharpe Company, Inc.	Senior Secured Term Loan	6.50%	(L +5.25%)	10/19/17	4,138	4,091	4,092	2.9
					4,138	4,091	4,092	2.9
Services: Business								
Revspring Inc. (f/k/a Dantom Systems, Inc.)	Senior Secured Term Loan	5.50%	(L +4.25%)	8/3/17	4,752	4,723	4,723	3.4
Young Innovations, Inc.	Senior Secured Term Loan A	5.75%	(L +4.50%)	1/30/19	2,762	2,727	2,623	1.9
					7,514	7,450	7,346	5.3

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments - Continued
December 31, 2013
(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity	Principal Amount	Cost	Fair Value	Percent of Net Assets
Non-control/Non-affiliate Investments - Continued								
Services: Consumer								
smarTours, LLC (5)	Senior Secured Loan	10.0% cash / 0.5% PIK	N/A	10/11/18	5,006	4,903	4,903	3.5
	Preferred Equity A (500,000 units)					500	500	0.4
					5,006	5,403	5,403	3.9
Telecommunications								
Barcodes LLC	Senior Secured Term Loan	7.25%	(L +6.00%)	11/2/17	2,986	2,952	2,986	2.1
NHR Holdings, LLC	Senior Secured Term Loan A	5.75%	(L +4.50%)	11/30/18	2,272	2,244	2,140	1.5
NHR Holdings, LLC	Senior Secured Term Loan B	5.75%	(L +4.50%)	11/30/18	2,303	2,275	2,169	1.6
					7,561	7,471	7,295	5.2
Total Non-control/Non-affiliate Investments					202,691	201,209	197,338	140.6
Affiliate Investments								
Aerospace & Defense								
Malabar International (5)	Subordinated Loan	12.5% cash / 2.5% PIK	N/A	5/21/17	5,116	5,223	5,223	3.7
	Preferred Stock (1,494 shares)					3,933	3,911	2.8
					5,116	9,156	9,134	6.5
Healthcare & Pharmaceuticals								
Pfanstiehl Holdings, Inc (5)	Subordinated Loan	12.0% cash / 4.0% PIK	N/A	9/29/18	3,674	3,786	3,785	2.7
	Class A Common Equity (400 shares)					217	371	0.3
					3,674	4,003	4,156	3.0
Services: Business								
Contract Datascan Holdings, Inc. (5)	Senior Secured Term Loan B	10.50%	(L +9.50%)	12/17/18	12,265	12,144	12,144	8.7
	Preferred Equity A (2,463 shares)					2,011	2,011	1.4
	Preferred Equity B (382 shares)					437	437	0.3
	Common Equity (9,069 shares)					-	-	-
					12,265	14,592	14,592	10.4
Sentry Centers Holdings, LLC (5)	Senior Secured Loan	14.00%	N/A	6/28/18	5,000	4,867	4,853	3.4
	Preferred Equity A (60 units)					-	-	-
					5,000	4,867	4,853	3.4
					17,265	19,459	19,445	13.8
Total Affiliate Investments					26,055	32,618	32,735	23.3
Control Investment								
Services: Business								
Tangible Software, Inc. (5)	Senior Secured Loan	12.5% cash / 1.5% PIK	N/A	9/28/16	8,920	8,924	7,846	5.6
	Common Equity B (1,485,000 units)					518	-	-
	Common Equity B-1 (1,022,562 units)					77	-	-
	Common Equity B-2 (615,080 units)					77	-	-
					8,920	9,596	7,846	5.6
Total Control Investment					8,920	9,596	7,846	5.6
Total Investments					237,666	243,423	237,919	169.5

OFS Capital Corporation and Subsidiaries
Consolidated Schedule of Investments - Continued
December 31, 2013
(Dollar amounts in thousands)

Name of Portfolio Company	Investment Type	Principal Amount	Cost	Fair Value	Percent of Net Assets
Money Market					
WF Prime INVT MM #1752 (8)	Money Market	N/A	3,829(3)	3,829(3)	2.7
WFB Secured Institutional MM (8)	Money Market	N/A	450(4)	450(4)	0.3
US Bank Money Market Deposit Account	Money Market	N/A	20,590(3)	20,590(3)	14.7
Total Money Market			24,869	24,869	17.7
Total Investments and Money Market (United States)		$ 237,666	$ 268,292	$ 262,788	187.2%

(1) The majority of the investments bear interest at a rate that may be determined by reference to LIBOR (L) or Prime (P) and which is reset daily, quarterly or semi-annually. For each investment, we have provided the spread over LIBOR or Prime and current interest rate in effect at December 31, 2013. Certain investments are subject to a LIBOR or Prime interest rate floor.
(2) The negative fair value is the result of the unfunded commitment being valued below par.
(3) Included in cash and cash equivalents on the consolidated balance sheets.
(4) Included in restricted cash and cash equivalents on the consolidated balance sheets.
(5) Investments held by SBIC I LP investments. All other investments were held by OFS Capital WM, and were pledged as collateral under the OFS Capital WM credit facility.
(6) Indicates assets that the Company deems not "qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
(7) Non-accrual loan.
(8) Money market accounts held by OFS Capital WM, and pledged as collateral under the OFS Capital WM credit facility.

See Notes to Unaudited Consolidated Financial Statements.

Note 1. Organization

OFS Capital Corporation ("OFS Capital", the "Company", or "we") is a Delaware corporation formed on November 7, 2012 and is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for tax purposes, the Company has elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code").

From time to time, the term OFS Capital, the Company, or we may be used herein to refer to OFS Capital Corporation, individually, or OFS Capital Corporation and/or its subsidiaries either collectively or individually, as well as, with respect to all periods prior to the initial public offering ("IPO") date of November 7, 2012, OFS Capital, LLC.

On November 7, 2012, the Company priced its IPO, selling 6,666,667 shares of its common stock at a public offering price of $15 per share and raising $100 million in gross proceeds. Immediately prior to the IPO, on November 7, 2012, OFS Capital, LLC converted from a limited liability company to a corporation, as a result of which the sole membership interest held in OFS Capital, LLC by Orchard First Source Asset Management, LLC ("OFSAM") prior to the conversion was exchanged for 2,912,024 shares of common stock in the Company.

On September 28, 2010, OFS Capital, LLC became the 100% equity owner of OFS Capital WM, LLC ("OFS Capital WM"). On September 29, 2011, OFS Capital, LLC became the primary beneficiary in OFS SBIC I, LP (formerly known as Tamarix Capital Partners, L.P.; "SBIC I LP"), a variable interest entity ("VIE") under the applicable provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidation" ("ASC Topic 810"). On May 10, 2012, upon SBIC I LP's receipt of a Small Business Investment Company ("SBIC") license, OFS Capital, LLC became an approximately 68% limited partner in SBIC I LP. On December 4, 2013, the Company acquired the remaining limited partnership interests in SBIC I LP (the "Tamarix LP Acquisition"), as well as the remaining membership interests in OFS SBIC I GP, LLC (formerly known as Tamarix Capital G.P. LLC, "SBIC I GP"), the general partner of SBIC I LP that holds 1% limited partnership interest in SBIC I LP (the "Tamarix GP Acquisition") (Tamarix LP Acquisition and Tamarix GP Acquisition are collectively referred to as the "Tamarix Acquisitions"). As a result of the Tamarix Acquisitions, SBIC I LP and SBIC I GP became wholly owned subsidiaries of the Company effective December 4, 2013 (see Note 3 for more details).

The Company's investment strategy is to focus primarily on debt investments and, to a lesser extent, equity investments primarily in middle-market companies in the United States. The Company has entered into an investment advisory and management agreement with OFS Capital Management, LLC ("OFS Capital Management", or the "Investment Advisor"), under which the Investment Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company (see Note 4 for more detail).

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The accompanying interim consolidated financial statements of the Company and related financial information have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, the consolidated financial statements reflect all adjustments consisting only of normal recurring accruals and adjustments. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. The December 31, 2013 consolidated balance sheet was derived from the audited balance sheet included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

Principles of consolidation: The Company's September 30, 2014 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, OFS Capital WM, OFS Funding, LLC, SBIC I LP and SBIC I GP. The Company consolidates an affiliated subsidiary if it owns more than 50 percent of the subsidiary's equity and holds the controlling financial interest in such subsidiary. The Company also consolidates a VIE if it is the primary beneficiary in the VIE. Effective July 27, 2012, the Company deconsolidated the financial statements of SBIC I LP from its own (see Note 3). Effective December 4, 2013, the Company consolidated the financial statements of SBIC I LP and SBIC I GP into its own (see Note 3).

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments: The Company applies fair value to substantially all of its financial instruments in accordance with Accounting Standards Codification Topic 820, “Fair Value Measurements and Disclosures” (“ASC Topic 820”). ASC Topic 820 defines fair value, establishes a framework used to measure fair value and requires disclosures for fair value measurements. In accordance with ASC Topic 820, the Company has categorized its financial instruments carried at fair value, based on the priority of the valuation technique, into a three level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant that holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, the Company’s own assumptions reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, 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 models or inputs that are less observable or unobservable in the market, 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).

Changes to the valuation policy are reviewed by management and the Company’s board of directors (the “Board”) to confirm that the changes are justified. As markets change, new products develop and the pricing for products becomes more or less transparent, the Company will continue to refine its valuation methodologies.

See Note 6 for more detailed disclosures of the Company’s fair value measurements of its financial instruments.

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

Investment risks: The Company’s investments are subject to a variety of risks. These risks include the following:

Market risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.

Credit risk

Credit risk represents the risk that the Company would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Company.

Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its positions in times of high volatility and financial stress at a reasonable price.

Interest rate risk

Interest rate risk represents the likelihood that a change in interest rates could have an adverse impact on the fair value of an interest-bearing financial instrument.

Prepayment risk

Many of the Company’s debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the debt investments and making the instrument less likely to be an income producing instrument.

Off-Balance sheet risk

Some of the Company’s financial instruments contain off-balance sheet risk. Generally, these financial instruments represent future commitments to purchase other financial instruments at specific terms at specific future dates.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Reportable segments: In accordance with segment guidance set by Accounting Standards Codification 280, "Segment Reporting" ("ASC Topic 280"), the Company has determined that it has a single reportable segment and operating segment structure.

Cash and cash equivalents: Cash and cash equivalents consist of cash and highly liquid investments not held for resale with original maturities at the time of acquisition of three months or less. The Company places its cash in financial institutions and at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limits.

Restricted cash and cash equivalents: Prior to August 2014, restricted cash and cash equivalents represented amounts maintained in the Unfunded Exposure Account of OFS Capital WM as defined by the Loan Sale Agreement and other applicable transaction documents and were subject to the lien of the trustee for the benefit of the secured parties of OFS Capital WM. Proceeds in the Unfunded Exposure Account, along with advances under the OFS Capital WM Credit Facility (see Note 8), were utilized to fund a debt investment owned by OFS Capital WM that had an unfunded revolving commitment. In August 2014, as a result of the payoff of this loan, the Company's restricted cash and cash equivalents balance was reduced to zero.

Revenue recognition:

Interest Income: Interest income is accrued based upon the outstanding principal amount and contractual interest terms of the debt investments. Recognized interest income, if payable monthly or quarterly, is reflected as interest receivable until collected. Recognized interest income that is instead added to the principal balance and generally becomes due at maturity or at some other stipulated date ("PIK interest") is reflected in the investment account. The Company accrues interest income until certain events take place, which may place a loan into a non-accrual status (see below). The Company will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Loan origination fees, original issue discount ("OID"), market discount or premium, and loan amendment fees (collectively, "net loan origination fees") are capitalized, and the Company accretes or amortizes such amounts on a straight-line basis over the life of the loan as additional interest income. When the Company receives a loan principal payment, the OID related to the paid principal is accelerated and recognized in interest income. This method is not materially different than the effective interest rate method. Unamortized OID is reflected in the investment account and unamortized loan amendment fees are reflected as deferred loan fee revenue. All other interest income is recorded into income when earned. Further, in connection with the Company's debt investments, the Company will sometimes receive warrants or similar no cost equity-related securities ("Warrants"). The Company determines the cost basis of Warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

As of September 30, 2014 and December 31, 2013, unamortized discounts and origination fees on debt investments amounted to $2,256 and $2,105, respectively. For the three and nine months ended September 30, 2014, the Company recognized net loan origination fee income of $488 and $1,094, respectively. For the three and nine months ended September 30, 2013, the Company recognized net loan origination fee income of $335 and $1,060, respectively. For the three and nine months ended September 30, 2014, the Company recognized PIK interest income in the amount of $161 and $399, respectively. For the three and nine months ended September 30, 2013, the Company did not recognize any PIK interest income. To maintain its status as a RIC, the Company includes non-cash interest income (and non-cash dividend income described below) in the amounts that must be paid out to its shareholders in the form of distributions.

Dividend Income: Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. Dividend income on preferred equity is accrued as earned. Such dividends on preferred equity securities could 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 reflected as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared are reflected in the investment account. The Company stops accruing dividends on its preferred equity securities when it is determined that the dividend is not collectible. The Company assesses the collectability of the dividends based on factors including the valuation of the portfolio company's current total enterprise value. During the three and nine months ended September 30, 2014, the Company recognized preferred dividend income of $335 and $394, respectively, of which $302 was contractually earned but not declared during such periods. The Company did not recognize any preferred dividend income during 2013. In addition, the Company did not recognize any common stock dividend income during 2014 and 2013.

Note 2. Summary of Significant Accounting Policies (Continued)

Other Income: The Company may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Such revenue is recognized as the related services are rendered and amounted to $269 and $277, respectively, for the three and nine months ended September 30, 2014. The Company did not recognize any such revenue during 2013.

Investment transactions are accounted for on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the cost basis of investment, without regard to unrealized gains or losses previously recognized. Distribution of earnings from portfolio companies are evaluated to determine if the distribution is income or return of capital.

Investments are recorded at fair value. The Company's Board determines the fair value of its portfolio investments. After recording all appropriate interest and dividend income, some of which is reflected in the investment account as described above, the Company reports changes in fair value of investments that are measured at fair value as a component of the net changes in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Non-accrual loans: Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans, and non-accrual loans are further designated to be accounted for under either a non-accrual cash method or a non-accrual cost recovery method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest based on contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of the Company's management, there is reasonable doubt about the collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has already been contractually added to the principal balance, is reversed against current period interest income. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. The Company had two non-accrual loans at September 30, 2014 and one at December 31, 2013, both of which were accounted for as of September 30, 2014 as non-accrual cash method loans. These loans had an aggregate fair value of $6,316 and $1,051 at September 30, 2014 and December 31, 2013, respectively.

Income taxes: The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements and timely distribute to its shareholders at least 90% of investment company taxable income, as defined by the Code, for each year. The Company has made, and intends to continue to make, the requisite distributions to its shareholders, which will generally relieve the Company from U.S. federal income taxes with respect to all income distributed to its shareholders.

Depending on the level of taxable income earned in a tax year, the Company may choose to retain taxable income in excess of current year dividend distributions into the next tax year in an amount less than what would trigger payments of federal income tax under subchapter M of the Code. The Company would then pay a 4% excise tax on such income, as required. To the extent that the Company determines its estimated current year annual taxable income may exceed estimated current year dividend distributions, the Company accrues excise tax on estimated excess taxable income as taxable income is earned. At September 30, 2014 and December 31, 2013, no U.S. federal excise tax was accrued.

The Company accounts for income taxes in conformity with Accounting Standards Codification 740, "Income Taxes" ("ASC Topic 740"). ASC Topic 740 provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain income tax positions at September 30, 2014 and December 31, 2013. The current and prior three tax years remain subject to examination by U.S. federal and most state tax authorities.

Dividends and distributions: Dividends and distributions to common shareholders are recorded on the declaration date. The timing of dividends and distributions as well as the amount to be paid out as a dividend or distribution is determined by the Board each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. Dividends and distributions paid in excess of net investment income and realized gains are considered returns of capital to shareholders.

The Company has adopted a dividend reinvestment plan ("DRIP") that provides for reinvestment of any distributions the Company declares in cash on behalf of its shareholders, unless a shareholder elects to receive cash. As a result, if the Board authorizes and the Company declares a

(Dollar amounts in thousands, except per share data)

Note 2. Summary of Significant Accounting Policies (Continued)

cash distribution, shareholders who have not "opted out" of the DRIP will have their cash distribution automatically reinvested in additional shares of the Company's common stock, rather than receiving the cash dividend or distribution.

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

Deferred common stock offering costs: The Company defers costs related to its public offerings, including costs incurred in connection with the filing of shelf registration statements which allow for a delayed public offering. These costs include professional fees, registration costs, printing, and other miscellaneous offering costs. Deferred common stock offering costs related to a specific equity raise are charged against the proceeds from that equity raise when received. Deferred offering costs related to a continuous offering are ratably charged to paid-in capital as securities are sold under the shelf registration statement. As of September 30, 2014, the Company had incurred $186 of deferred common stock offering costs related to a shelf registration statement filed on June 12, 2014, which was declared effective on August 7, 2014. These deferred costs are included in prepaid expenses and other assets on the consolidated balance sheets.

Deferred financing closing costs: Deferred financing closing costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. These amounts are amortized over the life of the borrowings. As of September 30, 2014 and December 31, 2013, unamortized deferred financing closing costs recorded by the Company amounted to $4,258 and $3,043, respectively. For the three and nine months ended September 30, 2014, the Company recorded amortization expense of $167 and $469, respectively, on its deferred financing closing costs. For the three and nine months ended September 30, 2013, the Company recorded amortization expense of $168 and $803, respectively, on its deferred financing closing costs.

Goodwill and intangible asset: On December 4, 2013, in connection with the Tamarix Acquisitions, the Company recorded goodwill in the amount of $1,077 (see Note 3), which will be tested for impairment in accordance with Accounting Standards Codification 350, "Intangibles-Goodwill and Other" ("ASC Topic 350").

Also, on December 4, 2013, in connection with the Tamarix Acquisitions, the Company recorded an intangible asset attributable to the SBIC license SBIC I LP holds in the amount of $2,500. The Company amortizes this intangible asset over its estimated useful life, which was determined to be approximately 13 years.

The following table reflects the Company's estimated amortization expense of its intangible asset for the remainder of 2014 and the years thereafter:

Remaining three months of 2014	$	49
For year ended December 31, 2015		195
For year ended December 31, 2016		195
For year ended December 31, 2017		195
For year ended December 31, 2018		195
Thereafter		1,510
Total amortization expense	$	2,339

Interest expense: Interest expense is recognized on the accrual basis.

Concentration of credit risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. To mitigate this risk, the Company places cash deposits only with high credit quality institutions. Management believes the risk of loss is minimal.

Recent accounting pronouncements: In June 2013, the FASB issued ASU 2013-08, *Financial Services – Investment Companies (Topic 946)*: *Amendments to the Scope, Measurement, and Disclosure Requirements* ("ASU 2013-08"), which amends the criteria that define an investment company, clarifies the measurement guidance and requires new disclosures for investment companies. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. The adoption of this guidance did not have a material effect on the Company's consolidated financial condition.

Note 2. Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2017.

Note 3. SBIC I LP and SBIC I GP

SBIC I LP is a Delaware limited partnership formed in January 2010, which commenced operations in September 2011. SBIC I LP applied for an SBIC license from the Small Business Administration ("SBA") in order to become an SBIC regulated fund under the Small Business Investment Company Act of 1958 (the "SBIC Act"). On May 10, 2012, SBIC I LP received the SBIC license.

The objective of SBIC I LP is to generate attractive returns for investors by making investments in United States-based, middle market companies. These investments typically will be comprised of debt-related securities, potentially with warrant coverage. The term of SBIC I LP runs through the later of March 2022 or two years after all of SBIC I LP's Outstanding Leverage (as defined in the limited partnership agreement of SBIC I LP) has matured. Pursuant to the limited partnership agreement of SBIC I LP and the SBIC Act, a limited partner may not sell, transfer, assign, pledge, subdivide for resale or otherwise dispose of all or any part of its interest in SBIC I LP without the prior written consent of SBIC I GP, the granting or denying of which consent will be in SBIC I GP's sole and absolute discretion. In addition, a limited partner may not transfer any interest of ten percent or more in the capital of SBIC I LP without the prior approval of the SBA.

In September and November 2011, OFS Capital lent an aggregate of $16,750 to SBIC I LP, which SBIC I LP utilized to originate loans and acquire equity interests in its underlying portfolio companies. From September 2011 through May 10, 2012, SBIC I LP was deemed to be a VIE of OFS Capital under ASC Topic 810, in which OFS Capital was deemed to be the primary beneficiary. Accordingly, SBIC I LP's financial statements were consolidated into OFS Capital's during such period. Effective May 10, 2012, upon its licensure as an SBIC fund, SBIC I LP was no longer a VIE, but instead a limited partnership guided under ASC Topic 810. Since OFS Capital continued to hold the controlling interest in SBIC I LP, it continued to consolidate the financial statements of SBIC I LP until July 2012.

On July 27, 2012, SBIC I LP repaid its loans due to OFS Capital, utilizing the leverage draw from the SBA. Also effective July 27, 2012, the employees directing activities of SBIC I LP ("SBIC Individuals") resigned as employees from an affiliated entity of OFS Capital. As a result, OFS Capital was no longer deemed to hold the controlling interest in SBIC I LP. Instead, SBIC I GP, as the general partner of SBIC I LP controlled by the SBIC Individuals, obtained the controlling interest in SBIC I LP from OFS Capital. Since OFS Capital no longer held the controlling interest in SBIC I LP, effective July 27, 2012, OFS Capital deconsolidated SBIC I LP's financial statements from its own and adopted the equity method of accounting to record its equity investment in SBIC I LP. From November 8, 2012, as a result of the Company's election to become a BDC, through the Tamarix Acquisitions date of December 4, 2013, the Company accounted for its equity investment in SBIC I LP at fair value.

Tamarix Acquisitions

On December 4, 2013, the Company acquired all of the limited partnership interests in SBIC I LP, as well as all of the membership interest in SBIC I GP, that it did not already own, which resulted in SBIC I LP becoming a wholly owned subsidiary of the Company. The Company paid cash of $8,110 for the Tamarix Acquisitions, consisting of $7,951 for the Tamarix LP Acquisition and $159 for the Tamarix GP Acquisition. In connection with the Tamarix Acquisitions, on December 5, 2013, the SBIC Individuals were reemployed by the affiliated entity of OFS Capital, and Tamarix Associates, LLC ("Tamarix Associates") was terminated as the investment manager of SBIC I LP. Upon the closing of the Tamarix Acquisitions, the Company increased its capital commitment to SBIC I LP, both directly and through SBIC I GP, to $75,000.

(Dollar amounts in thousands, except per share data)

Note 3. SBIC I LP and SBIC I GP (Continued)

The Tamarix Acquisitions were accounted for as a step acquisition in accordance with the Accounting Standards Codification 805, "Business Combinations" ("ASC Topic 805"), under which the Company first remeasured its previously held equity interest in SBIC I LP and SBIC I GP at fair value at December 4, 2013 and recognized the resulting $2,742 gain in earnings. Because this realized gain did not actually result in a cash payment to the Company, the Company does not consider distributions to its shareholders to represent a distribution of the realized gain. The Company secondly accounted for the excess of the fair value of its previously held equity interest plus acquisition price over the fair value of the total net assets of SBIC I LP and SBIC I GP, totaling $1,077 as goodwill.

In connection with the Tamarix Acquisitions, the Company identified an intangible asset attributable to SBIC I LP's SBIC license with a fair value of $2,500. In addition, the goodwill recognized on this transaction was attributable to the control OFS Capital obtained upon the Tamarix Acquisitions, which also enabled the Company to consolidate the financial statements of SBIC I LP and SBIC I GP into its own effective December 4, 2013. For tax purposes, OFS Capital amortizes the goodwill over a period of 15 years.

The following table reflects (1) the fair value of the net identifiable assets of SBIC I LP and SBIC I GP on the December 4, 2013 Tamarix Acquisitions date; (2) remeasurement of the Company's equity interests in SBIC I LP and SBIC I GP at the Tamarix Acquisitions date fair value and recognition of a realized gain, and (3) recording of the excess of the fair value of the previously held equity interest of SBIC I LP and SBIC I GP plus the acquisition price over the fair value of the total net assets of SBIC LP and SBIC I GP as goodwill.

Fair value of net identifiable assets on the Tamarix Acquisitions date:		
Investments	$	41,887
Cash and cash equivalents		1,216
Interest receivable and other assets		647
Intangible asset		2,500
Total assets		46,250
SBA debentures		(26,000)
Other liabilities		(251)
Net assets	$	19,999
Remeasurement of the Company's equity investments in step acquisition:		
Fair value of the Company's equity interests on the Tamarix Acquisitions date	$	12,966
Cost of the Company's equity interest immediately prior to the Tamarix Acquisitions		10,224
Realized gain from step acquisitions	$	2,742
Goodwill:		
Acquisition price	$	8,110
Fair value of the Company's equity interests on Tamarix Acquisitions date		12,966
Less: total net identifiable assets acquired		(19,999)
Goodwill	$	1,077

(Dollar amounts in thousands, except per share data)

Note 3. SBIC I LP and SBIC I GP (Continued)

The following unaudited pro forma presentation for the three and nine months ended September 30, 2013 assumes the Tamarix Acquisitions took place on January 1, 2013.

	Three Months Ended September 30, 2013	
	Historical	Pro Forma
Total investment income	$ 4,017	$ 5,156
Total expenses	2,589	2,826
Net investment income	1,428	2,330
Net realized and unrealized loss on investments	(1,062)	(1,268)
Net increase in net assets resulting from operations	$ 366	$ 1,062
Net increase in net assets resulting from operations per common - basic and diluted	$ 0.04	$ 0.11

	Nine Months Ended September 30, 2013	
	Historical	Pro Forma
Total investment income	$ 12,618	$ 15,496
Total expenses	8,282	8,926
Net investment income	4,336	6,570
Net realized and unrealized gain on investments	2,158	2,342
Net increase in net assets resulting from operations	$ 6,494	$ 8,912
Net increase in net assets resulting from operations per common - basic and diluted	$ 0.67	$ 0.93

Note 4. Related Party Transactions

Investment Advisory and Management Agreement: On November 7, 2012, OFS Capital entered into an Investment Advisory and Management Agreement ("Advisory Agreement") with OFS Capital Management, the Company's Investment Advisor, under which the Investment Advisor manages the day-to-day operations of, and provides investment advisory services to, OFS Capital. Under the terms of the Advisory Agreement and subject to the overall supervision of our Board, the Investment 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. The Investment Advisor is a subsidiary of OFSAM and a registered investment advisor under the Investment Advisers Act of 1940, as amended.

The Investment Advisor's services under the Advisory Agreement are not exclusive to the Company and the Investment Advisor is free to furnish similar services to other entities so long as its services to the Company are not impaired. The Investment Advisor receives fees for providing services, consisting of two components—a base management fee and an incentive fee. From the completion of the Company's IPO through October 31, 2013, the base management fee was calculated at an annual rate of 0.875% based on the average value of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. Beginning on November 1, 2013 and through March 31, 2014, pursuant to the Advisory Agreement, the base management fee was calculated at an annual rate of 1.75% based on the average value of 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. The Investment Advisor has elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from the Tamarix Acquisitions.

On May 5, 2014, the Investment Advisor agreed to reduce its base management fee by two-thirds for the nine months commencing April 1, 2014 and ending December 31, 2014. Specifically, for the second, third, and fourth quarters of fiscal 2014, the Investment Advisor has reduced its base management fee from 0.4375% per quarter to 0.145833% per quarter of the average value of the Company's total assets (other than cash, cash equivalents, and the intangible asset and goodwill resulting from the Tamarix Acquisitions, but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters. The purpose of this is to reduce the effective annual base management fee payable to the Investment Advisor pursuant to the terms of the Advisory Agreement by 50% for the 2014 fiscal year. Accordingly, the effective annual base management fee for the 2014 fiscal year will be equal to 50% of the 1.75% required by the Advisory Agreement with the Investment Advisor, or not greater than 0.875%. The Investment Advisor informed the Company that this reduction was being made for the benefit of the Company's shareholders to take into account unforeseen delays in completing the Tamarix Acquisitions.

Note 4. Related Party Transactions (Continued)

The base management fee is payable quarterly in arrears. The base management fee expense was $370 and $1,750 for the three and nine months ended September 30, 2014, respectively. The base management fee expense was $497 and $1,516 for the three and nine months ended September 30, 2013, respectively.

On October 31, 2014, the Investment Advisor informed the Company that it would not further defer the receipt of the base management fee for the first and second quarters of 2014. In addition, the Investment Advisor informed the Company that the management fee, including the base management fee and incentive management fee (see below for more details about incentive fee), with respect to the third quarter of 2014 will not be deferred. The Company intends to pay the Investment Advisor the outstanding management fee for the first three quarters of 2014 in the aggregate amount of $2,473 during the fourth quarter of 2014.

The incentive fee has two parts. The first part 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 (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash.

Pre-incentive fee net investment income is expressed as a rate of return on the value of the Company’s net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter. The incentive fee with respect to the 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, the Investment 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, the Investment Advisor will receive 20.0% of the pre-incentive fee net investment income.

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

The second part of the incentive fee (the “Capital Gain Fee”) is determined and payable in arrears as of the end of each calendar year (or upon termination of the 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 incentive 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. The Investment Advisor has elected to exclude from the Capital Gain Fee calculation any incentive fee that would be owed in respect of the realized gain on step acquisitions resulting from the Tamarix Acquisitions.

Note 4. Related Party Transactions (Continued)

The Company incurred incentive fee expense of $723 for the three and nine months ended September 30, 2014. The Company did not incur any incentive fee expense during 2013.

Administration Agreement: On November 7, 2012, OFS Capital entered into an administration agreement ("Administration Agreement") with OFS Capital Services, LLC ("OFS Capital Services" or the "Administrator"), a wholly-owned subsidiary of OFSAM. Pursuant to the Administration Agreement, the Administrator furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, the Administrator performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records that the Company is required to maintain and preparing reports to its shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, the Administrator assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its shareholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, the Administrator would provide 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 the Administrator's overhead in performing its obligations under the Administration Agreement, including rent 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. The administrative fee is payable quarterly in arrears. For the three and nine months ended September 30, 2014, the Company incurred an administration fee expense of $212 and $972, respectively. For the three and nine months ended September 30, 2013, the Company incurred an administration fee expense of $200 and $657, respectively.

On October 31, 2014, the Administrator informed the Company that it would not further defer the receipt of the administrative fee for the first and second quarters of 2014. In addition, the Administrator informed the Company that the administrative fee with respect to the third quarter of 2014 will not be deferred. The Company intends to pay the Administrator the outstanding administrative fees for the first three quarters of 2014 in the aggregate amount of $972 during the fourth quarter of 2014.

Other Related Party Transactions:

Due from OFS Capital Management

As of December 31, 2013, OFS Capital Management owed $218 to the Company, as a result of allocation by the Company of a portion of the D&O/E&O insurance expenses to the Investment Advisor under certain joint insurance policies between the two entities. In January 2014, the Investment Advisor paid the $218 owed to the Company.

(Dollar amounts in thousands, except per share data)

Note 5. Investments

At September 30, 2014, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	$ 244,225	$ 241,849	$ 235,026
Subordinated debt investments	18,512	18,630	18,677
Equity investments	N/A	11,197	12,476
Total	$ 262,737	$ 271,676	$ 266,179

At September 30, 2014, the Company's investments were all domiciled in the United States and the industry compositions of the Company's portfolio were as follows:

	Cost		Fair Value	
Aerospace & Defense	$ 18,068	6.7%	$ 18,406	6.9%
Automotive	4,056	1.5	4,080	1.5
Banking, Finance, Insurance & Real Estate	17,136	6.3	16,986	6.4
Beverage, Food & Tobacco Total	6,936	2.6	6,879	2.6
Capital Equipment	22,362	8.2	22,264	8.4
Chemicals, Plastics & Rubber	18,792	6.9	18,470	6.9
Construction & Building	1,612	0.6	1,618	0.6
Consumer goods: Non-durable	2,133	0.8	2,081	0.8
Containers, Packaging & Glass	4,051	1.5	4,009	1.5
Energy: Oil & Gas	6,857	2.5	6,920	2.6
Environmental Industries	7,600	2.8	7,346	2.8
Healthcare & Pharmaceuticals	47,625	17.5	45,527	17.1
High Tech Industries	7,656	2.8	7,694	2.9
Media: Advertising, Printing & Publishing	20,037	7.4	20,065	7.5
Media: Broadcasting & Subscription	3,644	1.3	3,690	1.4
Retail	3,606	1.3	3,596	1.4
Services: Business	67,161	24.8	64,258	24.1
Services: Consumer	5,425	2.0	5,530	2.1
Telecommunications	6,919	2.5	6,760	2.5
	$ 271,676	100.0%	$ 266,179	100.0%

(Dollar amounts in thousands, except per share data)

Note 5. Investments (Continued)

At December 31, 2013, investments consisted of the following:

	Principal	Cost	Fair Value
Senior secured debt investments	$ 228,876	$ 226,552	$ 221,546
Subordinated debt investments	8,790	9,009	9,008
Equity investments	N/A	7,862	7,365
Total	$ 237,666	$ 243,423	$ 237,919

At December 31, 2013, the Company's investments were all domiciled in the United States and the industry compositions of the Company's portfolio were as follows:

	Cost		Fair Value	
Aerospace & Defense	$ 15,996	6.6%	$ 15,721	6.6%
Automotive	7,161	2.9	7,161	3.0
Banking, Finance, Insurance & Real Estate	29,035	11.9	29,102	12.2
Beverage, Food & Tobacco	7,072	2.9	7,099	3.0
Capital Equipment	7,950	3.3	7,908	3.3
Chemicals, Plastics & Rubber	19,596	8.1	19,526	8.2
Construction & Building	1,874	0.8	1,888	0.8
Consumer goods: Non-durable	7,642	3.1	7,428	3.1
Containers, Packaging & Glass	4,235	1.7	4,231	1.8
Energy: Oil & Gas	7,148	2.9	7,235	3.0
Environmental Industries	7,818	3.2	7,754	3.3
Healthcare & Pharmaceuticals	55,585	22.8	52,512	22.1
High Tech Industries	5,009	2.1	4,921	2.1
Media: Advertising, Printing & Publishing	9,609	4.0	9,701	4.1
Media: Broadcasting & Subscription	4,223	1.7	4,305	1.8
Retail	4,091	1.7	4,092	1.7
Services: Business	36,505	15.0	34,637	14.5
Services: Consumer	5,403	2.2	5,403	2.3
Telecommunications	7,471	3.1	7,295	3.1
	$ 243,423	100.0%	$ 237,919	100.0%

Note 6. Fair Value of Financial Instruments

The Company follows ASC Topic 820 for measuring fair value. Fair value is 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under ASC Topic 820 as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under ASC Topic 820 are described below:

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

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. 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.

Note 6. Fair Value of Financial Instruments (Continued)

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

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the subsequent measurement date closest in time to the actual date of the event or change in circumstances that caused the transfer. There were no transfers among Level 1, 2 and 3 for the three and nine months ended September 30, 2014 or 2013. The following sections describe the valuation techniques used by the Company to measure different financial instruments at fair value and include the levels within the fair value hierarchy in which the financial instruments are categorized.

Investments for which prices are not observable by the Company are generally private investments in the debt and equity securities of operating companies. The primary analytical method used to estimate the fair value of these Level 3 investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more appropriate). The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including comparing the latest arm's length or market transactions involving the subject security to the selected benchmark credit spread, assumed growth rate (in cash flows), and capitalization rates/multiples (for determining terminal values of underlying portfolio companies). The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date. Application of these valuation methodologies involves a significant degree of judgment by management. Fair values of new investments are generally assumed to be equal to their cost to the Company for up to three months after their initial purchase.

To assess the reasonableness of the discounted cash flow approach, the fair value of equity securities, including warrants, in portfolio companies may also consider the market approach—that is, through analyzing, and applying to the underlying portfolio companies, market valuation multiples of publicly-traded firms engaged in businesses similar to those of the portfolio companies. The market approach to determining the fair value of a portfolio company's equity security (or securities) will typically involve: (1) applying to the portfolio company's trailing twelve months (or current year projected) EBITDA a low to high range of enterprise value to EBITDA multiples that are derived from an analysis of publicly-traded comparable companies, in order to arrive at a range of enterprise values for the portfolio company; (2) subtracting from the range of calculated enterprise values the outstanding balances of any debt or equity securities that would be senior in right of payment to the equity securities held by the Company; and (3) multiplying the range of equity values derived therefrom by the Company's ownership share of such equity tranche in order to arrive at a range of fair values for the Company's equity security (or securities). Application of these valuation methodologies involves a significant degree of judgment by management.

Equity in a portfolio company that invests in loans will typically be valued by arriving at a fair value of such vehicle's loan assets (plus, when appropriate, the carrying value of certain other assets), and deducting the book value or fair value (as appropriate) of such vehicle's liabilities to arrive at a fair value for the equity. When appropriate, in order to recognize value that would be created by growth opportunities of such portfolio company, equity in a portfolio company may also be valued by taking into consideration the magnitude, timing, and effective life of its expected future investments in loans.

Due to the inherent uncertainty of determining the fair value of Level 3 investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If 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. With respect to Level 3 investments, where sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, the Company undertakes, on a quarterly basis, a valuation process as described below:

(Dollar amounts in thousands, except per share data)

Note 6. Fair Value of Financial Instruments (Continued)

- For each debt investment, a basic credit rating review process is completed. The risk rating on every credit facility is reviewed and either reaffirmed or revised by the Investment Advisor's investment committee.

- Each portfolio company or investment is valued by an investment professional.

- Preliminary valuation conclusions are then documented and discussed with individual members of the Investment Advisor's investment committee.

- The preliminary valuations are then submitted to the Investment Advisor's investment committee for ratification.

- Third party valuation firm(s) are engaged to provide valuation services as requested, by reviewing the investment committee's preliminary valuations. The Investment Advisor's investment committee's preliminary fair value conclusions on each of the Company's assets for which sufficient market quotations are not readily available are reviewed and assessed by a third-party valuation firm at least once in every 12-month period, and more often as determined by the Company's Board or required by the Company's valuation policy. Such valuation assessment may be in the form of positive assurance, range of values or other valuation method based on the discretion of the Company's Board.

- The Company's Board discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of OFS Capital Management and, where appropriate, the respective independent valuation firms.

The Company's investments are subject to market risk. Market risk is the potential for changes in the value of investments due to market changes. Market risk is directly impacted by the volatility and liquidity in the markets in which the investments are traded. The Company manages its exposure to market risk related to its investments through monitoring the financial condition of its investments, as well as the volatility and liquidity trends of the markets in which it trades.

The following tables present fair value measurements of the Company's investments and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	September 30, 2014			
	Fair Value Measurements Using			
Description	(Level I)	(Level II)	(Level III)	Total
Assets:				
Senior secured debt investments	$ -	$ -	$ 235,026	$ 235,026
Subordinated debt investments	-	-	18,677	18,677
Equity investments	-	-	12,476	12,476
Money market funds *	8,576	-	-	8,576
Total	$ 8,576	$ -	$ 266,179	$ 274,755

* included in cash and cash equivalents on the consolidated balance sheet.

(Dollar amounts in thousands, except per share data)

Note 6. Fair Value of Financial Instruments (Continued)

	September 30, 2014			
	Fair Value Measurements Using			
Description	(Level I)	(Level II)	(Level III)	Total
Assets:				
Non-control/non-affiliate investments	$ -	$ -	$ 219,936	$ 219,936
Affiliate investments	-	-	40,692	40,692
Control investment	-	-	5,551	5,551
Money market funds *	8,576	-	-	8,576
Total	$ 8,576	$ -	$ 266,179	$ 274,755

* included in cash and cash equivalents on the consolidated balance sheet.

As of September 30, 2014, the Company had loans to 57 portfolio companies, of which 93% were senior secured loans and 7% were subordinated loans, at fair value, as well as equity investments in eleven portfolio companies. The following table presents quantitative information about the significant unobservable inputs of the Company's Level 3 debt and equity investments as of September 30, 2014:

	Fair Value at September 30, 2014	Valuation techniques	Unobservable input	Range (Weighted average)
Debt investments:				
Senior secured	235,026	Discounted cash flow	Discount rates	6.39% - 25.00% (9.04%)
			EBITDA multiples	4.30x - 9.78x (7.06x)
Subordinated	18,677	Discounted cash flow	Discount rates	13.15% - 15.00% (14.36%)
			EBITDA multiples	3.98x - 5.17x (4.76x)
Equity investments	12,476	Discounted cash flow	Discount rates	11.75% - 40.00%
			EBITDA multiples	3.98x - 9.48x
		Market approach	EBITDA multiples	3.98x - 12.79x

	December 31, 2013			
	Fair Value Measurements Using			
Description	(Level I)	(Level II)	(Level III)	Total
Assets:				
Senior secured debt investments	$ -	$ -	$ 221,546	$ 221,546
Subordinated debt investments	-	-	9,008	9,008
Equity investments	-	-	7,365	7,365
Money market funds *	24,869		-	24,869
Total	$ 24,869	$ -	$ 237,919	$ 262,788

* included in cash and cash equivalents and restricted cash and cash equivalents on the consolidated balance sheet.

(Dollar amounts in thousands, except per share data)

Note 6. Fair Value of Financial Instruments (Continued)

	December 31, 2013			
	Fair Value Measurements Using			
Description	(Level I)	(Level II)	(Level III)	Total
Assets:				
Non-control/non-affiliate investments	$ -	$ -	$ 197,338	$ 197,338
Affiliate investments	-	-	32,735	32,735
Control investment	-	-	7,846	7,846
Money market funds *	24,869		-	24,869
Total	$ 24,869	$ -	$ 237,919	$ 262,788

* included in cash and cash equivalents and restricted cash and cash equivalents on the consolidated balance sheet.

As of December 31, 2013, the Company had loans to 56 portfolio companies, of which 96% were senior secured loans and 4% were subordinated loans, at fair value, as well as equity investments in eight portfolio companies. The following table presents quantitative information about the significant unobservable inputs of the Company's Level 3 debt and equity investments as of December 31, 2013:

	Fair Value at December 31, 2013	**Valuation techniques**	**Unobservable input**	**Range (Weighted average)**
Debt investments:				
Senior secured	221,546	Discounted cash flow	Discount rates	5.82% - 25.00% (8.92%)
			EBITDA multiples	4.00x - 10.10x (6.70x)
Subordinated	9,008	Discounted cash flow	Discount rates	13.13% - 15.00% (14.21%)
			EBITDA multiples	3.98x - 5.17x (4.67x)
Equity investments	7,365	Discounted cash flow	Discount rates	20.00% - 40.00%
			EBITDA multiples	3.98x - 9.48x
		Market approach	EBITDA multiples	3.47x - 11.86x

Changes in credit quality (which would impact the discount rate), as well as changes in EBITDA multiples, could have a significant impact on fair values, with the fair value of a particular debt investment susceptible to change in inverse relation to the changes in the discount rate. Changes in EBITDA multiples, as well as changes in the discount rate, could have a significant impact on fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA multiples, and in inverse relation to changes in the discount rate.

(Dollar amounts in thousands, except per share data)

Note 6. Fair Value of Financial Instruments (Continued)

The following tables presents changes in investments measured at fair value using Level 3 inputs for the nine months ended September 30, 2014 and 2013.

	For the Nine Months Ended September 30, 2014			
	Senior Secured Debt Investments	Subordinated Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	$ 221,546	$ 9,008	$ 7,365	$ 237,919
Net realized gain on affiliate investment	28	-	-	28
Net realized gain on non-control/non-affiliate investments	-	17	-	17
Net change in unrealized depreciation on non-control/non-affiliate investments	(407)	-	513	106
Net change in unrealized appreciation/depreciation on affiliate investments	288	40	1,263	1,591
Net change in unrealized depreciation on control investment	(1,691)	-	-	(1,691)
Purchase of portfolio investments	78,173	9,445	3,044	90,662
Capitalized PIK interest, dividends and fees	352	205	302	859
Reversal of PIK interest on non-accrual loans	(64)	-	-	(64)
Proceeds from principal payments on portfolio investments	(59,132)	-	-	(59,132)
Sale of portfolio investments	-	-	-	-
Proceeds from sale of portfolio investments	(5,000)	-	-	(5,000)
Cash distribution received from equity investment	-	-	(11)	(11)
Amortization of discounts and premium	933	(38)	-	895
Level 3 assets, end of period	$ 235,026	$ 18,677	$ 12,476	$ 266,179

	For the Nine Months Ended September 30, 2013		
	Senior Secured Debt Investments	Equity Investments	Total
Level 3 assets, beginning of period	$ 227,542	$ 4,657	$ 232,199
Net realized gain on non-control/non-affiliate investments	5	-	5
Net change in unrealized depreciation on non-control/non-affiliate investments	554	-	554
Net change in unrealized depreciation on affiliate investments	-	1,599	1,599
Additional equity investments in SBIC I LP	-	5,157	5,157
Purchase of portfolio investments	30,591	-	30,591
Proceeds from principal payments on portfolio investments	(46,976)	-	(46,976)
Sale of portfolio investments	(4,713)	-	(4,713)
Distribution receivable from SBIC I LP	-	(91)	(91)
Amortization of discounts and premium	972	-	972
Level 3 assets, end of period	$ 207,975	$ 11,322	$ 219,297

Note 6. Fair Value of Financial Instruments (Continued)

The net change in unrealized appreciation (depreciation) for the nine months ended September 30, 2014 and 2013 reported within the net change in unrealized appreciation (depreciation) on investments in the Company's consolidated statements of operations attributable to the Company's Level 3 assets held at September 30, 2014 and 2013 was $154 and $1,599, respectively.

The Company discloses fair value information about financial instruments, whether or not recognized in the balance sheet at fair value, for which it is practicable to estimate that value. Certain financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The information presented should not be interpreted as an estimate of the fair value of the entire company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

As of September 30, 2014 and December 31, 2013, the carrying value of the Company's financial instruments, including its debt obligations under the revolving line of credit, as well as its SBA debentures payable, approximated their estimated fair value.

Note 7. Commitments and Contingencies

At September 30, 2014, the Company had $6,594 of total unfunded commitments for four portfolio companies. At December 31, 2013, the Company had $4,750 of unfunded commitments for three portfolio companies.

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.

Additionally, the Company is subject to periodic inspection by regulators to assess compliance with applicable regulations related to being a BDC and a RIC, and SBIC I LP is subject to periodic inspections by the SBA. Management believes that the Company is in material compliance with such regulations and inspection results do not indicate otherwise.

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

Note 8. Revolving Line of Credit

On September 28, 2010, OFS Capital WM entered into a $180,000 secured revolving credit facility (as amended from time to time, the "OFS Capital WM Credit Facility") with Wells Fargo Bank, N.A. ("Wells Fargo") and Madison Capital Funding, LLC ("Madison Capital"), with the Class A lenders (initially Wells Fargo) providing up to $135,000 in Class A loans ("Class A Facility") and the Class B lenders (initially Madison Capital) providing up to $45,000 in Class B loans ("Class B Facility"). The OFS Capital WM Credit Facility is secured by all current and future eligible loans acquired by OFS Capital WM. The loan facilities with Wells Fargo and Madison Capital had five- and six-year terms, respectively, and both facilities provided a one-year option for extension upon the approval of the Class A and Class B lenders, respectively. The loan facilities had a reinvestment period of two years after the closing date of the OFS Capital WM Credit Facility, which could be extended by one year with the consent of each lender. Outstanding borrowings on the loan facilities were limited to the lesser of (1) $180,000 and (2) the borrowing base as defined by the OFS Capital WM Credit Facility loan documents. OFS Capital WM is obligated to pay interest on the outstanding Class A loans (and on the Class B loans until the termination of the Class B Facility in January 2013) on each quarterly payment date. In connection with the closing of the OFS Capital WM Credit Facility, OFS Capital WM incurred financing costs of $3,501, which were deferred and are amortizing over the term of the OFS Capital WM Credit Facility.

Under the OFS Capital WM Credit Facility, MCF Capital Management LLC, which is the loan manager and also an affiliated entity of Madison Capital ("Loan Manager"), charges both a senior and subordinated management fee to OFS Capital WM for its services, each at 0.25% per annum of the assigned value of the underlying portfolio investments, which value is determined by the Controlling Lender (as defined in the OFS Capital WM loan documents), plus an accrued fee that is deferred until after the end of the investment period of the portfolio investments. For the three and nine months ended September 30, 2014, the Company incurred management fee expense of $173 and $590, respectively, to the Loan Manager. For the three and nine months ended September 30, 2013, the Company incurred management fee expense of $247 and $829, respectively, to the Loan Manager.

On September 28, 2012, the OFS Capital WM Credit Facility was amended, in connection with which OFS Capital WM incurred financing costs of $675. The deferred financing closing costs under the amended OFS Capital WM Credit Facility, together with the original unamortized deferred financing closing costs of $2,350 at September 28, 2012, are being amortized over the term of the OFS Capital WM Credit Facility.

On January 22, 2013, the OFS Capital WM Credit Facility was further amended, pursuant to which the Class B Facility, on which there was no outstanding balance, was terminated. As a result, the OFS Capital WM Credit Facility commitment was reduced from $180,000 to $135,000. In connection with the termination of the Class B Facility, OFS Capital WM wrote off unamortized deferred financing closing costs attributable to the Class B loan in the amount of $299.

On November 22, 2013, the OFS Capital WM Credit Facility was further amended. Pursuant to the amendment, (1) the loan with Wells Fargo was extended to December 31, 2018; (2) the reinvestment period for the Wells Fargo loan was extended to December 31, 2015; (3) the accrued interest rate on outstanding Class A loans was amended to London Interbank Offered Rate ("LIBOR") plus 2.50% per annum, and (4) the advance rate on borrowing was increased from 65% to 70%. In connection with the amendment, OFS Capital WM incurred financing costs of $1,168. The deferred financing closing costs, together with the unamortized deferred financing closing costs of $1,940 at November 22, 2013, are being amortized over the amended term of the OFS Capital WM Credit Facility.

On January 17, 2014, the OFS Capital WM Credit Facility was further amended, pursuant to which the calculation of the borrowing base was adjusted and the minimum equity requirement was lowered from $65,000 to $50,000, resulting in additional liquidity for the Company. No financing costs were incurred in connection with this amendment.

On July 24, 2014, the OFS Capital WM Credit Facility was further amended, pursuant to which the calculation of the borrowing base was adjusted and the minimum equity requirement was lowered from $50,000 to $35,000, resulting in additional liquidity for the Company. In addition, the maximum facility was reduced from $135,000 to $125,000. No financing costs were incurred in connection with this amendment. Availability under the OFS Capital WM Credit Facility as of September 30, 2014 was $9,739.

The interest rates on the revolving line of credit borrowings at September 30, 2014 and December 31, 2013 were 2.73% and 2.75%, respectively. For the three and nine months ended September 30, 2014, interest expense on the revolving line of credit totaled $724 and $2,276, respectively. For the three and nine months ended September 30, 2013, interest expense on the revolving line of credit totaled $821 and $2,530, respectively.

(Dollar amounts in thousands, except per share data)

Note 8. Revolving Line of Credit (Continued)

Deferred financing closing costs, net of accumulated amortization, on the OFS Capital WM Credit Facility as of September 30, 2014 and December 31, 2013 were $2,588 and $3,043, respectively. For the three and nine months ended September 30, 2014, amortization of deferred financing closing costs on the revolving line of credit totaled $153 and $455, respectively. For the three and nine months ended September 30, 2013, amortization of deferred financing closing costs on the revolving line of credit totaled $168 and $803, respectively.

Note 9. SBA Debentures Payable

Upon the completion of the Tamarix Acquisitions, effective December 4, 2013, the Company consolidated the financial statements of SBIC I LP into its own and SBIC I LP's SBA debentures payable are reflected on the Company's consolidated balance sheet.

The SBIC license allows SBIC I LP to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to the Company, have interest payable semi-annually and a ten-year maturity. The interest rate is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities.

Under present SBIC regulations, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is $150,000. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. In connection with the Tamarix Acquisitions, the Company increased to $75,000 its total commitments to SBIC I LP, which became a drop down SBIC fund of the Company on December 4, 2013. As of September 30, 2014, the Company had fully funded its $75,000 commitment to the SBIC I LP. As of September 30, 2014, SBIC I LP had leverage commitments of $149,880 from the SBA, and $61,375 of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $88,505, under present SBIC regulations. As of December 31, 2013, SBIC I LP had leverage commitments of $49,438 from the SBA, and $26,000 of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $23,438.

The following table shows the Company's outstanding SBA debentures payable as of September 30, 2014 and December 31, 2013:

Pooling Date	Maturity Date	Fixed Interest Rate	September 30, 2014	December 31, 2013
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	-
September 24, 2014	September 1, 2024	3.370	31,265	-
Total SBA debentures outstanding			$ 61,375	$ 26,000

* The SBA has scheduled pooling dates in March and September of each year. SBA debentures issued between pooling dates use an interim rate and will be fixed at the next pooling date. At December 31, 2013, the interim interest rate on the $5,000 debenture was 1.450%.

The weighted average interest rate on the SBA debentures as of September 30, 2014 and December 31, 2013 was 3.50% and 3.12%, respectively. For the three and nine months ended September 30, 2014, interest expense on the SBA debentures was $277 and $713, respectively.

The Company received exemptive relief from the Securities and Exchange Commission ("SEC") effective November 26, 2013. The exemptive relief allows OFS Capital to exclude SBA-guaranteed debentures from the definition of senior securities in the statutory 200% asset coverage ratio allowing for greater capital deployment by the Company.

Deferred financing closing costs, net of accumulated amortization, on SBA-guaranteed debentures as of September 30, 2014 and December 31, 2013 were $1,670 and zero, respectively. For both the three and nine months ended September 30, 2014, amortization of deferred financing closing costs on SBA-guaranteed debentures totaled $14.

(Dollar amounts in thousands, except per share data)

Note 10. Financial Highlights

The financial highlights for the Company are as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Per share data:				
Net asset value at beginning of period	$ 14.17	$ 14.76	$ 14.58	$ 14.80
Distributions (7)				
Dividends from ordinary income	(0.30)	(0.16)	(0.67)	(0.47)
Dividends from capital gains	-	-	-	-
Return of capital	(0.04)	(0.18)	(0.35)	(0.55)
Net investment income	0.30	0.15	0.66	0.45
Net realized gain on non-control/non-affiliate investments	-	-	-	-
Net realized gain on affiliate investment	-	-	-	-
Net change in unrealized depreciation on non-control/ non-affiliate investments	0.04	(0.16)	0.01	0.06
Net change in unrealized appreciation/depreciation on affiliate investments	0.10	0.05	0.17	0.17
Net change in unrealized depreciation on control investment	(0.05)	-	(0.18)	-
Net asset value at end of period	$ 14.22	$ 14.46	$ 14.22	$ 14.46
Per share market value, end of period	$ 12.07	$ 12.66	$ 12.07	$ 12.66
Total return based on market value	(4.5)%(1)	(9.2)%(1)	2.0%(1)	(0.1)%(1)
Shares outstanding at end of period	9,638,061	9,626,987	9,638,061	9,626,987
Ratios to average net assets:				
Expense without incentive fees	7.5%(2)	7.3%(2)	8.5%(2)	7.8%(2)
Incentive fees	2.1%(2)	-(2)	0.7%(2)	-(2)
Total expenses	9.6%(2)	7.3%(2)	9.2%(2)	7.8%(2)
Net investment income without incentive fees	10.5%(2)	4.0%(2)	6.9%(2)	4.1%(2)
Average net asset value	$ 136,809(3)	$ 140,605(4)	$ 138,296(5)	$ 141,228(6)

(1) Calculation is ending market value less beginning market value, adjusting for dividends and distributions.
(2) Annualized.
(3) Based on the average net asset values at December 31, 2013 and September 30, 2014.
(4) Based on the average net asset values at December 31, 2012 and September 30, 2013.
(5) Based on the average net asset value at December 31, 2013, March 31, 2014, June 30, 2014, and September 30, 2014.
(6) Based on the average net asset value at December 31, 2012, March 31, 2013, June 30, 2013, and September 30, 2013.
(7) The components of the distributions are estimated and presented on an income tax basis.

Note 11. Dividends and Distributions

The Company records dividends and distributions on the declaration date. The Company determines if a portion of its distributions may be deemed a tax return of capital to its shareholders at the end of each fiscal year. However, if the characteristics of such distributions were determined as of September 30, 2014, June 30, 2014 and March 31, 2014, the Company estimates that approximately $0.35, $0.31 and $0.19 per share, respectively, would have been characterized as a tax return of capital to its shareholders.

(Dollar amounts in thousands, except per share data)

Note 11. Dividends and Distributions (Continued)

The following table summarizes dividends and distributions declared and paid from inception to September 30, 2014:

Date Declared	Record Date	Payment Date	Amount Per Share (2)	Total Amount
Period November 8, 2012 to December 31, 2012				
November 26, 2012 (1)	January 17, 2013	January 31, 2013	$ 0.17	$ 1,628
Year ended December 31, 2013				
March 26, 2013	April 17, 2013	April 30, 2013	0.34	3,269
June 25, 2013	July 17, 2013	July 31, 2013	0.34	3,272
September 25, 2013	October 17, 2013	October 31, 2013	0.34	3,273
Total declared for the year ended December 31, 2013			$ 1.02	$ 9,814
Year ended December 31, 2014				
January 21, 2014	January 31, 2014	February 14, 2014	0.34	3,274
May 7, 2014	June 16, 2014	June 30, 2014	0.34	3,275
August 7, 2014	September 16, 2014	September 30, 2014	0.34	3,276
Total declared for the period ended September 30, 2014			$ 1.02	$ 9,825

(1) - Represented the dividend declared in the specified quarter, which, if prorated for the number of days remaining in the fourth quarter after the IPO in November 2012, would be $0.34 per share.

(2) - The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. If the tax characteristics of these distributions were determined as of December 31, 2012 (for the period November 8, 2012 through December 31, 2012), March 31, 2013, June 30, 2013, September 30, 2013, December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014, the Company estimated that approximately zero, $0.18, $0.19, $0.18, zero, $0.19, $0.12, and $0.04, respectively, would have represented a return of capital.

The Company has adopted a DRIP that provides for reinvestment of any distributions the Company declares in cash on behalf of its shareholders, unless a shareholder elects to receive cash. The following table summarizes dividend reinvestment plan activity for the nine months ended September 30, 2014 and 2013.

	Nine Months Ended September 30,	
	2014	2013
Shares issued	8,264	48,296
Average price per share	$ 12.71	$ 14.18

(Dollar amounts in thousands, except per share data)

Note 12. Earnings per Share

The following table summarizes the calculations for basic and diluted net increase in net assets resulting from operations per common share for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net increase in net assets resulting from operations	$ 3,835	$ 366	$ 6,443	$ 6,494
Basic and diluted weighted average shares outstanding	9,635,943	9,626,336	9,633,214	9,616,637
Net increase in net assets resulting from operations per common share - basic and diluted	$ 0.40	$ 0.04	$ 0.67	$ 0.67

Note 13. Subsequent Events Not Disclosed Elsewhere

On November 4, 2014, the Company’s Board declared a distribution of $0.34 per share for the 2014 fourth quarter, payable on December 31, 2014 to shareholders of records as of December 17, 2014.

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

Forward-Looking Statements

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

- our limited experience operating a business development company, or BDC, or a small business investment company, or SBIC, or maintaining our status as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”);
- our dependence on key personnel;
- our ability to maintain or develop referral relationships;
- the administration of OFS Capital WM, LLC’s, or OFS Capital WM’s, portfolio by an unaffiliated loan manager;
- our ability to replicate historical results;
- the ability of OFS Capital Management, LLC, or 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 Orchard First Source Asset Management, LLC, or OFSAM, which is the holding company of OFS Advisor and OFS Services and owns approximately 31% of our outstanding shares of common stock;
- constraints on investment due to access to material nonpublic information;
- restrictions on our ability to enter into transactions with our affiliates;
- limitations on the amount of debentures guaranteed by the Small Business Administration, or SBA, that may be issued by an SBIC;
- our ability to comply with SBA regulations and requirements;
- the use of borrowed money to finance a portion of our investments;
- competition for investment opportunities;
- our ability to qualify and maintain our qualification as a RIC and as a BDC;
- the ability of OFS SBIC I LP, or SBIC I LP, OFS Capital WM and any other portfolio companies to make distributions enabling us to meet RIC requirements;
- our ability to raise 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 quarterly report on Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include, among others, those described or identified in “Item 1A. Risk Factors” in our annual report on Form 10-K for our year ended December 31, 2013. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this quarterly report on Form 10-Q.

We have based the forward-looking statements on information available to us on the date of this quarterly report on Form 10-Q. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we may file with the SEC in the future, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this quarterly report on Form 10-Q are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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

Overview

We are an externally managed, closed-end, non-diversified management investment company. Our investment objective is to provide our shareholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. Our investment strategy focuses primarily on investments in middle-market companies in the United States. We use the term “middle-market” to refer to companies that may exhibit one or more of the following characteristics: number of employees between 150 and 2,000; revenues between $15 million and $300 million; annual earnings before interest, taxes, depreciation and amortization, or EBITDA, between $3 million and $50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between $10 million and $500 million.

As of September 30, 2014, our investment portfolio consisted of outstanding loans of approximately $262.7 million in aggregate principal amount in 57 portfolio companies, of which $123.2 million in aggregate principal amount was held by SBIC I LP, our wholly-owned SBIC subsidiary, in 18 portfolio companies. As of September 30, 2014, 88% of our investment portfolio was comprised of senior secured loans, 7% of subordinated loans and 5% of equity investments, at fair value.

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 minority equity securities. We also may invest up to 30% of our portfolio in opportunistic investments of non-eligible portfolio companies. Specifically, as part of this 30% basket, we may consider investments in investment funds that are operating pursuant to certain exceptions to the Investment Company Act of 1940, as amended, or the 1940 Act, and in advisers to similar investment funds, as well as in debt of middle-market companies located outside of the United States and debt and equity of public companies that do not meet the definition of eligible portfolio companies because their market capitalization of publicly traded equity securities exceeds the levels provided for in the 1940 Act.

Our investment strategy includes SBIC I LP, which received an SBIC license from the SBA in May 2012. On December 4, 2013, we received approval from the SBA to acquire all of the limited partnership interests in SBIC I LP and all of the ownership interests of its general partner, OFS SBIC I GP, LLC, or SBIC I GP, that were owned or subscribed for by other persons. We acquired the interests on December 4, 2013, which resulted in SBIC I LP becoming a wholly-owned subsidiary. The transaction was finalized in January 2014. The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA leverage funding is subject to SBIC I LP’s payment of certain fees to the SBA, and the ability of SBIC I LP to draw on the commitment is subject to its compliance with SBA regulations and policies, including an audit by the SBA.

On November 26, 2013, we received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of senior securities in the statutory 200% asset coverage ratio under the 1940 Act, allowing for greater capital deployment.

Our investment activities are managed by OFS Advisor, and supervised by our board of directors, a majority of whom are independent of us, OFS Advisor and its affiliates. Under the Investment Advisory and Management Agreement between us and OFS Advisor, or the 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), adjusted for any share issuances or repurchases during the quarter, as well as an incentive fee based on our investment performance. We have elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013. We have also entered into an administration agreement, or the Administration Agreement, with OFS Capital Services, LLC, or OFS Services, our Administrator. Under our Administration Agreement, we have agreed to reimburse OFS Services for our allocable portion (subject to policies reviewed and approved by our independent directors) of overhead and other expenses incurred by OFS Services in performing its obligations under the Administration Agreement.

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

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

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

Recent Developments and Other Factors Affecting Comparability

Transactions with SBIC I LP prior to our Initial Public Offering (“IPO”). Prior to May 10, 2012, we were deemed to be the primary beneficiary of SBIC I LP (formerly Tamarix Capital Partners, L.P.) and, therefore, in accordance with Accounting Standards Codification Topic 810, or ASC Topic 810, the financial statements of SBIC I LP were consolidated with ours. On May 10, 2012, as a result of SBIC I LP’s receipt of an SBIC license, we became a 68.4% limited partner in SBIC I LP and were deemed, under the applicable accounting literature, to continue to hold a controlling financial interest in SBIC I LP, as described more fully in our consolidated financial statements. Accordingly, we continued to consolidate the financial statements of SBIC I LP with ours at June 30, 2012. On July 27, 2012, however, SBIC I LP repaid its loans together with accrued interest due to us in an aggregate amount of approximately $16.6 million, and the three investment professionals of SBIC I GP, (formerly Tamarix Capital G.P. LLC) resigned from our affiliated entity. As a result, effective as of July 27, 2012, we deconsolidated SBIC I LP’s financial statements from our own, and accounted for our investment in SBIC I LP under the equity method of accounting (“Tamarix Deconsolidation”). From November 8, 2012, upon the completion of our IPO, until our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013, we accounted for our equity investment in SBIC I LP at fair value.

Acquisition of SBIC I LP & SBIC I GP Interests. On December 4, 2013, we purchased the remaining limited partnership interests in SBIC I LP (the “Tamarix LP Acquisition”), making SBIC I LP a wholly owned subsidiary of OFS Capital. On December 4, 2013, OFS Capital also acquired all of the remaining membership interests in SBIC I GP (the “Tamarix GP Acquisition”). The Tamarix LP Acquisition and Tamarix GP Acquisition are referred to collectively as the “Tamarix Acquisitions” (see Note 3 of our September 30, 2014 unaudited consolidated financial statements for more details). The transaction was finalized in January 2014. Upon the Tamarix Acquisitions, on December 4, 2013, we again consolidated the financial statements of both SBIC I LP and SBIC I GP into our financial statements.

2013 and 2014 OFS Capital WM Credit Facility Amendments. On January 22, 2013, the OFS Capital WM Credit Facility, which is defined under “Financial Condition, Liquidity and Capital Resources” below, was amended, pursuant to which the Class B Facility, which had no outstanding borrowings, was terminated. As a result, the OFS Capital WM Credit Facility commitment was reduced from $180 million to $135 million.

On November 22, 2013, the OFS Capital WM Credit Facility was further amended (the “November 2013 Amendment”). Pursuant to the amendment, (1) the Class A loans with Wells Fargo Bank, N.A., or Wells Fargo, were extended to December 31, 2018; (2) the reinvestment period for the Wells Fargo loan was extended to December 31, 2015; (3) the accrued interest rate on outstanding Class A loans was amended to London Interbank Offered Rate (“LIBOR”) plus 2.50% per annum, and (4) the advance rate on borrowing was increased from 65% to 70%. In connection with the amendment, OFS Capital WM incurred financing costs of approximately $1.2 million.

On January 17, 2014, the OFS Capital WM Credit Facility was amended again, pursuant to which the calculation of the borrowing base was adjusted and the minimum equity requirement was lowered from $65 million to $50 million, resulting in additional liquidity for the Company. No financing costs were incurred in connection with this amendment.

On July 24, 2014, the OFS Capital WM Credit Facility was further amended, pursuant to which the calculation of the borrowing base was adjusted and the minimum equity requirement was lowered from $50.0 million to $35.0 million, resulting in additional liquidity for the Company. In addition, the maximum facility was reduced from $135.0 million to $125.0 million. No financing costs were incurred in connection with this amendment.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and disclosure of revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies:

Valuation of Portfolio Investments.

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 820. At September 30, 2014, approximately 92% of our total assets represented investments in portfolio companies that are valued at fair value by our board of directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value as determined in good faith by the board of directors. Our debt and equity securities are primarily comprised of investments in middle market companies whose securities are not publicly traded. Our investments in these portfolio companies are generally considered Level 3 assets under ASC Topic 820 because the inputs used to value the investments are generally unobservable. As such, we value substantially all of our investments at fair value as determined in good faith by our board of directors pursuant to a consistent valuation policy in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our board of directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

Our policies relating to the valuation of our portfolio investments are as follows:

Investments for which sufficient market quotations are readily available are valued at such market quotations. We may also obtain indicative prices with respect to certain of our investments from pricing services or brokers or dealers in order to value such investments. There is not a readily available market value for many of our investments; those debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by the board of directors. We value such investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. Our valuation of each of our assets for which sufficient market quotations are not readily available is reviewed by one or more independent third-party valuation firms at least once every 12 months.

Our board of directors is ultimately and solely responsible for determining the fair value of the portfolio investments that are not publicly traded, whose market prices are not readily available on a quarterly basis or in any other situation where portfolio investments require a fair value determination.

With respect to investments for which sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, our board of directors undertakes, on a quarterly basis, unless otherwise noted, a multi-step valuation process, as described below:

- For each debt investment, a basic credit rating review process is completed. The risk rating on every credit facility is reviewed and either reaffirmed or revised by the Investment Committee of OFS Advisor, or the Advisor Investment Committee. This process establishes base information for the quarterly valuation process.

- Each portfolio company or investment is valued by an investment professional.

- Preliminary valuation conclusions are then documented and discussed with individual members of the Advisor Investment Committee.

- The preliminary valuations are then submitted to the Advisor Investment Committee for ratification.

- Third-party valuation firm(s) are engaged to provide valuation services as requested, by reviewing the preliminary valuations of the Advisor Investment Committee. The Advisor Investment Committee’s preliminary fair value conclusions on each of our assets for which sufficient market quotations are not readily available are reviewed and assessed by a third-party valuation firm at least once in every 12-month period, and more often as determined by our board of directors or required by our valuation policy. Such valuation assessment may be in the form of positive assurance, range of values or other valuation methods based on the discretion of our board of directors.

- Our board of directors will discuss valuations and determine the fair value of each investment in the portfolio in good faith based on the input of OFS Advisor and, where appropriate, the respective independent valuation firms.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our financial statements will express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

Revenue Recognition. Our revenue recognition policies are as follows:

Interest Income: Interest income is accrued based upon the outstanding principal amount and contractual interest terms of the debt investments. Recognized interest income, if payable monthly or quarterly, is reflected as interest receivable until collected. Recognized interest income that is instead added to the principal balance and generally becomes due at maturity or at some other stipulated date ("PIK interest") is reflected in the investment account. We accrue interest income until certain events take place, which may place a loan into a non-accrual status (see below). We will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Loan origination fees, original issue discount ("OID"), market discount or premium, and loan amendment fees (collectively, "net loan origination fees") are capitalized, and we accrete or amortize such amounts on a straight-line basis over the life of the loan as additional interest income. When we receive a loan principal payment, the OID related to the paid principal is accelerated and recognized in interest income. This method is not materially different than the effective interest rate method. Unamortized OID is reflected in the investment account and unamortized loan amendment fees are reflected as deferred loan fee revenue. All other interest income is recorded into income when earned. Further, in connection with our debt investments, we will sometimes receive warrants or similar no cost equity-related securities ("Warrants"). We determine the cost basis of Warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and Warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the Warrants is treated as OID, and accreted into interest income as described above.

As of September 30, 2014 and December 31, 2013, unamortized discounts and origination fees on debt investments amounted to $2.3 million and $2.1 million, respectively. For the three and nine months ended September 30, 2014, we recognized net loan origination fee income of $488 thousand and $1.1 million, respectively. For the three and nine months ended September 30, 2013, we recognized net loan origination fee income of $335 thousand and $1.1 million, respectively. For the three and nine months ended September 30, 2014, we recognized PIK interest income in the amount of $161 thousand and $399 thousand, respectively. For the three and nine months ended September 30, 2013, we did not recognize any PIK interest income. To maintain its status as a RIC, we include non-cash interest income (and non-cash dividend income described below) in the amounts that must be paid out to our shareholders in the form of distributions.

Dividend Income: Dividend income on common stock, generally payable in cash, is recorded at the time dividends are declared or at the point an obligation exists for the portfolio company to make a distribution. Dividend income on preferred equity is accrued as earned. Such dividends on preferred equity securities could 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 reflected as dividend receivables until collected. Dividends payable in additional preferred securities or contractually earned but not declared are reflected in the investment account. We stop accruing dividends on our preferred equity securities when it is determined that the dividend is not collectible. We assess the collectability of the dividends based on factors including the valuation of the portfolio company's current total enterprise value. During the three and nine months ended September 30, 2014, we recognized preferred dividend income of $335 thousand and $394 thousand, respectively, of which $302 thousand was contractually earned but not declared during such periods. We did not recognize any preferred dividend income during 2013. In addition, we did not recognize any common stock dividend income during 2014 and 2013.

Other Income: We may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Such revenue is recognized as the related services are rendered and amounted to $269 thousand and $277 thousand, respectively, for the three and nine months ended September 30, 2014. We did not recognize any such revenue during 2013.

Investment transactions are accounted for on a trade-date basis. Realized gains or losses on investments are measured by the difference between the net proceeds from the disposition and the cost basis of investment, without regard to unrealized gains or losses previously recognized. Distribution of earnings from portfolio companies are evaluated to determine if the distribution is income or return of capital.

Investments are recorded at fair value. Our Board determines the fair value of its portfolio investments. After recording all appropriate interest and dividend income, some of which is reflected in the investment account as described above, we report changes in fair value of investments that are measured at fair value as a component of the net changes in unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

Non-accrual loans: Loans on which the accrual of interest income has been discontinued are designated as non-accrual loans, and non-accrual loans are further designated to be accounted for under either a non-accrual cash method or a non-accrual cost recovery method. Loans are generally placed on non-accrual status when a loan either: (i) is delinquent for 90 days or more on principal or interest based on contractual terms of the loan (unless well secured and in the process of collection), or (ii) in the opinion of our management, there is reasonable doubt about the collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected, other than PIK interest that has already been contractually added to the principal balance, is reversed against current period interest income. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Interest accruals are resumed on non-accrual loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest. We had two non-accrual loans at September 30, 2014 and one at December 31, 2013, both of which were accounted for as of September 30, 2014 as non-accrual cash method loans. These loans had an aggregate fair value of $6.3 million and $1.1 million at September 30, 2014 and December 31, 2013, respectively.

Principles of consolidation.

Our September 30, 2014 consolidated financial statements include the accounts of OFS Capital Corporation, or OFS Capital, and our wholly owned subsidiaries, OFS Capital WM, OFS Funding, LLC, SBIC I LP and SBIC I GP. We consolidate an affiliated subsidiary if we own more than 50 percent of the subsidiary's equity and hold the controlling financial interest in such subsidiary. We also consolidate a variable interest entity ("VIE") if we are the primary beneficiary in the VIE. Effective December 4, 2013, we consolidated the financial statements of SBIC I LP and SBIC I GP into our own. See "Financial Statements – Note 3" for more detailed information.

Portfolio Composition and Investment Activity

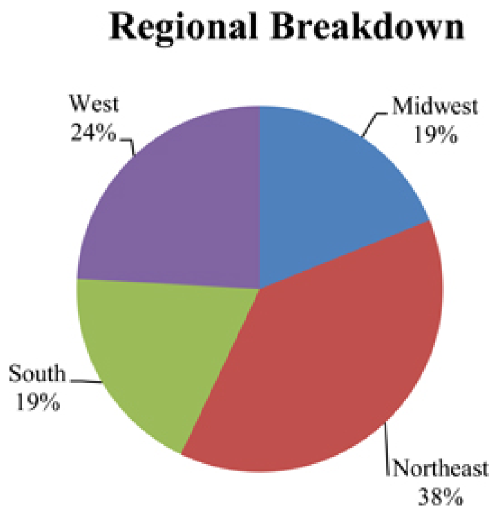
Portfolio Composition

The total fair value of our investments was approximately $266.2 million at September 30, 2014 and approximately $237.9 million at December 31, 2013. Our investment portfolio as of September 30, 2014 consisted of outstanding loans to 57 portfolio companies, totaling approximately $262.7 million in aggregate principal amount (including SBIC I LP's approximately $123.2 million in loans to eighteen portfolio companies), of which 93% were senior secured loans and 7% were subordinated loans, as well as SBIC I LP's approximately $12.5 million in equity investments, at fair value, in eleven portfolio companies in which it also holds debt investments. Our investment portfolio encompassed a broad range of geographical regions within the United States and industries. As of September 30, 2014, we had unfunded commitments of $6.6 million to four portfolio companies, all of which were commitments of SBIC I LP. Set forth in the tables and charts below is selected information with respect to our portfolio as of September 30, 2014.

The following table summarizes the composition of our investment portfolio.

	As of September 30, 2014	
	Commitment	Outstanding Principal
	(Dollar amounts in thousands)	
Senior secured term loan	$ 247,225	$ 243,725
Subordinated term loan	20,148	18,512
Senior secured revolver	1,594	500
Equity investments (at fair value)	12,840	12,476
	$ 281,807	$ 275,213
Total # of Obligors	57	57

The following chart provides a regional breakdown of our investment portfolio commitment as of September 30, 2014.



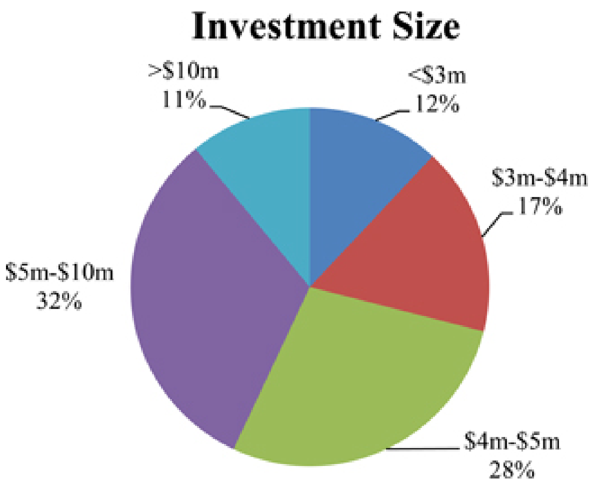
Our investment portfolio's three largest industries are Services: Business, Healthcare & Pharmaceuticals, and Capital Equipment, totaling approximately 52% of the investment portfolio. The following table summarizes our investment portfolio by industry as of September 30, 2014.

Industry	As of September 30, 2014	
	Commitment	Percent
	(Dollar amounts in thousands)	
Aerospace & Defense	$ 18,369	6.5%
Automotive	4,080	1.4
Banking, Finance, Insurance & Real Estate	17,293	6.1
Beverage, Food & Tobacco Total	7,000	2.5
Capital Equipment	23,565	8.4
Chemicals, Plastics & Rubber	18,916	6.7
Construction & Building	1,618	0.6
Consumer goods: Non-durable	2,144	0.8
Containers, Packaging & Glass	4,074	1.4
Energy: Oil & Gas	6,921	2.5
Environmental Industries	7,637	2.7
Healthcare & Pharmaceuticals	51,635	18.3
High Tech Industries	7,715	2.7
Media: Advertising, Printing & Publishing	20,485	7.3
Media: Broadcasting & Subscription	3,701	1.3
Retail	3,639	1.3
Services: Business	70,411	25.0
Services: Consumer	5,617	2.0
Telecommunications	6,987	2.5
	$ 281,807	100.0%

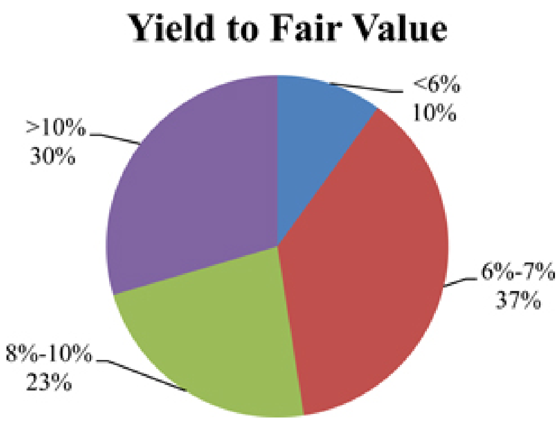
The following table summarizes our debt investment portfolio by size of exposure.

Debt Investment Size (in millions)	As of September 30, 2014		
	Commitment		Number
	(Dollar amounts in thousands)		
$0 - $3	$	32,075	13
$3 - $4		45,582	13
$4 - $5		75,871	17
$5 - $10		86,339	12
> $10		29,100	2
	$	268,967	57

The following chart provides a breakdown of our debt investment portfolio by investment commitment size as of September 30, 2014.



The following chart provides a breakdown of our debt investment portfolio by yield to fair value as of September 30, 2014.



Investment Activity

For the nine months ended September 30, 2014, we closed new debt investments with eleven companies with an aggregate principal balance of $84.9 million and made follow-on debt investments of approximately $3.8 million in three existing portfolio companies. In addition, for the nine months ended September 30, 2014, we purchased new equity interests totaling approximately $2.2 million in two portfolio companies, made a follow-on equity investment of approximately $0.4 million in one existing portfolio company, and received warrants in connection with a new debt investment in the amount of approximately $0.5 million. For the nine months ended September 30, 2014, we received approximately $59.1 million in proceeds from principal payments on debt investments, and approximately $9.5 million in proceeds from debt investments we sold, of which approximately $4.5 million pertained to a debt investment we sold in December 2013.

For the year ended December 31, 2013, we closed debt investments with eight companies with an aggregate principal balance of approximately $41.2 million and made equity investments totaling approximately $2.5 million in one portfolio company. Prior to the December 4, 2013 Tamarix Acquisitions, SBIC I LP closed nine investments with five portfolio companies during the period January 1, 2013 through December 4, 2013. SBIC I LP's nine new investments during that period consisted of four debt investments with total principal balance of $19.4 million and unfunded commitments of $3.3 million as well as five equity investments purchased for a total of $0.9 million. For the year ended December 31, 2013, we received approximately $63.1 million in proceeds from principal payments on debt investments and sold three debt investments for approximately $13.9 million, of which approximately $4.5 million was settled in January 2014.

Portfolio Credit Ratings

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

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

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

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

4 (Special Mention) – A risk rated 4, or Special Mention, credit is a credit with no apparent loss of principal or interest envisioned. Nonetheless, it possesses credit deficiencies or potential weaknesses that deserve management's close and continued attention. The credit's operations and/or balance sheet have demonstrated an adverse trend or deterioration that, while serious, has not reached the point where the liquidation of debt is jeopardized. These weaknesses are generally considered correctable by the borrower in the normal course of business but may, if not checked or corrected, weaken the asset or inadequately protect our credit position.

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

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

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

The following table shows the classification of our debt investments portfolio by credit rating as of September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
Credit Rating	Debt Investments, at Fair Value	% of Debt Investments	Debt Investments, at Fair Value	% of Debt Investments
	(Dollar amounts in thousands)			
1	$ -	0.0%	$ -	0.0%
2	-	0.0%	-	0.0%
3	239,027	94.2%	204,273	88.6%
4	8,360	3.3%	17,384	7.5%
5	-	0.0%	7,846	3.4%
6	6,316	2.5%	1,051	0.5%
7	-	0.0%	-	0.0%
	$ 253,703	100.0%	$ 230,554	100.0%

The following table shows the cost and fair value of our portfolio of investments by asset class as of September 30, 2014 and December 31, 2013.

	As of September 30, 2014		As of December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
	(Dollar amounts in thousands)			
Senior Secured				
Performing	$ 229,543	$ 228,710	$ 222,564	$ 220,495
Non-Accrual	12,306	6,316	3,988	1,051
Subordinated				
Performing	18,630	18,677	9,009	9,008
Non-Accrual	-	-	-	-
Equity Investments	11,197	12,476	7,862	7,365
Total	$ 271,676	$ 266,179	$ 243,423	$ 237,919

At December 31, 2013, we had one non-accrual loan with a fair value of approximately $1.1 million. On June 30, 2014, we placed a second loan on non-accrual status. At September 30, 2014, the fair value of the two non-accrual loans totaled approximately $6.3 million.

As of September 30, 2014, the weighted average yield to fair value of our debt investments was approximately 9.09%. Throughout this document, the weighted average yield on debt investments at fair value is computed as (a) total annual stated interest on accruing loans plus the annualized amortization of deferred loan origination fees and accretion of OID divided by (b) total debt investments at fair value excluding assets on non-accrual basis. The weighted average yield on debt investments at fair value is computed as of the balance sheet date.

As of September 30, 2014, floating rate loans comprised 82% of our debt investment portfolio and fixed rate loans comprised 18% of our debt investment portfolio, as a percent of fair value.

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.

Results of Operations

Key Financial Measures

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

Revenues. We generate revenue in the form of interest income on debt investments, capital gains, and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of September 30, 2014, floating rate and fixed rate loans comprised 82% and 18%, respectively, of our current debt investment portfolio; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will increase. In some cases, our investments will provide for deferred interest or dividend payment, PIK interest, or PIK dividend, respectively, (meaning interest or dividend paid in the form of additional principal amount of the loan or equity security instead of in cash). In addition, we may generate revenue in the form of commitment, structuring or due diligence fees, fees for providing managerial assistance and consulting fees. Loan origination fees, OID, market discount or premium, and loan amendment fees are capitalized, and the Company accretes or amortizes such amounts over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its carrying value, we will also record the excess principal payment as income.

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

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

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

Comparison of the three and nine month periods ended September 30, 2014 (unaudited) and September 30, 2013 (unaudited)

Consolidated operating results for the three and nine month periods ended September 30, 2014 and September 30, 2013, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Amounts in thousands)		(Amounts in thousands)	
Total investment income	$ 6,197	$ 4,017	$ 15,867	$ 12,618
Total expenses	3,304	2,589	9,475	8,282
Net investment income	2,893	1,428	6,392	4,336
Net realized and unrealized gain (loss) on investments	942	(1,062)	51	2,158
Net increase in net assets resulting from operations	$ 3,835	$ 366	$ 6,443	$ 6,494

Net income 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, comparisons of net income may not be meaningful.

Investment Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Amounts in thousands)		(Amounts in thousands)	
Interest income				
Non-control/non-affiliate investments	$ 4,420	$ 4,017	$ 11,730	$ 12,618
Affiliate investments	896	-	2,515	-
Control investment	277	-	843	-
Total interest income	5,593	4,017	15,088	12,618
Dividend and fee income				
Non-control/non-affiliate investments	205	-	213	-
Affiliate investments	424	-	541	-
Control investment	(25)	-	25	-
Total dividend and fee income	604	-	779	-
Total investment income	$ 6,197	$ 4,017	$ 15,867	$ 12,618

Comparison of Investment Income for the Three Months Ended September 30, 2014 and 2013:

Total investment income increased by approximately $2.2 million, or 54%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The $2.2 million increase in total investment income was due to an increase in interest income, and dividend and fee income. The increase in interest income was primarily attributable to the higher yielding debt investments held by SBIC I LP, as a result of our consolidation of SBIC I LP upon closing of the Tamarix Acquisitions on December 4, 2013, as well as an increase in debt investments originated by SBIC I LP during the three months ended September 30, 2014. The increase in dividend and fee income was primarily attributable to our recognition of dividend income contractually earned but not declared on certain of our preferred equity investments held by SBIC I LP during the three months ended September 30, 2014, as well as fee income recognized by SBIC I LP in connection with certain of its debt investments. The increase in total investment income was offset by a decrease in interest income from investments held by OFS Capital WM ("OFS Capital WM Investments").

For the three months ended September 30, 2014, we generated total interest income from non-control/non-affiliate investments in the amount of approximately $4.4 million, of which approximately $2.7 million was generated by OFS Capital WM Investments and $1.7 million by investments held by SBIC I LP ("SBIC I LP Investments"). For the three months ended September 30, 2013, the entire interest income from non-control/non-affiliate investments of approximately $4.0 million was generated by OFS Capital WM Investments. The decrease in interest income of approximately $1.3 million generated by OFS Capital WM Investments was primarily due to the decrease in OFS Capital WM Investments in 2014 as compared with 2013 (at September 30, 2014, June 30, 2014 and March 31, 2014, the aggregate principal of OFS Capital WM Investments was approximately $139.6 million, $161.8 million and $174.5 million, respectively, while at September 30, 2013, June 30, 2013 and March 31, 2013, the aggregate principal of OFS Capital WM Investments was approximately $213.9 million, $224.6 million and $227.0 million, respectively). SBIC I LP holds all of our affiliate investments and our only control investment. In addition, during the three months ended September 30, 2014, SBIC I LP generated dividend and fee income of approximately $0.6 million. While not consolidated with us during the quarter ended September 30, 2013, SBIC I LP had interest income and dividend and fee income of approximately $1.1 million and $73 thousand, respectively, during the quarter.

Comparison of Investment Income for the Nine Months Ended September 30, 2014 and 2013:

Total investment income increased by approximately $3.2 million, or 26%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The $3.2 million increase in total investment income was due to an increase in interest income, and dividend and fee income. The increase in interest income was primarily attributable to the higher yielding debt investments held by SBIC I LP, as a result of our consolidation of SBIC I LP upon closing of the Tamarix Acquisitions on December 4, 2013, as well as an increase in debt investments originated by SBIC I LP during the nine months ended September 30, 2014. The increase in dividend and fee income was primarily attributable to our recognition of dividend income contractually earned but not declared on certain of our preferred equity investments held by SBIC I LP during the nine months ended September 30, as well as fee income recognized by SBIC I LP in connection with certain of its debt investments. The increase in total investment income was offset by a decrease in interest income from OFS Capital WM Investments.

For the nine months ended September 30, 2014, we generated total interest income from non-control/non-affiliate investments in the amount of approximately $11.7 million, of which approximately $8.8 million was generated by OFS Capital WM Investments and $2.9 million by SBIC I LP Investments. For the nine months ended September 30, 2013, the entire interest income from non-control/non-affiliate investments of approximately $12.6 million was generated by OFS Capital WM Investments. The decrease in interest income of approximately $3.8 million generated by OFS Capital WM Investments was primarily due to the decrease in OFS Capital WM Investments in 2014 as compared with 2013. In addition, during the nine months ended September 30, 2014, SBIC I LP generated dividend and fee income of approximately $0.8 million. While not consolidated with us during the nine months ended September 30, 2013, SBIC I LP had interest income and dividend and fee income of approximately $2.7 million and $0.2 million, respectively, during such period.

Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Amounts in thousands)		(Amounts in thousands)	
Interest expense	$ 1,001	$ 821	$ 2,989	$ 2,530
Amortization and write-off of deferred financing closing costs	167	168	469	803
Amortization of intangible asset	49	-	161	-
Management fees	543	744	2,341	2,345
Incentive fee	723	-	723	-
Professional fees	382	418	1,112	1,177
Administrative fee	212	200	972	657
General and administrative expenses	227	238	708	770
Total expenses	$ 3,304	$ 2,589	$ 9,475	$ 8,282

Comparison of Expenses for the Three Months Ended September 30, 2014 and 2013:

Total expenses increased by approximately $0.7 million, or 28%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Interest expense increased by approximately $0.2 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to $0.3 million of 2014 interest expense incurred on our SBA debentures (which we assumed in the December 2013 Tamarix Acquisitions), offset by a 2014 decrease of approximately $0.1 million in interest expense on the OFS Capital WM Credit Facility, due to reduction in the interest rate on the facility pursuant to the November 2013 Amendment.

For the three months ended September 30, 2014, we recorded $49 thousand of amortization expense of intangible asset related to the SBIC license, which intangible asset was recognized by SBIC I LP upon closing of the Tamarix Acquisitions.

Management fees expense decreased by approximately $0.2 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, which was primarily due to a decrease in base management fee of approximately $0.1 million, as a result of a reduced quarterly base management fee of 0.145833% for the remainder of 2014 effective April 1, 2014, compared with the quarterly base management fee of 0.21875% for 2013.

On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. Specifically, OFS Advisor agreed to reduce its base management fee from 0.4375% per quarter to 0.145833% per quarter for the second, third, and fourth quarters of 2014. Accordingly, the effective annual base management fee for the 2014 fiscal year will be equal to 50% of the 1.75% required by our Advisory Agreement with OFS Advisor, or not greater than 0.875%. OFS Advisor informed us that this reduction was being made for the benefit of our shareholders to take into account unforeseen delays in completing the Tamarix Acquisitions. See “Related Party Transactions – Investment Advisory Agreement”.

For the three months ended September 30. 2014, we incurred an incentive fee expense to OFS Advisor in the amount of approximately $0.7 million. We did not incur any incentive fee expense during 2013.

Comparison of Expenses for the Nine Months Ended September 30, 2014 and 2013:

Total expenses increased by approximately $1.2 million, or 14%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Interest expense increased by approximately $0.5 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to $0.7 million of 2014 interest expense incurred on our SBA debentures (which we assumed in the December 2013 Tamarix Acquisitions), offset by a 2014 decrease of approximately $0.2 million in interest expense on the OFS Capital WM Credit Facility, due to reduction in the interest rate on the facility pursuant to the November 2013 amendment to the OFS Capital WM Credit Facility).

For the nine months ended September 30, 2014, we recorded $0.2 million of amortization expense of intangible asset related to the SBIC license, which intangible asset was recognized by SBIC I LP upon closing of the Tamarix Acquisitions.

Management fee expense totaled approximately $2.3 million for the nine months ended September 30, 2014, consisting of approximately $1.7 million of base management fee expense we incurred to OFS Advisor and approximately $0.6 million of loan management fee charged by MCF Capital Management, LLC, the loan manager for OFS Capital WM (see OFS Capital WM Credit Facility section below for more details). Management fee expense totaled approximately $2.3 million for the nine months ended September 30, 2013, consisting of approximately $1.5 million of base management fee expense we incurred to OFS Advisor and approximately $0.8 million of loan management fee charged by the loan manager for OFS Capital WM. The base management fee increased by approximately $0.2 million due to a higher combined quarterly base management fee rate of 0.7291663% (0.4375% for the first quarter of 2014 and 0.145833% for each of the second and third quarter of 2014) for the nine months ended September 30, 2014, compared with the combined quarterly base management fee rate of 0.4375% for the nine months ended September 30, 2013. This was a result of the base management fee reduction effective April 1, 2014, as described above. See “Related Party Transactions – Investment Advisory Agreement”. The aforementioned increase in our management fee was partially offset by a $0.2 million decrease in loan management fee charged by the loan manager for OFS Capital WM, due to a decrease in investments held by OFS Capital WM in 2014 as compared with 2013.

For the nine months ended September 30, 2014. We incurred an incentive fee expense to OFS Advisor in the amount of approximately $0.7 million.

Administrative fee expense increased by approximately $0.3 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily due to an increase in the allocable amount of the salary and bonus of our officers and their respective staffs, which OFS Services passed along to us during the nine months ended September 30, 2014 and 2013.

Net Realized and Unrealized Gain (Loss) on Investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
	(Amounts in thousands)		**(Amounts in thousands)**	
Net realized gain on non-control/non-affiliate investments	$ 17	$ -	$ 17	$ 5
Net realized gain on affiliate investment	-	-	28	-
Net change in unrealized depreciation on non-control/non-affiliate investments	427	(1,501)	106	554
Net change in unrealized appreciation/depreciation on affiliate investments	964	439	1,591	1,599
Net change in unrealized depreciation on control investment	(466)	-	(1,691)	-
Net realized and unrealized gain (loss) on investments	$ 942	$ (1,062)	$ 51	$ 2,158

Comparison of Net Realized and Unrealized Gain (Loss) on Investments for the Three Months Ended September 30, 2014 and 2013:

For the three months ended September 30, 2014, we recorded approximately $0.4 million of net change in unrealized depreciation on non-control/non-affiliate investments, consisting of approximately $0.5 million of net change in unrealized depreciation on non-control/non-affiliate investments held by OFS Capital WM, and approximately $(0.1) million of net change in unrealized depreciation on non-control/non-affiliate investments held by SBIC I LP. In addition, for the three months ended September 30, 2014, we recorded approximately $1.0 million of net change in unrealized appreciation on affiliate investments held by SBIC I LP, as well as approximately $(0.5) million of net change in unrealized depreciation on a control investment held by SBIC I LP (Tangible Software, Inc). For the three months ended September 30, 2013, we recorded approximately $(1.5) million of net change in unrealized depreciation on non-control/non-affiliate investments held by OFS Capital WM, as well as approximately $0.4 million of net change in unrealized depreciation on affiliate investment, consisting solely of our equity investment in SBIC I LP, which we accounted for at fair value at September 30, 2013.

Comparison of Net Realized and Unrealized Gain (Loss) on Investments for the Nine Months Ended September 30, 2014 and 2013:

For the nine months ended September 30, 2014, we recorded approximately $0.1 million of net change in unrealized depreciation on non-control/non-affiliate investments, consisting of approximately $(0.5) million of net change in unrealized depreciation on non-control/non-affiliate investments held by OFS Capital WM, and approximately $0.6 million of net change in unrealized depreciation on non-control/non-affiliate investments held by SBIC I LP. In addition, for the nine months ended September 30, 2014, we recorded approximately $1.6 million of net change in unrealized appreciation on affiliate investments held by SBIC I LP, as well as approximately $(1.7) million of net change in unrealized depreciation on a control investment held by SBIC I LP (Tangible Software, Inc). For the nine months ended September 30, 2013, we recorded approximately $0.6 million of net change in unrealized depreciation on non-control/non-affiliate investments held by OFS Capital WM, as well as approximately $1.6 million of net change in unrealized depreciation on affiliate investment, consisting solely of our equity investment in SBIC I LP, which we accounted for at fair value at September 30, 2013.

Financial Condition, Liquidity and Capital Resources

Cash and Cash Equivalents

At September 30, 2014 and December 31, 2013, we had cash and cash equivalents of $14.3 million and $28.6 million, respectively. As of September 30, 2014 and December 31, 2013, $10.3 million and $21.5 million of cash and cash equivalents, respectively, were capital commitments funded by OFS Capital into SBIC I LP. During the nine months ended September 30, 2014, we had net cash used in operating activities of $14.4 million, primarily due to $90.7 million of cash we used to purchase portfolio investments, offset by net proceeds of $59.1 million we received from principal payments on our portfolio investments, cash collections of $9.5 million from sale of our portfolio investments, as well as our $6.4 million net increase in net assets resulting from operations.

Net cash provided by investing activities was $0.5 million for the nine months ended September 30, 2014 due to change in restricted cash held by OFS Capital WM maintained in an unfunded exposure account (as defined in the relevant loan documents under the OFS Capital WM Credit Facility), utilized to fund a debt investment owned by OFS Capital WM that had an unfunded revolving commitment. In August 2014, as a result of the payoff of this loan, OFS Capital WM's revolving commitment was terminated and our restricted cash balance was reduced to zero.

Net cash used in financing activities was $0.3 million for the nine months ended September 30, 2014, primarily attributable to the $24.2 million of net repayments on the OFS Capital WM Credit Facility, and $9.7 million of cash we paid in dividends and distributions, offset by $35.4 million of draws from our SBA debentures.

At September 30, 2013 and December 31, 2012, we had cash and cash equivalents of $6.8 million and $8.3 million, respectively. During the nine months ended September 30, 2013, we had net cash provided by operating activities of $21.1 million, primarily due to our $6.5 million net increase in net assets resulting from operations, net proceeds of $47.0 million we received from principal payments on our portfolio investments, as well as cash collections of $4.7 million from sale of our portfolio investments, offset by $30.6 million of cash we used to purchase portfolio investments, our additional investment in SBIC I LP of $5.2 million, and net change in unrealized depreciation in our investments in the aggregate amount of $1.6 million.

Net cash used in financing activities was $22.6 million for the nine months ended September 30, 2013, primarily attributable to the $15.1 million of net repayments on the OFS Capital WM Credit Facility as well as $7.5 million of cash we paid in dividends and distributions.

We intend to generate additional cash flows from our operations, distributions from equity investments, future borrowings, including borrowings by OFS Capital WM pursuant to the OFS Capital WM Credit Facility as well as by SBIC I LP under the SBA debentures, and through any future offerings of securities. Our primary uses of funds are investments in debt and equity investments, interest payments on indebtedness, payment of other expenses, and cash distributions to our shareholders.

The OFS Capital WM Credit Facility

On September 28, 2010, OFS Capital WM entered into a $180.0 million secured revolving credit facility (as amended from time to time, the "OFS Capital WM Credit Facility") with Wells Fargo and Madison Capital Funding, LLC ("Madison Capital"), with the Class A lenders (initially Wells Fargo) providing up to $135.0 million in Class A loans ("Class A Facility") and the Class B lenders (initially Madison Capital) providing up to $45.0 million in Class B loans ("Class B Facility"). The OFS Capital WM Credit Facility is secured by all current and future eligible loans acquired by OFS Capital WM. The loan facilities with Wells Fargo and Madison Capital had five- and six-year terms, respectively, and both facilities provided a one-year option for extension upon the approval of the Class A and Class B lenders, respectively. The loan facilities had a reinvestment period of two years after the closing date of the OFS Capital WM Credit Facility, which could be extended by one year with the consent of each lender. Outstanding borrowings on the loan facilities were limited to the lesser of (1) $180.0 million and (2) the borrowing base as defined by the OFS Capital WM Credit Facility loan documents. OFS Capital WM is obligated to pay interest on outstanding Class A loans (and on the Class B loans until the termination of the Class B Facility in January 2013) on each quarterly payment date.

As of September 30, 2014 and December 31, 2013, we had $84.8 million and $109.0 million, respectively, in indebtedness outstanding under the OFS Capital WM Credit Facility.

If at any time the amount of Class A loans outstanding exceeds the borrowing base, a borrowing base deficiency will exist. In that event, OFS Capital WM will have three business days to eliminate the deficiency by, among other things, (a) depositing additional cash into the relevant collection account, (b) repaying Class A loans, or (c) pledging additional eligible loan assets. In the case of such a deficiency, we may determine it is in our best interests to make additional capital contributions to OFS Capital WM in the form of cash or additional eligible loan assets to protect the value of our equity investment in OFS Capital WM, and our additional contributions could be material.

Under the OFS Capital WM Credit Facility, MCF Capital Management, LLC, which is the loan manager and an affiliated entity of Madison Capital, or the Loan Manager, charges both a senior and subordinated management fee to OFS Capital WM for its services, each at 0.25% per annum of the assigned value of the underlying portfolio investments, plus an accrued fee that is deferred until after the end of the investment period of the portfolio investments. For the three and nine months ended September 30, 2014, we incurred management fee expense of approximately $0.2 million and $0.6 million, respectively, to the Loan Manager. For the three and nine months ended September 30, 2013, we incurred management fee expense of approximately $0.2 million and $0.8 million, respectively, to the Loan Manager.

As a result of certain amendments through July 24, 2014, the OFS Capital WM Credit Facility's borrowing base was adjusted and the minimum equity requirement was lowered from $65.0 million to $35.0 million, resulting in additional liquidity for the Company. In addition, the maximum facility was reduced from $180.0 million to $125.0 million.

SBA Debentures

As a result of the Tamarix Acquisitions, SBIC I LP became our wholly-owned subsidiary effective December 4, 2013. SBIC I LP has an SBIC license that allows it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to OFS Capital, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate is fixed at the time of issuance at a market-driven spread over U.S. Treasury Notes with ten-year maturities.

Under present SBIC regulations, the maximum amount of SBA-guaranteed debt that may be issued by a single SBIC licensee is $150.0 million. An SBIC fund may borrow up to two times the amount of its regulatory capital, subject to customary regulatory requirements. In connection with the Tamarix Acquisitions, the Company increased its commitments to SBIC I LP to $75.0 million. As of September 30, 2014, the Company had fully funded its $75.0 million commitment. As of September 30, 2014, SBIC I LP had leverage commitments of $149.9 million from the SBA, and $61.4 million of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $88.5 million. As of December 31, 2013, SBIC I LP had leverage commitments of $49.4 million from the SBA, and $26.0 million of outstanding SBA-guaranteed debentures, leaving incremental borrowing capacity of $23.4 million.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $19.5 million and have average annual fully taxed net income not exceeding $6.5 million for the two most recent fiscal years. In addition, an SBIC must devote 25.0% of its investment activity to "smaller" enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million 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.

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

Other Liquidity Matters

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

In addition, as a BDC, we generally will be required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities (including SBIC I LP's SBA-guaranteed debt), to total senior securities, which include all of our borrowings (excluding SBA-guaranteed debt) and any outstanding preferred stock (of which we had none at September 30, 2014), of at least 200%. We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the statutory 200% asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

Off-Balance Sheet Arrangements

We may be a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. As of September 30, 2014, we had $6.6 million of total unfunded commitments to four portfolio companies. Unfunded commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet and are not reflected on our balance sheet.

Contractual Obligations

The following table shows our contractual obligations as of September 30, 2014:

Contractual Obligations (1)	Total	Less than 1 year	1-3 years	3-5 years (2)	After 5 years (2)
	Payments due by period				
	(Amounts in thousands)				
OFS Capital WM Credit Facility	$ 84,763	$ -	$ -	$ 84,763	$ -
SBA Debentures	61,375	-	-	-	61,375
Total	$ 146,138	$ -	$ -	$ 84,763	$ 61,375

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

(2) The OFS Capital WM Facility is scheduled to mature on December 31, 2018. The SBA debentures are scheduled to mature between September 2022 and September 2024.

We have entered into contracts with third parties under which we have material future commitments—the 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 had subscribed for $75.0 million of total capital commitments to SBIC I LP, all of which was funded as of September 30, 2014.

Commitments and Contingencies

At September 30, 2014 and December 31, 2013, we had $6.6 million and $4.8 million of total unfunded commitments to four and three portfolio companies, respectively. Upon completion of the Tamarix Acquisitions on December 4, 2013, OFS Capital increased its commitment to SBIC I LP to $75.0 million. As of September 30, 2014, OFS Capital had fully funded the $75.0 million commitment.

From time to time, we are 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 our financial position.

Additionally, we are subject to periodic inspection by regulators to assess compliance with applicable regulations related to being a BDC and a RIC, and SBIC I LP is subject to periodic inspections by the SBA. Management believes that the Company is in material compliance with such regulations and inspection results do not indicate otherwise.

In the normal course of business, we enter into contracts and agreements that contain a variety of representations and warranties that provide general indemnifications. Our maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against us that have not occurred. We believe the risk of any material obligation under these indemnifications to be low.

Distributions

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

The following table summarizes our distributions declared and paid to date on all shares subsequent to our IPO (dollar amounts in thousands except per share data):

Date Declared	Record Date	Payment Date	Amount Per Share (2)	Total Amount
Fiscal 2014				
August 7, 2014	September 16, 2014	September 30, 2014	$ 0.34	$ 3,276
May 7, 2014	June 16, 2014	June 30, 2014	$ 0.34	$ 3,275
January 21, 2014	January 31, 2014	February 14, 2014	$ 0.34	$ 3,274
Fiscal 2013				
September 25, 2013	October 17, 2013	October 31, 2013	$ 0.34	$ 3,273
June 25, 2013	July 17, 2013	July 31, 2013	0.34	3,272
March 26, 2013	April 17, 2013	April 30, 2013	0.34	3,269
Fiscal 2012				
November 26, 2012 (1)	January 17, 2013	January 31, 2013	$ 0.17	$ 1,628

(1) Represents the distribution declared in the specified period, which, if prorated for the number of days remaining in the fourth quarter after our IPO in November 2012, would be $0.34 per share.

(2) - The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. If the tax characteristics of these distributions were determined as of September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, and December 31, 2012 (for the period November 8, 2012 through December 31, 2012), the Company estimated that approximately $0.04, $0.12, $0.19, zero, $0.18, $0.19, $0.18 and zero, respectively, would have represented a return of capital.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our status as a regulated investment company. We cannot assure shareholders that they will receive any distributions at a particular level.

Distributions in excess of our current and accumulated earnings and profits generally are treated first as a return of capital to the extent of the shareholder's tax basis, and any remaining distributions are treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year; therefore, a determination made on a quarterly basis may not be representative of the tax attributes of our annual distributions to shareholders. For the distribution paid during the nine months ended September 30, 2014, out of the approximately $9.8 million distribution, approximately 34% represented a return of capital and 66% represented ordinary income.

Each year a statement on Form 1099-DIV identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus, which is a nontaxable distribution) is mailed to our U.S. shareholders. To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a taxable return of capital to our shareholders.

We maintain an "opt-out" dividend reinvestment plan for our common shareholders. As a result, if we declare a dividend, cash dividends are automatically reinvested in additional shares of our common stock unless the shareholder specifically "opts out" of the dividend reinvestment plan and chooses to receive cash dividends.

Related Party Transactions

Investment Advisory Agreement

We have entered into the Advisory Agreement with OFS Advisor and will pay OFS Advisor a management fee and incentive fee. Pursuant to the Advisory Agreement with OFS Advisor and subject to the overall supervision of our board of directors and in accordance with the 1940 Act, OFS Advisor provides investment advisory services to us. For providing these services, OFS Advisor receives a fee from us consisting of two components—a base management fee and an incentive fee. From the completion of our IPO through October 31, 2013, the base management fee was calculated at an annual rate of 0.875% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. Beginning on November 1, 2013 and through March 31, 2014, pursuant to the Advisory Agreement, the base management fee was calculated at an annual rate of 1.75% based on the average value of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters. OFS Advisor has elected to exclude from the base management fee calculation any base management fee that would be owed in respect of the intangible asset and goodwill resulting from our acquisitions of the remaining ownership interests in SBIC I LP and SBIC I GP on December 4, 2013.

On May 5, 2014, we were notified by OFS Advisor that, effective as of April 1, 2014, it would reduce its base management fee by two-thirds for the balance of the 2014 fiscal year. Specifically, OFS Advisor agreed to reduce its base management fee from 0.4375% per quarter to 0.145833% per quarter for the second, third, and fourth quarters of 2014. Accordingly, the effective annual base management fee for the 2014 fiscal year will be equal to 50% of the 1.75% required by our Advisory Agreement with OFS Advisor, or not greater than 0.875%. OFS Advisor informed us that this reduction was being made for the benefit of our shareholders to take into account unforeseen delays in completing the Tamarix Acquisitions.

The base management fee is payable quarterly in arrears. The base management fee expense was approximately $0.4 million and $1.7 million for the three and nine months ended September 30, 2014, respectively. The base management fee expense was approximately $0.5 million and $1.5 million for the three and nine months ended September 30, 2013, respectively.

On June 30, 2014, OFS Advisor deferred the receipt of the first quarter of 2014 base management fee in the amount of approximately $1.0 million, that would otherwise have been due from us by June 30, 2014, until further determination by OFS Advisor. In addition, on June 30, 2014, OFS Advisor deferred the receipt of the second quarter of 2014 base management fee in the amount of $341 thousand, that would otherwise have been due from us by September 30, 2014, until further determination by OFS Advisor. The Investment Advisor informed the Company that the deferral of the fee was made for the benefit of the Company's shareholders to take into account unforeseen delays in completing the Tamarix Acquisitions.

On October 31, 2014, OFS Advisor informed us that it would not further defer the receipt of the base management fee for the first and second quarters of 2014. In addition, OFS Advisor informed us that the management fee, including the base management fee and incentive management fee (see below for more details about incentive fee), with respect to the third quarter of 2014 will not be deferred. We intend to pay OFS Advisor the outstanding management fee for the first three quarters of 2014 in the aggregate amount of approximately $2.5 million during the fourth quarter of 2014.

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

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

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

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

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

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

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

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

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

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

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment. Unrealized capital appreciation is accrued, but not paid until said appreciation is realized.

We accrue the Capital Gains Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. OFS Advisor has elected to exclude from the Capital Gains Fee calculation any incentive fee that would be owed in respect of the realized gain on step acquisition resulting from the Tamarix Acquisitions.

We incurred incentive fee expense of $0.7 million for the three and nine months ended September 30, 2014. We did not incur any incentive fee expenses during 2013.

License Agreement

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

Administration Agreement

Pursuant to an Administration Agreement, OFS Services furnishes us with office facilities and equipment, necessary software licenses and subscriptions and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, OFS Services performs, or oversees the performance of, our required administrative services, which include being responsible for the financial records that we are required to maintain and preparing reports to our shareholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our shareholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, OFS Services would provide managerial assistance on our behalf to certain portfolio companies that accept our offer to provide such assistance. Payments under the Administration Agreement are equal to an amount based upon our allocable portion (subject to the review and approval of our board of directors) of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our officers, including our chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, and corporate secretary, and their respective staffs. The administrative fee is payable quarterly in arrears. For the three and nine months ended September 30, 2014, we incurred $0.2 million and $1.0 million, respectively, of administrative fees. For the three and nine months ended September 30, 2013, we incurred $0.2 million and $0.7 million, respectively, of administrative fees.

On June 30, 2014, OFS Services deferred the receipt of the first quarter of 2014 administrative fee in the amount of approximately $475 thousand, that would otherwise have been due from us by June 30, 2014, until further determination by OFS Services. In addition, on June 30, 2014, OFS Services deferred the receipt of the second quarter of 2014 administrative fee in the amount of $285 thousand, that would otherwise have been due from us by September 30, 2014, until further determination by OFS Services. The Administrator informed the Company that the deferral of the fee was made for the benefit of the Company's shareholders to take into account unforeseen delays in completing the Tamarix Acquisitions.

On October 31, 2014, OFS Services informed us that it would not further defer the receipt of the administrative fee for the first and second quarters of 2014. In addition, OFS Services informed us that the administrative fee with respect to the third quarter of 2014 will not be deferred. We intend to pay OFS Services the outstanding administrative fees for the first three quarters of 2014 in the aggregate amount of approximately $1.0 million during the fourth quarter of 2014.

Staffing Agreement

OFS Advisor has entered into a Staffing Agreement with Orchard First Source Capital, Inc., or OFSC, which is a wholly owned subsidiary of OFSAM. Under this agreement, OFSC makes available to OFS Advisor experienced investment professionals and access to the senior investment personnel and other resources of OFSC and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by the professionals of OFSC and its affiliates and commits the members of the Advisor Investment Committee to serve in that capacity. OFS Advisor capitalizes on the significant deal origination and sourcing, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of OFSC's investment professionals.

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

Recent Developments

On November 4, 2014, the Company's Board declared a distribution of $0.34 per share for the 2014 fourth quarter, payable on December 31, 2014 to shareholders of records as of December 17, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. At September 30, 2014, 82% of our debt investments bore interest at floating interest rates and 18% of our debt investments bore fixed interest rates. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current rates on a periodic basis. All of the debt investments bearing floating interest rates in our portfolio as of September 30, 2014 had interest rate floors, which have effectively converted those debt investments to fixed rate debt investments in the current interest rate environment.

In addition, the OFS Capital WM Credit Facility has a floating interest rate provision, and we expect that other credit facilities into which we may enter in the future may have floating interest rate provisions.

Assuming that our consolidated balance sheet as of September 30, 2014 was to remain constant, and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

Basis point increase(1)	Interest income	Interest expense	Net increase (decrease)
	(Amounts in thousands)		
100	$ 266	$ (859)	$ (594)
200	2,126	(1,719)	407
300	4,304	(2,578)	1,726
400	6,483	(3,438)	3,045
500	8,661	(4,297)	4,364

(1) A decline in interest rates would not have a material impact on our consolidated financial statements.

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of the end of the period covered by this quarterly report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

As described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2013, management identified a material weakness related to management's analysis regarding the appropriate accounting treatment for the Tamarix Acquisitions and implemented remediation steps in early 2014 to address the material weakness by providing that all future business combination transactions will be accounted for in accordance with Accounting Standards Codification Topic 805, or ASC Topic 805. The Tamarix Acquisitions was a complex, non-routine transaction. We performed extensive accounting research and analysis regarding the appropriate accounting treatment for the Tamarix Acquisitions, because ASC Topic 805 does not include a scope-out for investment company combinations. Based on our research and analysis, we initially considered treating the Tamarix Acquisitions as a business combination governed by ASC Topic 805, albeit reflecting as a day one loss, rather than recording as goodwill or other intangibles, the excess purchase price over the fair value of the net identifiable assets. We believed that approach, which would constitute a departure from GAAP, might be appropriate, because the traditional business combination treatment (including recognition of goodwill) under ASC Topic 805 did not appear to appropriately reflect a business combination between two investment companies, especially in our situation, where the acquirer (OFS Capital) had already been fair valuing the underlying assets of the acquiree (Tamarix LP) for a number of quarters. We ultimately decided that any departure from ASC Topic 805 was not warranted.

Other than as described above, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We, OFS Advisor, and OFS Services are not currently subject to any material pending or threatened legal proceedings against us as of September 30, 2014. 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. 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 or results of operations.

Item 1A. Risk Factors

Investing in our common stock may be speculative and involves a high degree of risk. In addition to the other information contained in this Quarterly Report on Form 10-Q, including our financial statements, and the related notes, schedules and exhibits, you should carefully consider the risk factors described in *Part I, "Item 1A. Risk Factors"* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

There have been no material changes from the risk factors previously disclosed in *Part I, "Item 1A. Risk Factors"* in our Annual Report on Form 10-K for the year ended December 31, 2013, which should be read together with the other risk factors and information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

Our investments in the healthcare industry are subject to extensive government regulation, litigation risk and certain other risks particular to that industry.

We invest in companies in the healthcare industry that are subject to extensive regulation by the Food and Drug Administration, or the FDA, and to a lesser extent, other federal, state and other foreign agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies that produce medical devices or drugs are subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace. In addition, governmental budgetary constraints effecting the regulatory approval process, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry. Portfolio companies in the healthcare industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in the healthcare industry and, in turn, impair our ability to timely collect principal and interest payments owed to us and adversely affect the value of these portfolio companies.

Changes in healthcare laws and other regulations applicable to some of our portfolio companies' businesses may constrain their ability to offer their products and services.

Changes in healthcare or other laws and regulations applicable to the businesses of some of our portfolio companies may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of some of our portfolio companies.

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.

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

During the nine month period ended September 30, 2014, we issued 8,264 shares of common stock to shareholders in connection with our dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan was approximately $105,000.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Listed below are the exhibits that are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit Number	Description
10.1	Investment Advisory and Management Agreement between OFS Capital Corporation and OFS Capital Management, LLC, dated November 7, 2012.
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*

* Filed herewith.

SIGNATURES

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

Dated: November 7, 2014

OFS CAPITAL CORPORATION

By: /s/ BILAL RASHID
Name: Bilal Rashid
Title: Chief Executive Officer

By: /s/ JEFFREY A. CERNY
Jeffrey A. Cerny
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
10.1	Investment Advisory and Management Agreement between OFS Capital Corporation and OFS Capital Management, LLC, dated November 7, 2012.
31.1	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

Exhibit 10.1

INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

This Agreement ("Agreement") is made as of November 7, 2012 by and between OFS CAPITAL CORPORATION, a Delaware corporation (the "Company"), and OFS CAPITAL MANAGEMENT, LLC, a Delaware limited liability company ("OFS Advisor").

WITNESSETH:

WHEREAS, the Company is a closed-end non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "Investment Company Act");

WHEREAS, OFS Advisor is an investment adviser that has registered under the Investment Advisers Act of 1940, as amended (the "Advisers Act"); and

WHEREAS, the Company desires to retain OFS Advisor to furnish investment advisory services to the Company, and OFS Advisor wishes to be retained to provide such services, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and OFS Advisor hereby agree as follows:

1. Duties of OFS Advisor.

(a) Employment of OFS Advisor. The Company hereby employs OFS Advisor to act as the investment adviser to the Company and to manage the investment and reinvestment of the assets of the Company, subject to the supervision of the Board of Directors of the Company (the "Board"), during the term hereof and upon the terms and conditions herein set forth, in accordance with:

(i) the investment objectives, policies and restrictions that are determined by the Board from time to time and disclosed to OFS Advisor, which objectives, policies and restrictions shall initially be those set forth in the Company's Registration Statement on Form N-2, initially filed with the Securities and Exchange Commission (the "SEC") on April 29, 2010, and as amended from time to time;

(ii) the Investment Company Act and the Advisers Act; and

(iii) all other applicable federal and state laws, rules and regulations, and the Company's charter and bylaws.

OFS Advisor hereby accepts such employment and agrees during the term hereof to render such services, subject to the payment of compensation provided for herein.

(b) Certain Services. Without limiting the generality of Section 1(a), OFS Advisor shall:

(i) determine the composition of the portfolio of the Company, the nature and timing of the changes thereto and the manner of implementing such changes;

(ii) assist the Company in determining the securities that the Company will purchase, retain, or sell;

(iii) identify, evaluate and negotiate the structure of the investments made by the Company (including performing due diligence on the Company's prospective portfolio companies);

(iv) execute, close, service and monitor the Company's investments; and

(v) provide the Company with such other investment advisory, management, research and related services as the Company may, from time to time, reasonably require for the investment of its funds.

OFS Advisor shall have the power and authority on behalf of the Company to effectuate its investment decisions for the Company, including the execution and delivery of all documents relating to the Company's investments and the placing of orders for other purchase or sale transactions on behalf of the Company. In the event that the Company determines to incur debt financing, OFS Advisor shall arrange for such financing on the Company's behalf, subject to the oversight and any required approval of the Board. If it is necessary for OFS Advisor to make investments on behalf of the Company through a special purpose vehicle, OFS Advisor shall have authority to create or arrange for the creation of such special purpose vehicle and to make such investments through such special purpose vehicle in accordance with the Investment Company Act.

(c) Sub-Advisers. Subject to the requirements of the Investment Company Act (including any approval by the vote of holders of a majority of outstanding voting securities of the Company required under Section 15(a) of the Investment Company Act), OFS Advisor is hereby authorized to enter into one or more sub-advisory agreements with other investment advisers (each, a "Sub-Adviser") pursuant to which OFS Advisor may obtain the services of the Sub-Adviser(s) to assist OFS Advisor in providing the investment advisory services required to be provided by OFS Advisor under this Agreement. Specifically, OFS Advisor may retain a Sub-Adviser to recommend specific securities or other investments based upon the Company's investment objectives, policies and restrictions, and work, along with OFS Advisor, in structuring, negotiating, arranging or effecting the acquisition or disposition of such investments and monitoring investments on behalf of the Company, subject to the oversight of OFS Advisor and the Board. Any sub-advisory agreement entered into by OFS Advisor shall be in accordance with the requirements of the Investment Company Act and other applicable federal and state law. The Company, and not OFS Advisor, shall be responsible for any compensation payable to any Sub-Adviser.

(d) Independent Contractors. OFS Advisor, and any Sub-Adviser, shall for all purposes herein each be deemed to be an independent contractor and, except as expressly provided or authorized herein, shall have no authority to act for or represent the Company in any way or otherwise be deemed an agent of the Company.

(e) Books and Records. OFS Advisor shall keep and preserve for the period required by the Investment Company Act any books and records relevant to the provision of its investment advisory services to the Company and shall specifically maintain all books and records with respect to the Company's portfolio transactions and shall render to the Board such periodic and special reports as the Board may reasonably request. OFS Advisor agrees that all records that it maintains for the Company are the property of the Company and shall surrender promptly to the Company any such records upon the Company's request; provided that OFS Advisor may retain a copy of such records.

2. Allocation of Costs and Expenses.

(a) Expenses Payable by OFS Advisor. All investment professionals of OFS Advisor and/or its affiliates, when and to the extent engaged in providing investment advisory services required to be provided by OFS Advisor under this Agreement, and the compensation and routine overhead expenses of such personnel allocable to such services, shall be provided and paid for by OFS Advisor and not by the Company.

(b) Expenses Payable by the Company. Other than those expenses specifically assumed by OFS Advisor pursuant to Section 2(a), the Company shall bear all costs and expenses that are incurred in its operation, administration and transactions, including those relating to:

(i) organization of the Company;

(ii) calculating the Company's net asset value (including the cost and expenses of any independent valuation firm);

(iii) fees and expenses incurred by OFS Advisor payable to third parties, including agents, consultants or other advisors (including Sub-Advisers), in monitoring financial and legal affairs for the Company and in monitoring the Company's investments and performing due diligence on its prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;

(iv) interest payable on debt, if any, incurred to finance the Company's investments;

(v) sales and purchases of the Company's common stock and other securities;

(vi) distributions on the Company's common stock and other securities;

(vii) investment advisory and management fees, including in respect of the operations of OFS Capital WM, LLC and Tamarix Capital Partners, L.P. and any future subsidiaries;

(viii) administration fees and expenses, if any, payable under the Administration Agreement (the "Administration Agreement") between the Company and OFS Capital Services, LLC, the Company's administrator ("OFS Services"), including payments based upon the Company's allocable portion of OFS Services' overhead in performing its obligations under the Administration Agreement, including rent, necessary software licenses and subscriptions and the allocable portion of the cost of the Company's officers, including a chief executive officer, chief financial officer, chief compliance officer, chief accounting officer, if any, and their respective staffs;

(ix) the allocated costs incurred by OFS Services as administrator in providing managerial assistance to those portfolio companies of the Company that request it;

(x) transfer agent, dividend paying and reinvestment agent and custodial fees and expenses;

(xi) federal and state registration fees;

(xii) all costs of registration and listing the Company's shares on any securities exchange;

(xiii) federal, state and local taxes;

(xiv) independent directors' fees and expenses;

(xv) costs of preparing and filing reports or other documents required by the SEC or other regulators;

(xvi) costs of any reports, proxy statements or other notices to stockholders, including printing costs;

(xvii) the Company's allocable portion of any fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;

(xviii) indemnification payments;

(xix) direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;

(xx) proxy voting expenses; and

(xxi) all other expenses incurred by the Company or OFS Services in connection with administering the Company's business.

3. Compensation of OFS Advisor. The Company agrees to pay, and OFS Advisor agrees to accept, as compensation for the services provided by OFS Advisor hereunder, a base management fee (the "Base Management Fee") and an incentive fee consisting of two parts (collectively, the "Incentive Fee") as hereinafter set forth. The Company shall make any payments due hereunder to OFS Advisor or to OFS Advisor's designee as OFS Advisor may otherwise direct. To the extent permitted by applicable law, OFS Advisor may elect, or the Company may adopt a deferred compensation plan pursuant to which OFS Advisor may elect, to defer all or a portion of its fees hereunder for a specified period of time.

(a) Base Management Fee.

(i) The Base Management Fee shall be calculated and payable quarterly in arrears based on the average value of the Company's total assets (other than cash or 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. From the Closing Date (as defined below), through October 31, 2013, the Base Management Fee shall be 0.219% per quarter (0.875% annualized) of such average value. After October 31, 2013, the Base Management Fee shall be 0.4375% per quarter (1.75% annualized) of such average value. The Base Management Fees shall be adjusted for any share issuances or repurchases during the calendar quarter, and the Base Management Fees for any partial quarter shall be prorated based on the number of days in such quarter.

(b) Incentive Fee – Income-Based Fee.

(i) The first part of the Incentive Fee (the "Income-Based Fee") shall be calculated and payable quarterly in arrears based on the Company's pre-Incentive Fee net investment income for the calendar quarter. For purposes of this Agreement, pre-Incentive Fee net investment income for any given calendar quarter is calculated as (A) the sum of interest income, dividend income and any other income (including any other fees, including 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 by the Company during such quarter, minus (B) the Company's operating expenses for such quarter (including the Base Management Fee, any expenses payable under the Administration Agreement and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the Incentive Fee). Pre-Incentive Fee net investment income shall not include any realized capital gains, realized capital losses, unrealized capital appreciation or unrealized capital depreciation. Pre-Incentive Fee net investment income shall include, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with paid-in-kind interest and zero coupon securities), accrued income that the Company has not yet received in cash.

(ii) In calculating the Income-Based Fee for any given calendar quarter, the Company's pre-Incentive Fee net investment income, expressed as a rate of return on the value of the Company's net assets at the end of the immediately preceding calendar quarter (the "Rate of Return"), shall be compared to a hurdle rate of 2.0% per quarter (8.0% annualized) (the "Hurdle Rate"). For purposes of this Agreement, net assets is calculated as total assets less indebtedness and before taking into account any Incentive Fees payable during the relevant period.

(iii) Subject to Section 3(b)(iv), the Company shall pay OFS Advisor an Income-Based Fee with respect to the Company's pre-Incentive Fee net investment income in each calendar quarter as follows:

(A) no Income-Based Fee if the Rate of Return does not exceed the Hurdle Rate in such quarter;

(B) 100% of that portion of the Company's pre-Incentive Fee net investment income, if any, with respect to which the Rate of Return exceeds the Hurdle Rate but is less than 2.5% in such quarter (10.0% annualized); and

(C) 20.0% of that portion of the Company's pre-Incentive Fee net investment income, if any, with respect to which the Rate of Return exceeds 2.5% in such quarter (10.0% annualized).

There shall be no accumulation of amounts on the Hurdle Rate from quarter to quarter, no claw back of amounts previously paid if the Rate of Return in any subsequent quarter is below the Hurdle Rate and no delay of payment if the Rate of Return in any prior quarters was below the Hurdle Rate. Income-Based Fees shall be adjusted for any share issuances or repurchases during the calendar quarter, and Income-Based Fees for any partial quarter shall be prorated based on the number of days in such quarter.

(c) Incentive Fee - Capital Gains Fee.

(i) The second part of the Incentive Fee (the "Capital Gains Fee") shall be calculated and payable in arrears at the end of each calendar year (or, upon termination of this Agreement pursuant to Section 9, as of the termination date) based on the Company's net capital gains. For purposes of this Agreement, net capital gains are calculated by subtracting (A) the sum of the Company's cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (B) the Company's cumulative aggregate realized capital gains. If such amount is positive at the end of the relevant calendar year, then the Capital Gains Fee for such year shall be 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 shall be no Capital Gains Fee for such year. If this Agreement shall terminate as of a date that is not a calendar-year end, the termination date shall be treated as though it were a calendar-year end for purposes of calculating and paying a Capital Gains Fee. Any Capital Gains Fee for any partial year shall be prorated based on the number of days in such year.

(ii) For purposes of this Agreement:

(A) cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (1) the net sales price of each investment in the Company's portfolio when sold and (2) the accreted or amortized cost basis of such investment;

(B) cumulative aggregate realized capital losses are calculated as the sum of the differences, if negative, between (1) the net sales price of each investment in the Company's portfolio when sold and (2) the accreted or amortized cost basis of such investment; and

(C) aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (1) the valuation of each investment in the Company's portfolio as of the end of the relevant year and (2) the accreted or amortized cost basis of such investment.

(d) Calculation of Fees During the Interim Period. Notwithstanding anything to the contrary herein, with respect to services rendered during the period commencing on the closing date of the Company's initial public offering (the "Closing Date") through and including the last day of the calendar quarter ending immediately after the closing of the Company's initial public offering (the "Interim Period") and, in the case of the Base Management Fee, during the first full calendar quarter thereafter (the "First Full Quarter"):

(i) the Base Management Fee (A) for the Interim Period shall be calculated based on the average value of the Company's total assets (other than cash or cash equivalents but including assets purchased with borrowed funds and including assets owned by any consolidated entity) on the Closing Date and the last day of the Interim Period, and shall be appropriately prorated, and (B) for the First Full Quarter shall be calculated based on the average value of the Company's total assets (other than cash or cash equivalents but including assets purchased with borrowed funds and including assets owned by any consolidated entity) on the last day of the Interim Period and the last day of the First Full Quarter;

(ii) the Income-Based Fee for the Interim Period shall be calculated based on the Company's pre-Incentive Fee net investment income for the Interim Period, and shall be appropriately prorated; and

(iii) the Capital Gains Fee as of December 31, 2012 shall be calculated for a period of shorter than 12 calendar months to take into account realized capital gains, realized capital losses, unrealized capital appreciation and unrealized capital depreciation since the Closing Date, and shall be appropriately prorated.

4. Representations, Warranties and Covenants of OFS Advisor. OFS Advisor represents and warrants that it is registered as an investment adviser under the Advisers Act. OFS Advisor agrees that its activities shall at all times be in compliance in all material respects with all applicable federal and state laws governing its operations and investments, including the Investment Company Act and the Advisers Act.

5. Excess Brokerage Commissions. OFS Advisor is hereby authorized, to the fullest extent now or hereafter permitted by law, to cause the Company to pay a member of a national securities exchange, broker or dealer an amount of commission for effecting a securities transaction in excess of the amount of commission another member of such exchange, broker or dealer would have charged for effecting that transaction, if OFS Advisor determines in good faith, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities, that such amount of commission is reasonable in relation to the value of the brokerage and/or research services provided by such member, broker or dealer, viewed in terms of either that particular transaction or its overall responsibilities with respect to the Company's portfolio, and constitutes the best net results for the Company.

6. Activities of OFS Advisor. The services of OFS Advisor to the Company are not exclusive, and OFS Advisor and/or any of its affiliates may engage in any other business or render similar or different services to others, including the direct or indirect sponsorship or management of other investment-based accounts or commingled pools of capital, however structured, having investment objectives similar to those of the Company, so long as its services to the Company hereunder are not materially impaired thereby, and nothing in this Agreement shall limit or restrict the right of any member, manager, partner, officer or employee of OFS Advisor or any such affiliate to engage in any other business or to devote his or her time and attention in part to any other business, whether of a similar or dissimilar nature, or to receive any fees or compensation in connection therewith (including fees for serving as a director of, or providing consulting services to, one or more of the Company's portfolio companies, subject to applicable law). So long as this Agreement or any extension, renewal or amendment remains in effect, OFS Advisor shall be the only investment adviser for the Company, subject to OFS Advisor's right to enter into sub-advisory agreements. OFS Advisor assumes no responsibility under this Agreement other than to render the services called for hereunder. It is understood that directors, officers, employees and stockholders of the Company are or may become interested in OFS Advisor and its affiliates, as directors, officers, employees, partners, stockholders, members, managers or otherwise, and that OFS Advisor and directors, officers, employees, partners, stockholders, members and managers of OFS Advisor and its affiliates are or may become similarly interested in the Company as directors, officers, employees, stockholders or otherwise.

7. Responsibility of Dual Directors, Officers and/or Employees. If any person who is a member, manager, partner, officer or employee of OFS Advisor or OFS Services is or becomes a director, officer and/or employee of the Company and acts as such in any business of the Company, then such member, manager, partner, officer and/or employee of OFS Advisor or OFS Services shall be deemed to be acting in such capacity solely for the Company, and not as a member, manager, partner, officer or employee of OFS Advisor or OFS Services or under the control or direction of OFS Advisor or OFS Services, even if paid by OFS Advisor or OFS Services.

8. Limitation of Liability of OFS Advisor; Indemnification. OFS Advisor and its affiliates and its and its affiliates' respective directors, officers, employees, members, managers, partners and stockholders, each of whom shall be deemed a third party beneficiary hereof (collectively, the "Indemnified Parties"), shall not be liable to the Company or its subsidiaries or its and its subsidiaries' respective directors, officers, employees, members, managers, partners or stockholders for any action taken or omitted to be taken by OFS Advisor in connection with the performance of any of its duties or obligations under this Agreement or otherwise as an investment adviser of the Company, except to the extent specified in Section 36(b) of the Investment Company Act concerning loss resulting from a breach of fiduciary duty (as the same is finally determined by judicial proceedings) with respect to the receipt of compensation for services. The Company shall indemnify, defend and protect the Indemnified Parties and hold them harmless from and against all claims or liabilities (including reasonable attorneys' fees) and other expenses reasonably incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Company or its security holders) arising out of or in connection with the performance of any of OFS Advisor's duties or obligations under this Agreement or otherwise as an investment adviser of the Company. Notwithstanding the foregoing provisions of this Section 8 to the contrary, nothing contained herein shall protect or be deemed to protect the Indemnified Parties against, or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Company or its security holders to which the Indemnified Parties would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of such Indemnified Party's duties or by reason of such Indemnified Party's reckless disregard of its obligations and duties under this Agreement (as the same shall be determined in accordance with the Investment Company Act and any interpretations or guidance by the SEC or its staff thereunder).

9. <u>Effectiveness, Duration and Termination</u>.

(a) This Agreement shall become effective as of the first date above written. This Agreement shall remain in effect for two years after such date, and thereafter shall continue automatically for successive annual periods; provided that such continuance is specifically approved at least annually by:

(i) the vote of the Board, or by the vote of holders of a majority of the outstanding voting securities of the Company; and

(ii) the vote of a majority of the Company's directors who are not "interested persons" (as such term is defined in Section 2(a)(19) of the Investment Company Act) of any party hereto, in accordance with the requirements of the Investment Company Act.

(b) This Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice, by (i) the vote of holders of a majority of the outstanding voting securities of the Company, (ii) the vote of the Board or (iii) OFS Advisor.

(c) This Agreement shall automatically terminate in the event of its "assignment" (as such term is defined for purposes of Section 15(a)(4) of the Investment Company Act); provided that nothing herein shall cause this Agreement to terminate upon or otherwise restrict a transaction that does not result in a change of actual control or management of OFS Advisor.

(d) The provisions of Section 8 of this Agreement shall remain in full force and effect, and apply to OFS Advisor and its representatives as and to the extent applicable, and OFS Advisor shall remain entitled to the benefits thereof, notwithstanding any termination or expiration of this Agreement. Further, notwithstanding the termination or expiration of this Agreement as aforesaid, OFS Advisor shall be entitled to any amounts owed under Section 3 through the date of termination or expiration.

10. Termination of Interim Agreement. The Company and OFS Advisor hereby terminate the Interim Investment Advisory and Management Agreement, dated as of September 28, 2010, between the Company and OFS Advisor, effective as of the date hereof.

11. Third Party Beneficiaries. Nothing in this Agreement, either express or implied, is intended to or shall confer upon any person other than the parties hereto and the Indemnified Parties any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

12. Amendments of this Agreement. This Agreement may not be amended or modified except by an instrument in writing signed by both parties hereto, and upon the consent of stockholders of the Company in conformity with the requirements of the Investment Company Act.

13. Governing Law; Waiver of Jury Trial. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, including Sections 5-1401 and 5-1402 of the New York General Obligations Law and New York Civil Practice Laws and Rules 327(b), and the applicable provisions of the Investment Company Act, if any. To the extent that the applicable laws of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, if any, the latter shall control. The parties hereto unconditionally and irrevocably consent to the exclusive jurisdiction of the federal and state courts located in the State of New York and waive any objection with respect thereto, for the purpose of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. The agreement of each party to waive its right to a jury trial will be binding on its successors and assigns and will survive the termination of this Agreement.

14. No Waiver. The failure of either party hereto to enforce at any time for any period the provisions of or any rights deriving from this Agreement shall not be construed to be a waiver of such provisions or rights or the right of such party thereafter to enforce such provisions, and no waiver shall be binding unless executed in writing by all parties hereto.

15. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

16. Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

17. Counterparts. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original instrument and all of which taken together shall constitute one and the same agreement.

18. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service (with signature required), by facsimile, or by registered or certified mail (postage prepaid, return receipt requested) to the parties hereto at their respective principal executive office addresses.

19. Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, between the parties hereto with respect to such subject matter.

20. Certain Matters of Construction.

(a) The words “hereof”, “herein”, “hereunder” and words of similar import shall refer to this Agreement as a whole and not to any particular Section or provision of this Agreement, and reference to a particular Section of this Agreement shall include all subsections thereof.

(b) Definitions shall be equally applicable to both the singular and plural forms of the terms defined, and references to the masculine, feminine or neuter gender shall include each other gender.

(c) The word “including” shall mean including without limitation.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

OFS CAPITAL CORPORATION

By: /s/ Robert S. Palmer
Name: Robert S. Palmer
Title: Chief Financial Officer

OFS CAPITAL MANAGEMENT, LLC

By: Orchard First Source Asset Management, LLC, its Manager

By: /s/ Kathi J. Inorio
Name: Kathi J. Inorio
Title: Secretary

[Signature Page to Investment Advisory Agreement]

Exhibit 31.1

Certification of Chief Executive Officer

I, Bilal Rashid, Chief Executive Officer of OFS Capital Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of OFS Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to 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 7th day of November 2014.

By: /s/ BILAL RASHID

Bilal Rashid
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

I, Jeffrey A. Cerny, Chief Financial Officer of OFS Capital Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of OFS Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 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 7th day of November 2014.

By: /s/ JEFFREY A. CERNY

Jeffrey A. Cerny
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2014 (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, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

	/s/ BILAL RASHID
Name:	**Bilal Rashid**
Date:	**November 7, 2014**

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2014 (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, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

	/s/ JEFFREY A. CERNY
Name:	**Jeffrey A. Cerny**
Date:	**November 7, 2014**