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OFS Capital Corp  
Form 10-Q  
May 03, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 814-00813

OFS CAPITAL CORPORATION  
(Exact name of registrant as specified in its charter)  
Delaware

46-1339639  
I.R.S. Employer  
Identification No.

State or Other Jurisdiction of  
Incorporation or Organization

10 S. Wacker Drive, Suite 2500, Chicago, Illinois  
Address of Principal Executive Offices

60606  
Zip Code

(847) 734-2000

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of May 1, 2019 was 13,361,134.

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OFS CAPITAL CORPORATION

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### Defined Terms

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

Term	Explanation or Definition
1940 Act	Investment Company Act of 1940, as amended
Administration Agreement	Administration Agreement between the Company and OFS Services dated November 7, 2012
Annual Distribution Requirement	Distributions to our stockholders, for each taxable year, of at least 90% of our ICTI
April 2017 Offering	The April 2017 follow-on public offering 3,625,000 shares of our common stock at an offering price of \$14.57 per share
ASC	Accounting Standards Codification, as issued by the FASB
ASU	Accounting Standards Updates, as issued by the FASB
BDC	Business Development Company under the 1940 Act
BLA	Business Loan Agreement, as amended, with Pacific Western Bank, as lender, which provides the Company with a senior secured revolving credit facility
Board	The Company's board of directors
CLO	Collateralized loan obligation
Code	Internal Revenue Code of 1986, as amended
DRIP	Distribution reinvestment plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
HPCI	Hancock Park Corporate Income, Inc., a Maryland corporation and non-traded BDC for whom OFS Advisor serves as investment adviser
ICTI	Investment company taxable income, which is generally net ordinary income plus net short-term capital gains in excess of net long-term capital losses
Indicative Prices	Market quotations, prices from pricing services or bids from brokers or dealers
Investment Advisory Agreement	Investment Advisory and Management Agreement between the Company and OFS Advisor dated November 7, 2012
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
Net Loan Fees	The cumulative amount of fees, such as discounts, premiums and amendment fees that are deferred and recognized as income over the life of the loan.
OCCI	OFS Credit Company, Inc., a Delaware corporation and a non-diversified, closed-end management investment company for whom OFS Advisor serves as investment adviser
OFS Advisor	OFS Capital Management, LLC, a wholly owned subsidiary of OFSAM and registered investment adviser under the Investment Advisers Act of 1940, as amended
OFS Capital WM	OFS Capital WM, LLC, a wholly owned investment company subsidiary of the Company
OFS Services	OFS Capital Services, LLC, a wholly owned subsidiary of OFSAM and affiliate of OFS Advisor
OFSAM	Orchard First Source Asset Management, LLC, a full-service provider of capital and leveraged finance solutions to U.S. corporations
PIK	Payment-in-kind, non-cash interest or dividends payable as an addition to the loan or equity security producing the income.
Prime Rate	United States Prime interest rate
PWB Credit Facility	Senior secured revolving credit facility between the Company and Pacific Western Bank, as lender
RIC	Regulated investment company under the Code

SBA

U.S. Small Business Administration

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Term	Explanation or Definition
SBCAA	Small Business Credit Availability Act
SBIC	A fund licensed under the SBA small business investment company program
SBIC Acquisition	The Company's acquisition of the remaining ownership interests in SBIC I LP and OFS SBIC I GP, LLC on December 4, 2013
SBIC Act	Small Business Investment Act of 1958, as amended
SBIC I LP	OFS SBIC I, LP, a wholly owned SBIC subsidiary of the Company
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Secured Revolver Amendment	The amended Business Loan Agreement with Pacific Western Bank, as lender, dated April 10, 2019
Stock Repurchase Program	The open market stock repurchase program for shares of the Company's common stock under Rule 10b-18 of the Exchange Act
Structured Finance Notes	CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses
The Order	We received exemptive relief from the SEC to permit us to co-invest in portfolio companies with certain funds managed by Affiliated Funds in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to compliance with certain conditions.
Transaction Price	The cost of an arm's length transaction occurring in the same security
Unsecured Notes	The combination of the Unsecured Notes Due April 2025 and the Unsecured Notes Due October 2025
Unsecured Notes Due April 2025	The Company's \$50.0 million aggregate principal amount of 6.375% notes due April 30, 2025
Unsecured Notes Due October 2025	The Company's \$46.0 million aggregate principal amount of 6.5% notes due October 30, 2025

### 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,” “projects” and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

our ability and experience operating a BDC or an SBIC, or maintaining our tax treatment as a RIC under Subchapter M of the Code;

our dependence on key personnel;

our ability to maintain or develop referral relationships;

our ability to replicate historical results;

the ability of OFS Advisor to identify, invest in and monitor companies that meet our investment criteria;

actual and potential conflicts of interest with OFS Advisor and other affiliates of OFSAM;

constraint on investment due to access to material nonpublic information;

restrictions on our ability to enter into transactions with our affiliates;

limitations on the amount of SBA-guaranteed debentures 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;

our ability to incur additional leverage pursuant to the SBCAA, beginning on May 3, 2019;

competition for investment opportunities;

the ability of SBIC I LP to make distributions enabling us to meet RIC requirements;

our ability to raise debt or equity capital as a BDC;

the timing, form and amount of any distributions from our portfolio companies;

the impact of a protracted decline in the liquidity of credit markets on our business;

the general economy and its impact on the industries in which we invest;

uncertain valuations of our portfolio investments; and

the effect of new or modified laws or regulations governing our operations.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, 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 the year ended December 31, 2018. 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 in the future may file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The forward-looking statements and projections contained in this Quarterly Reports on Form 10-Q are excluded from the safe harbor protection provided by Section 21E of the Exchange Act.

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## OFS Capital Corporation and Subsidiaries

## Consolidated Statements of Assets and Liabilities

(Dollar amounts in thousands, except per share data)

	March 31, 2019	December 31, 2018
	(unaudited)	
Assets		
Investments, at fair value:		
Non-control/non-affiliate investments (amortized cost of \$323,794 and \$312,223, respectively)	\$ 310,090	\$ 297,749
Affiliate investments (amortized cost of \$120,199 and \$90,751, respectively)	117,431	89,103
Control investment (amortized cost of \$10,368 and \$10,337, respectively)	10,146	9,945
Total investments at fair value (amortized cost of \$454,361 and \$413,311, respectively)	437,667	396,797
Cash	15,156	38,172
Interest receivable	3,787	2,787
Prepaid expenses and other assets	3,592	3,665
Total assets	\$ 460,202	\$ 441,421
Liabilities		
Revolving line of credit	\$ 35,750	\$ 12,000
SBA debentures (net of deferred debt issuance costs of \$2,188 and \$2,280, respectively)	147,692	147,600
Unsecured notes (net of deferred debt issuance costs of \$3,176 and \$3,299 respectively)	95,349	95,226
Interest payable	1,478	2,791
Payable to adviser and affiliates (Note 3)	3,767	3,700
Payable for investments purchased	1,027	4,151
Accrued professional fees	662	637
Other liabilities	219	293
Total liabilities	285,944	266,398
Commitments and contingencies (Note 6)		
Net assets		
Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized, -0- shares issued and outstanding as of March 31, 2019, and December 31, 2018, respectively	\$ —	\$ —
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 13,361,134 and 13,357,337 shares issued and outstanding as of March 31, 2019, and December 31, 2018, respectively	134	134
Paid-in capital in excess of par	187,604	187,540
Total distributable earnings (losses)	(13,480)	(12,651)
Total net assets	174,258	175,023
Total liabilities and net assets	\$ 460,202	\$ 441,421
Number of shares outstanding	13,361,134	13,357,337
Net asset value per share	\$ 13.04	\$ 13.10

See Notes to Consolidated Financial Statements.





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

	Three Months Ended March 31,	
	2019	2018
Investment income		
Interest income:		
Non-control/non-affiliate investments	\$8,642	\$ 5,758
Affiliate investments	2,333	2,085
Control investment	259	239
Total interest income	11,234	8,082
Payment-in-kind interest and dividend income:		
Non-control/non-affiliate investments	97	224
Affiliate investments	252	461
Control investment	27	27
Total payment-in-kind interest and dividend income	376	712
Dividend income:		
Affiliate investments	173	130
Control investment	—	33
Total dividend income	173	163
Fee income:		
Non-control/non-affiliate investments	342	26
Affiliate investments	205	2
Control investment	15	18
Total fee income	562	46
Total investment income	12,345	9,003
Expenses		
Interest and financing expense	3,455	1,634
Management fee	1,843	1,360
Incentive fee	1,163	736
Professional fees	535	201
Administration fee	437	583
Other expenses	84	695
Total expenses before incentive fee waiver	7,517	5,209
Incentive fee waiver (see Note 3)	—	(22 )
Total expenses, net of incentive fee waiver	7,517	5,187
Net investment income	4,828	3,816
Net realized and unrealized gain (loss) on investments		
Net realized gain (loss) on non-control/non-affiliate investments	(804 )	461
Net realized loss on affiliate investments	—	(541 )
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments	658	(1,563 )
Net unrealized appreciation (depreciation) on affiliate investments	(1,120 )	1,245
Net unrealized appreciation on control investment	170	75
Net loss on investments	(1,096 )	(323 )
Net increase in net assets resulting from operations	\$3,732	\$ 3,493

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Net investment income per common share – basic and diluted	\$0.36	\$ 0.29
Net increase in net assets resulting from operations per common share – basic and diluted	\$0.28	\$ 0.26
Distributions declared per common share	\$0.34	\$ 0.71
Basic and diluted weighted average shares outstanding	13,357,463	13,340,502
See Notes to Consolidated Financial Statements.		

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OFS Capital Corporation and Subsidiaries  
 Consolidated Statements of Changes in Net Assets (unaudited)  
 (Dollar amounts in thousands)

	Preferred stock		Common Stock		Paid-in capital in excess of par	Total distributable earnings (losses)	Total net assets
	Number of shares	Par value	Number of shares	Par value			
Balances at January 1, 2018	—	—	13,340,217	\$ 133	\$ 187,398	\$ 805	\$ 188,336
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	3,816	3,816
Net realized loss on investments	—	—	—	—	—	(80)	(80)
Net unrealized depreciation on investments	—	—	—	—	—	(243)	(243)
Tax reclassifications of permanent differences	—	—	—	—	18	(18)	—
Distributions to stockholders:							
Common stock issued from reinvestment of stockholder distributions	—	—	8,557	—	96	—	96
Dividends declared	—	—	—	—	—	(9,472)	(9,472)
Total increase (decrease) for the period ended March 31, 2018	—	—	8,557	—	114	(5,997)	(5,883)
Balances at March 31, 2018	—	—	13,348,774	\$ 133	\$ 187,512	\$ (5,192)	\$ 182,453
Balances at January 1, 2019	—	—	13,357,337	\$ 134	\$ 187,540	\$ (12,651)	\$ 175,023
Net increase in net assets resulting from operations:							
Net investment income	—	—	—	—	—	4,828	4,828
Net realized loss on investments	—	—	—	—	—	(804)	(804)
Net unrealized depreciation on investments	—	—	—	—	—	(292)	(292)
Tax reclassifications of permanent differences	—	—	—	—	19	(19)	—
Distributions to stockholders:							
Common stock issued from reinvestment of stockholder distributions	—	—	3,797	—	45	—	45
Dividends declared	—	—	—	—	—	(4,542)	(4,542)
Total increase (decrease) for the period ended March 31, 2019	—	—	3,797	—	64	(829)	(765)
Balances at March 31, 2019	—	—	13,361,134	\$ 134	\$ 187,604	\$ (13,480)	\$ 174,258

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$3,732	\$3,493
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized loss on investments	804	80
Net unrealized depreciation on investments	292	243
Amortization of Net Loan Fees	(178 )	(275 )
Payment-in-kind interest and dividend income	(377 )	(712 )
Accretion of interest income on structured-finance notes	(467 )	—
Amortization of debt issuance costs	277	144
Amortization of intangible asset	49	49
Purchase and origination of portfolio investments	(63,630)	(98,208)
Proceeds from principal payments on portfolio investments	6,013	13,025
Proceeds from sale or redemption of portfolio investments	16,328	28,203
Proceeds from distributions received from portfolio investments	433	—
Changes in operating assets and liabilities:		
Interest receivable	(1,000 )	(181 )
Interest payable	(1,313 )	(1,186 )
Payable to adviser and affiliates	67	361
Other assets and liabilities	(3,297 )	137
Net cash used in operating activities	(42,267)	(54,827)
Cash flows from financing activities		
Distributions paid to stockholders	(4,496 )	(9,376 )
Borrowings under revolving line of credit	36,500	46,250
Repayments under revolving line of credit	(12,750)	(22,900)
Payment of debt issuance costs	—	(173 )
Repurchases of common stock under Stock Repurchase Program	(3 )	—
Net cash provided by financing activities	19,251	13,801
Net decrease in cash	(23,016)	(41,026)