

OFS Capital Corp
Form 497
November 08, 2012
Table of Contents

Filed pursuant to Rule 497
Registration No. 333-166363

PROSPECTUS

6,666,667 Shares

Common Stock

We are an externally managed, closed-end, non-diversified management investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to provide our stockholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. As of June 30, 2012, our investment portfolio (including investments held by our wholly-owned subsidiary, OFS Capital WM, LLC, and Tamarix Capital Partners, L.P.) consisted of outstanding loans of approximately \$210.6 million in aggregate principal amount and equity investments of \$2.6 million. Following this offering, we intend to continue to pursue an investment strategy focused primarily on investments in middle-market companies in the United States. We expect that our investments will include asset classes in which our external manager has expertise, including investments in senior secured, unitranche, second-lien and mezzanine loans and, to a lesser extent, warrants and other minority equity securities.

OFS Capital Management, LLC will serve as our external manager. OFS Capital Services, LLC will serve as our administrator. These entities are subsidiaries of Orchard First Source Asset Management, LLC, our parent company prior to the completion of this offering and an established lender to middle-market companies since 1995.

This is our initial public offering of our shares of common stock. All of the shares of common stock offered by this prospectus are being sold by us. We are an emerging growth company, as defined in Section 2(a) of the Securities Act, as amended.

Our shares of common stock have no history of public trading. The initial public offering price per share of our common stock is \$15.00. Our common stock has been approved for quotation on The Nasdaq Global Market under the symbol OFS.

At the initial public offering price of \$15.00 per share, purchasers in this offering will not experience immediate dilution. See Dilution for more information.

Investing in our common stock involves a high degree of risk. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset values. If our shares trade at a discount to our net asset value, it will likely increase the risk of loss for purchasers in this offering. In addition, the companies in which we invest are subject to special risks. Before buying any shares, you should read the discussion of the material risks of investing in our common stock, including the risk of leverage, in Risk Factors beginning on page 23 of this prospectus.

This prospectus contains important information you should know before investing in our common stock. Please read it before you invest and keep it for future reference. Upon completion of this offering, we will file periodic and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information will be available free of charge by contacting us at 2850 West Golf Road, 5th Floor, Rolling Meadows, Illinois 60008, Attention: Investor Relations, or by calling us at (847) 734-2060 or by visiting us on our website at <http://www.ofscapitalcorp.com>. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains such information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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	Per Share	Total
Public offering price	\$ 15.00	\$ 100,000,005
Sales load (underwriting discounts and commissions)(1)(2)	\$ 1.05	\$ 6,230,350
Proceeds to us, before expenses(1)(3)	\$ 13.95	\$ 93,769,655

- (1) At the initial public offering price of \$15.00 per share, purchasers in this offering will not bear, directly or indirectly, the sales load or offering expenses.
- (2) The underwriters have agreed to waive the underwriting discounts and commissions on the sale of 733,000 shares of our common stock to certain investors with whom we or our affiliates have an existing relationship.
- (3) We estimate that we will incur offering expenses of approximately \$5.8 million, or approximately \$0.87 per share, in connection with this offering. We estimate that the net proceeds to us after expenses and sales load will be approximately \$88.0 million, or approximately \$13.19 per share.
- We have granted the underwriters an option to purchase up to an additional 1,000,000 shares of our common stock from us at the public offering price, less the sales load payable by us, within 30 days from the date of this prospectus. If the underwriters exercise this option in full, the total sales load will be \$7.3 million, \$1.1 million of which will be paid by OFS Capital Management, LLC. As a result, total proceeds, before expenses, will be \$108.8 million. As of June 30, 2012, our pro forma net asset value per share after this offering is \$15.00, as discussed in more detail under Dilution.

The underwriters expect to deliver the shares of our common stock on or about November 14, 2012.

Joint Book-Running Managers

Morgan Stanley

UBS Investment Bank

Barclays

RBC Capital Markets

Co-Lead Managers

Oppenheimer & Co.

Janney Montgomery Scott

Co-Managers

Ladenburg Thalmann & Co. Inc.

Wunderlich Securities

Houlihan Lokey

The date of this prospectus is November 7, 2012

Table of Contents**TABLE OF CONTENTS**

<u>Prospectus Summary</u>	1
<u>The Offering Summary</u>	14
<u>Fees and Expenses</u>	18
<u>Glossary of Certain Terms</u>	21
<u>Risk Factors</u>	23
<u>Special Note Regarding Forward-Looking Statements</u>	52
<u>Use of Proceeds</u>	54
<u>Distributions</u>	55
<u>The BDC Conversion</u>	57
<u>Capitalization</u>	58
<u>Dilution</u>	59
<u>Selected Financial Data and Other Information</u>	60
<u>Unaudited Pro Forma Condensed Combined Financial Statements</u>	63
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	70
<u>The Company</u>	86
<u>Portfolio Companies</u>	107
<u>Management</u>	112
<u>Management and Other Agreements</u>	119
<u>Related-Party Transactions and Certain Relationships</u>	126
<u>Control Persons and Principal Stockholders</u>	129
<u>Determination of Net Asset Value</u>	130
<u>Dividend Reinvestment Plan</u>	132
<u>Material U.S. Federal Income Tax Considerations</u>	134
<u>Description of Our Capital Stock</u>	141
<u>Regulation</u>	146
<u>Shares Eligible for Future Sale</u>	152
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	153
<u>Brokerage Allocation and Other Practices</u>	153
<u>Underwriting</u>	154
<u>Validity of Common Stock</u>	159
<u>Independent Registered Public Accounting Firm</u>	159
<u>Available Information</u>	159
<u>Index to Financial Statements</u>	F-1

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus regardless of the time of delivery of this prospectus or of any offer or sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date. We will update these documents to reflect material changes only as required by law.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read this entire prospectus carefully, including, in particular, the more detailed information set forth under Risk Factors and the consolidated financial statements and the related notes included elsewhere in this prospectus.

As used in this prospectus, except as otherwise indicated, the terms OFS Capital, we, us, our and the Registrant refer to OFS Capital, LLC, a Delaware limited liability company, and its consolidated subsidiaries for the periods prior to consummation of the BDC Conversion (as defined below), and refer to OFS Capital Corporation, a Delaware corporation, and its consolidated subsidiaries for the periods after the consummation of the BDC Conversion. Relationships between us and certain of our affiliates are summarized, and definitions of certain additional terms used in this prospectus are provided, in the section of this prospectus entitled Glossary of Certain Terms.

On November 7, 2012, we converted from a limited liability company into a corporation. In this conversion, OFS Capital Corporation succeeded to the business of OFS Capital, LLC and its consolidated subsidiaries, and the sole member of OFS Capital, LLC became the stockholder of OFS Capital Corporation. Thereafter, we filed an election to be regulated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for tax purposes we intend to elect to be treated as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). In this prospectus, we refer to these transactions (including the filing of an election to be regulated as a business development company) as the BDC Conversion. Unless otherwise indicated, the disclosure in this prospectus gives effect to the BDC Conversion.

Unless indicated otherwise or the context requires, all information in this prospectus assumes no exercise of the underwriters option to purchase additional shares of our common stock.

OFS Capital

We are an externally managed, closed-end, non-diversified management investment company formed in March 2001. Our investment objective is to provide our stockholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments. We intend to continue to pursue an investment strategy focused primarily on investments in middle-market companies in the United States. We use the term middle-market to refer to companies which may exhibit one or more of the following characteristics: number of employees between 150 and 2,000; revenues between \$50 million and \$300 million; annual earnings before interest, taxes, depreciation and amortization (EBITDA) between \$5 million and \$50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between \$25 million and \$500 million. For additional information about how we define the middle-market, see The Company Investment Criteria/Guidelines.

Historically, substantially all of our investment portfolio consisted of senior secured loans to middle-market companies in the United States. As of June 30, 2012, our investment portfolio, including investments held by our wholly-owned subsidiary, OFS Capital WM, LLC (OFS Capital WM), and Tamarix Capital Partners, L.P., in which we own a majority of the limited partnership interests (Tamarix LP), consisted of outstanding loans of approximately \$210.6 million in aggregate principal amount and we had debt of \$155.0 million aggregate principal amount outstanding. As of June 30, 2012, our investment portfolio consisted primarily of senior secured loans to middle-market companies and, to a lesser extent, junior capital, including mezzanine debt and preferred and common equity. As of June 30, 2012, our portfolio loan investments, including those held by OFS Capital WM and Tamarix LP, had a contractual 3.5-year weighted average life to maturity. In addition, as of June 30, 2012, we had

Table of Contents

commitments of approximately \$212.1 million and outstanding loans of approximately \$210.6 million in aggregate principal amount. The difference between the amount of commitments and the outstanding loans is attributable to the unfunded portion of revolving loans in our portfolio at that time.

On September 28, 2010, principally to facilitate the repayment of an existing credit facility that would have prevented this offering by virtue of a change-in-control provision, we sold a substantial portion of our loan portfolio to a newly formed wholly-owned Delaware limited liability company, OFS Capital WM. Concurrently with this transaction, we distributed to our parent, Orchard First Source Asset Management, LLC (OFSAM), a Delaware limited liability company, a substantial portion of our remaining loan portfolio and certain of our equity investments. We continue to benefit from the loan assets sold to and still held by OFS Capital WM by virtue of our ownership of all of the limited liability company interests in OFS Capital WM.

Following this offering, we expect our investment strategy will continue to be augmented by Tamarix LP, a limited partnership that received a small business investment company (SBIC) license from the Small Business Administration (the SBA) in May 2012. It is our intention to seek to acquire all of the limited partnership interests in Tamarix LP and all of the ownership interests in Tamarix Capital G.P. LLC, the limited liability company that functions as its general partner (Tamarix GP), that are currently owned or subscribed for by other persons. These acquisitions would require further approval from the SBA. We cannot assure you that the SBA would grant that further approval or that the holders of those ownership interests would agree to transfer them to us. In the event that the SBA were not to grant the necessary further approval, or the holders of those ownership interests did not agree to transfer them to us, we would still benefit from our significant economic interest in Tamarix LP currently we have subscribed for \$24.9 million out of a total of \$36.4 million committed and partially funded commitments in Tamarix LP (giving us 68.4% of the limited partnership interests) and have a non-controlling interest in Tamarix GP as well as our strong relationship with the investment professionals on the investment committee of Tamarix GP.

We intend to continue to pursue an investment strategy focused primarily on investments in middle-market companies in the United States. We expect that our investments will include asset classes in which the investment professionals of OFS Capital Management, LLC (OFS Advisor), a Delaware limited liability company and our external manager, have expertise, including investments in senior secured, unitranche, second-lien and mezzanine loans and, to a lesser extent, warrants and other minority equity securities. More information on each of these asset classes can be found at The Company Structure of Investments. Initially, we expect that our senior loan investments will principally be made through on-balance sheet special purpose vehicles, while unitranche, second lien and mezzanine-loans will be made by us directly or by Tamarix LP. We expect our investments in the equity securities of these companies, such as preferred stock, common stock, warrants and other equity interests, will principally be made in conjunction with our debt investments, although we currently anticipate that no more than 5% of our portfolio will consist of equity investments in middle-market companies that do not pay a regular dividend. Generally, we do not expect to make investments in companies or securities that OFS Advisor determines to be distressed investments (such as discounted debt instruments that have either experienced a default or have a significant potential for default), other than follow-on investments in portfolio companies of ours.

A substantial portion of our business will focus on the direct origination and sourcing of investments through portfolio companies and their financial sponsors or other owners or intermediaries. We expect our investments to range generally from \$5.0 million to \$25.0 million each, although we expect that this investment size will vary proportionately with the size of our capital base.

OFS Capital Corporate Structure

We are currently organized as a corporation wholly-owned by our parent, OFSAM. OFSAM, in turn, is owned primarily by members of our board of directors and the investment committee of OFS Advisor. On November 7, 2012, we converted from a Delaware limited liability company into a Delaware corporation, OFS

Table of Contents

Capital Corporation, and filed an election to be regulated as a business development company under the 1940 Act. In addition, for tax purposes we intend to elect to be treated as a RIC under the Code.

The entity that will issue and sell shares of common stock to you is OFS Capital Corporation. As a result of this offering, OFSAM's percentage ownership of our common stock will be reduced to 30.4% (or 27.5% if the underwriters exercise their option to purchase additional shares of our common stock).

We will have no employees and have engaged OFS Advisor as our investment adviser and OFS Capital Services, LLC (OFS Services), a Delaware limited liability company, to provide us with certain administrative services. OFS Advisor has contracted with Orchard First Source Capital, Inc. (OFSC), a Delaware corporation, to provide it with access to the senior investment personnel of OFS and its affiliates. Each of OFS Advisor, OFS Services and OFSC is a wholly-owned subsidiary of OFSAM.

As of September 28, 2010, immediately prior to the closing of the OFS Capital WM Transaction and the 2010 Distribution, substantially all of our investments were held by OFS Funding, LLC (OFS Funding), a Delaware limited liability company and our wholly-owned subsidiary. On September 28, 2010, we sold a substantial portion of our loan portfolio to our wholly-owned subsidiary, OFS Capital WM, in connection with the OFS Capital WM Transaction. OFS Capital WM, is managed by a loan manager that is an affiliate of Madison Capital Funding LLC, a subsidiary of New York Life Investments (Madison Capital), and not otherwise affiliated with us.

In addition, we intend to continue to pursue a portion of our investment strategy through Tamarix LP.

The following chart depicts our structure after giving effect to this offering and the other transactions contemplated hereby:

For additional information, see [The BDC Conversion](#) and [Management's Discussion and Analysis of Financial Condition and Results of Operations](#), [Recent Developments](#) and [Other Factors Affecting Comparability](#).

Table of Contents

About OFS and Our Advisor

OFS (which refers to the collective activities and operations of OFSAM and its subsidiaries and certain affiliates) is an established investment platform focused on meeting the capital needs of middle-market companies. Since commencing operations in 1995, OFS (together with its predecessor) has closed in excess of 1,400 transactions with aggregate commitments in excess of \$8.4 billion. OFS's professionals have developed strong sourcing relationships and have expertise in investing across all levels of the capital structure of our targeted portfolio companies. OFS's senior managers have gained extensive workout experience during multiple business cycles throughout the course of their careers. In addition, the senior management team has worked together since 2003 to manage over 50 workouts involving debt securities in payment default or material covenant default. As of June 30, 2012, OFS had approximately \$793.3 million of assets under management (excluding cash held for operating purposes). OFS also draws upon the significant experience of Richard Ressler, the Chairman of OFS Advisor's investment committee. Mr. Ressler is the founder and President of Orchard Capital Corporation (Orchard Capital), co-founder and Principal of CIM Group, Inc., a real estate investor and manager, and Chairman of j2 Global, Inc., in addition to serving on the boards of directors of various private companies. Mr. Ressler has been actively involved in managing and investing in private middle-market companies for over 20 years. He has developed an expansive network of relationships in the sponsor group and corporate arena, which we intend to leverage for loan origination and sourcing purposes.

As of November 6, 2012, OFS had 23 full-time employees and five part-time employees. OFS is headquartered in Rolling Meadows, Illinois, a suburb of Chicago, with additional offices in New York, New York and Los Angeles, California.

Our investment activities will be managed by OFS Advisor, our investment advisor. OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. OFS Advisor is a subsidiary of OFSAM, our parent company prior to the completion of this offering, and is a registered investment advisor under the Investment Advisers Act of 1940, as amended (the Advisers Act). None of OFS Advisor or any of its affiliates has prior experience managing or administering a business development company.

Our relationship with OFS Advisor is governed by and dependent on an investment advisory and management agreement (the Investment Advisory Agreement) and may be subject to conflicts of interest. We have entered into the Investment Advisory Agreement, pursuant to which OFS Advisor will provide us with advisory services in exchange for a base management fee and incentive fee. See Management and Other Agreements Investment Advisory Agreement for a discussion of the base management fee and incentive fee payable by us to OFS Advisor. The base management fee is based on our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) and, therefore, OFS Advisor will benefit when we incur debt or use leverage. Our board of directors is charged with protecting our interests by monitoring how OFS Advisor addresses these and other conflicts of interest associated with its management services and compensation. While our board of directors is not expected to review or approve each borrowing or incurrence of leverage, our independent directors will periodically review OFS Advisor's services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether our fees and expenses (including those related to leverage) remain appropriate.

OFS Advisor has entered into a staffing agreement with OFSC (the Staffing Agreement). OFSC employs all of OFS's investment professionals. Under the Staffing Agreement, OFSC will make experienced investment professionals available to OFS Advisor and provide access to the senior investment personnel of OFS and its affiliates. The Staffing Agreement provides OFS Advisor with access to deal flow generated by OFS and its

Table of Contents

affiliates in the ordinary course of their businesses and commits the members of OFS Advisor's investment committee to serve in that capacity. As our investment advisor, OFS Advisor is obligated to allocate investment opportunities among us and any other clients fairly and equitably over time in accordance with its allocation policy.

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

In addition to their roles with OFS Advisor, Glenn Pittson and Bilal Rashid will serve as our interested directors. Mr. Pittson has over 25 years of experience in corporate finance, senior and mezzanine lending, structured finance, loan workouts and loan portfolio management, having spent the majority of his career in various capacities at CIBC World Markets Inc. (CIBC), including as head of U.S. Credit Markets, where he was central to the development and execution of a fundamental restructuring of CIBC's loan origination activities. During the mid-1980s, Mr. Pittson was instrumental in establishing CIBC's leveraged lending business. Mr. Rashid has approximately 17 years of experience in investment banking, debt capital markets and investing as it relates to corporate credit, structured credit and securitizations, including serving as a managing director in the global markets and investment banking division at Merrill Lynch & Co., Inc. (Merrill Lynch). Over his career, Mr. Rashid has advised, arranged financing for and lent to several middle-market credit providers, including business development companies and their affiliates.

Among other members of OFS's senior management team, Jeff Cerny is experienced in credit evaluation, credit monitoring, troubled credit and loan administration, and negotiation and structuring of structured funding vehicles, having previously held positions at Sanwa Business Credit Corporation, American National Bank and Trust Company of Chicago and Charter Bank Group, a multi-bank holding company. Kathi Inorio's focus is on origination and underwriting, drawing on her experience as a vice president in the corporate finance group at Heller Financial, Inc., where she was responsible for portfolio management of middle-market senior cash flow loans.

Certain Steps to Facilitate our Strategy

OFS Capital WM Transaction and OFSAM Cash Contribution

We have established OFS Capital WM to acquire, manage and finance senior secured loan investments to middle-market companies in the United States. To finance its business, on September 28, 2010 (the OFS Capital WM Closing), OFS Capital WM entered into a new \$180 million secured revolving credit facility (the WM Credit Facility) with Wells Fargo Bank, N.A. (Wells Fargo) and Madison Capital (an indirect wholly-owned subsidiary of New York Life Investments). In connection with the OFS Capital WM Closing, an affiliate of Madison Capital was appointed as loan manager to manage the assets of OFS Capital WM. The WM Credit Facility is secured by the eligible loan assets or participations therein acquired by OFS Capital WM from us at the OFS Capital WM Closing and eligible loan assets thereafter acquired by OFS Capital WM during its reinvestment period. Subject to limited exceptions, our sale of eligible loan assets or participations therein to OFS Capital WM is without recourse to us, and we will have no liability for the debts or other obligations of OFS Capital WM. In connection with the closing of the WM Credit Facility, the lenders received customary opinions of counsel generally to the effect that the sale of assets by us to OFS Capital WM on September 28, 2010 would be considered a true sale of those assets, and not a secured loan, and that in the event of our bankruptcy it would not be proper to ignore the separate existence of OFS Capital WM and substantively consolidate the assets and liabilities of OFS Capital WM with our own. In February 2011, OFS Capital WM entered into certain amendments to its lending arrangements that permitted us to treat the OFS Capital WM Closing as a sale for

Table of Contents

accounting purposes from that date forward (the WM 2011 Credit Facility Amendments), and in March 2012, OFS Capital WM entered into certain amendments to its lending arrangements, as a result of which we have consolidated the financial statements of OFS Capital WM into our own as of March 30, 2012 (the WM 2012 Credit Facility Amendments).

At the OFS Capital WM Closing, we sold approximately \$96.9 million of loans or participations therein, transferred to us by OFS Funding, to OFS Capital WM in exchange for all the equity interests in OFS Capital WM and cash in the amount of \$36.2 million (the OFS Capital WM Cash Consideration). We transferred the OFS Capital WM Cash Consideration to OFS Funding, and OFS Funding used the OFS Capital WM Cash Consideration to repay a substantial portion of the outstanding loan balance under OFS Funding 's credit facility with Bank of America (the Old Credit Facility). We refer to these transactions collectively as the OFS Capital WM Transaction. Simultaneously with the OFS Capital WM Closing, OFSAM made an additional capital contribution to us in the amount of \$19.5 million (the OFSAM Cash Contribution), which we transferred to OFS Funding, and which OFS Funding used, together with cash on hand, to pay off the remaining balance under the Old Credit Facility in full.

We entered into the OFS Capital WM Transaction in part because OFS Capital WM would be able to increase the rate of return on the senior secured assets sold to it as a result of the more favorable financing terms under the WM Credit Facility, as compared to the Old Credit Facility. We will continue to benefit from the loan assets sold to and still held by OFS Capital WM by virtue of our ownership of 100% of the equity interests in OFS Capital WM. Based on the cost of capital and the yield on the underlying assets, we have experienced positive cash flow on a quarterly basis from our investment in OFS Capital WM, and we expect to continue to do so for the life of the WM Credit Facility. In addition, our relationship with Madison Capital has significantly expanded the investment opportunities available to us. Since the OFS Capital WM Closing, OFS Capital WM has made investments in 61 companies in 44 different industry categories. The vast majority of OFS Capital WM 's investments were originated in the past two years.

For additional information on the WM Credit Facility and the OFS Capital WM Transaction, see The Company Our Investment in OFS Capital WM.

2010 Distribution

In addition, concurrently with the OFS Capital WM Transaction, OFS Funding distributed to us and we in turn distributed to OFSAM approximately \$67.2 million of loans or participations therein and approximately \$1.5 million of equity investments. We determined to make these distributions to eliminate certain potential conflicts of interest that might arise due to the fact that we and an affiliated fund both had investments in these portfolio companies. For additional information, see the discussion of the 2010 Distribution under Management 's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments and Other Factors Affecting Comparability.

Tamarix LP

To further facilitate our investments in the debt and equity securities of middle-market companies in the United States, we expect our investment strategy will continue to be augmented by Tamarix LP, which received an SBIC license from the SBA in May 2012. It is our intention to seek to acquire all of the limited partnership interests in Tamarix LP and all the limited liability company interests in Tamarix GP that are currently owned or subscribed for by other persons. These acquisitions would require further approval from the SBA. We cannot assure you that the SBA would grant that further approval or that the holders of those ownership interests would agree to transfer them to us. In the event that the SBA were not to grant the necessary further approval, or the holders of those ownership interests did not agree to transfer them to us, we would still benefit from our

Table of Contents

economic interests in Tamarix LP and Tamarix GP as well as our strong relationship with the investment professionals on the investment committee of Tamarix GP.

The investment and exit decisions and day-to-day investment activities of Tamarix LP are managed by the three investment professionals of Tamarix GP, each of whom, together with Glenn Pittson, our Chief Executive Officer, serves on the investment committee of Tamarix GP, which individuals have been previously approved by the SBA to manage Tamarix LP. Any investment decision on the part of Tamarix LP requires the unanimous approval of Tamarix GP's investment committee. If we are able to acquire the interests in Tamarix LP and Tamarix GP that we do not already own, we anticipate that the three investment professionals will become employees of OFSC, all of the cost of which will be borne by OFS Advisor through the Staffing Agreement.

Tamarix LP will have the same investment objective as ours and will invest primarily in debt and, to a lesser extent, equity securities; however, we expect that Tamarix LP will focus on the generation of investment opportunities that are primarily non-sponsor oriented, complementing our current sponsor-oriented origination activities. Further, we expect Tamarix LP to typically target companies with annual EBITDA between \$3 million and \$15 million (compared to \$5 million and \$50 million for us) and typically invest between \$5 million and \$20 million per transaction (compared to \$5 million and \$25 million for us).

Assuming Tamarix LP has at least \$75 million in regulatory capital, Tamarix LP intends to invest over time up to \$225 million, which includes borrowings by Tamarix LP of up to a maximum of \$150 million in the form of SBA-guaranteed debentures to make debt and equity investments in eligible small businesses in the United States. Tamarix LP received a \$30.1 million leverage commitment from the SBA in June 2012, which will terminate in September 2016. SBA leverage funding is subject to Tamarix LP's payment of certain fees to the SBA and the ability of Tamarix LP to draw on the commitment is subject to its compliance with SBA regulations and policies. In July 2012, Tamarix LP drew \$14 million on its existing leverage commitment and received \$13.7 million net of expenses. We expect to apply for exemptive relief from the SEC to permit us to exclude the debt of Tamarix LP guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. If we receive an exemption for this SBA debt, we would have increased capacity to fund investments with debt capital.

Notwithstanding that Tamarix LP has received an SBIC license and a leverage commitment from the SBA, we cannot assure you that Tamarix LP and Tamarix GP will receive the necessary approvals from the SBA in connection with the acquisition of the ownership interests of Tamarix LP and Tamarix GP that we do not already own, that we will be able to acquire such interests, that Tamarix LP will satisfy the conditions to receipt of SBA-guaranteed debenture funding or otherwise be able to make additional draws on its existing leverage commitment or receive additional leverage commitments from the SBA, or that we will be granted exemptive relief to exclude Tamarix LP's debt from our asset coverage test. For additional information on Tamarix LP, see [The Company Tamarix LP](#).

Market Opportunity

We intend to continue to pursue an investment strategy focused primarily on investments in middle-market companies in the United States. We find the middle-market attractive for the following reasons:

Large Target Market. According to the U.S. Census Bureau in its 2007 economic census, the most recent economic census conducted by the U.S. Census Bureau, there were approximately 196,000 companies in the United States with annual revenues between \$10 million and \$2.5 billion, compared with 1,200 companies with revenues greater than \$2.5 billion. We believe that these middle-market companies represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have historically constituted the vast bulk of OFS's portfolio companies since its inception, and constituted the vast bulk of our portfolio as of June 30, 2012. We believe that this market segment will continue to produce significant investment opportunities for us.

Table of Contents

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

Reduction in Competition Due to Dislocation in the Capital Markets. We believe that the dislocation in the markets that began with the credit crisis in 2007 continues to impact the amount of credit available to middle-market companies. Many participants in the mezzanine, second-lien and subordinated debt market over the past five years, such as hedge funds and managers of collateralized loan obligations (CLOs), have contracted or eliminated their origination and sourcing activities as investors' credit concerns reduced available funding. Moreover, recent regulatory changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), and the introduction of new international capital and liquidity requirements under the Basel III Accords (Basel III), and the continued ownership of legacy non-performing assets have significantly curtailed commercial banks' lending capacity. In response, we believe that many commercial lenders have de-emphasized their service and product offerings to middle-market companies in favor of lending, managing capital markets transactions and providing other non-credit services to their larger customers. We expect bank lending to middle-market companies to continue to be constrained for several years as Basel III rules phase in and rules and regulations are promulgated and interpreted under the Dodd-Frank Act.

Significant Refinancing Requirements. We believe that the debt associated with a large number of middle-market leveraged mergers and acquisitions completed from 2005 to 2008, which totaled approximately \$97.7 billion in the aggregate, has started to become due and will continue to do so in the near term. In many cases, this debt will need to be refinanced as the existing debt facilities mature. When combined with the decreased availability of debt financing for middle-market companies generally, we believe these factors will increase lending opportunities for us.

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

Attractive Pricing. Reduced access to, and availability of, debt capital for our targeted middle-market borrowers typically increases the interest rates, or pricing, of loans. Based on what OFS has observed, recent mezzanine deals typically have included meaningful upfront fees, prepayment protections and, in many cases, warrants, all of which should enhance the profitability of new loans to lenders.

Conservative Deal Structures. As a result of the recent credit crisis, many lenders are requiring less senior and total leverage, more equity and more comprehensive loan covenants than was customary in the years leading up to the credit crisis. Lower debt multiples on purchase prices suggest that the cash flow of borrowing companies should enable them to service their debt more easily, creating a greater buffer against a downturn.

Competitive Strengths and Core Competencies

Deep Management Team Experienced in All Phases of Investment Cycle and Across All Levels of the Capital Structure. We are managed by OFS Advisor, which will have access through the Staffing Agreement with OFSC to the resources and expertise of OFS's investment professionals. As of June 30, 2012, OFS's credit

Table of Contents

and investment professionals (including all investment committee members) employed by OFSC had an average of over 20 years of investment experience with strong institutional backgrounds, including General Electric Capital Corporation, Merrill Lynch, Heller Financial, Inc., NationsBank Corp., Sanwa Business Credit Corporation, Canadian Imperial Bank of Commerce and Drexel Burnham Lambert, Inc. Moreover, OFS's investment professionals specialize in the acquisition, origination and sourcing, underwriting and asset management of our specific targeted class of portfolio companies and have experience in investing at all levels of the capital structure. OFS's senior managers have gained extensive workout experience during multiple business cycles. In addition, if we are able to acquire the interests in Tamarix LP and Tamarix GP that we do not already own (which is subject to, among other things, the receipt of the necessary SBA approvals in connection with such acquisition), we anticipate that this staff of investment professionals will be augmented and diversified by the addition of the three individuals who are primarily responsible for the day-to-day management of the investment activities of Tamarix LP. OFS's credit and investment professionals are supported by additional administrative and back-office personnel that focus on operations, finance, legal and compliance, accounting and reporting, marketing, information technology and office management. The expertise of OFS's senior managers extends beyond just loan origination and sourcing to significant experience with distressed debt and workouts. OFS also draws upon the significant experience of Richard Ressler, the Chairman of the executive committee of OFSAM and the Chairman of OFS Advisor's investment committee. Mr. Ressler is the founder and President of Orchard Capital, co-founder and Principal of CIM Group, Inc., a real estate investor and manager, and Chairman of j2 Global, Inc., in addition to serving on the boards of directors of various private companies. Mr. Ressler has been actively involved in managing and investing in private middle-market companies for over 20 years. He has developed an expansive network of relationships in the sponsor group and corporate arena, which we intend to leverage for loan origination and sourcing purposes.

Alignment of Interests Among Us, the Management Team of OFS Advisor and New Investors. Unlike many business development companies, the interests of the senior management team of OFS Advisor and OFSAM are directly and significantly aligned with those of us and our new investors in this offering. After giving effect to this offering, the senior management team of OFS Advisor and OFSAM will own indirectly through their interests in OFSAM, 30.4% of our outstanding shares of common stock (or 27.5% if the underwriters' option to purchase additional shares of our common stock is exercised). For many members of the senior management team, their investment in us represents a substantial percentage of such member's net worth. Accordingly, these individuals have an incentive to make decisions in the long-term interests of all our stockholders.

Significant Investment Capacity. Income from our investments, together with the net proceeds of this offering and any new debt we may incur, will provide us with a substantial amount of capital available for deployment into new investment opportunities in our targeted asset class. Additionally, if we are able to acquire the interests in Tamarix LP and Tamarix GP that we do not already own (which is subject to, among other things, the receipt of the necessary SBA approvals in connection with such acquisition), we will be able to borrow additional funds through Tamarix LP and take advantage of additional investment opportunities to meet our investment objectives.

Scalable Infrastructure Supporting the Entire Investment Cycle. We believe that our loan acquisition, origination and sourcing, underwriting, administration and management platform is highly scalable (that is, it can be expanded on a cost efficient basis within a timeframe that meets the demands of business growth). We believe that with limited incremental investment in personnel and back-office functions, our existing loan platform could accommodate three times our current loan volume. Because OFS Advisor will be compensated in part on a fixed percentage of our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity), it will have an incentive to leverage that platform and put our capital to work.

Our platform extends beyond origination and sourcing and includes a regimented credit monitoring system. We believe that our careful approach, which involves ongoing review and analysis by an experienced team of

Table of Contents

professionals, should enable us to identify problems early and to assist borrowers before they face difficult liquidity constraints. The expertise of OFS's senior managers extends beyond just loan origination and sourcing to significant experience with distressed debt and workouts, which the senior managers have managed separately or as a team through multiple business cycles. We believe that this experience enables us to prepare for possible negative contingencies in order to address them promptly should they arise.

Extensive Loan Sourcing Capabilities. OFS Advisor gives us access to the deal flow of OFS. We believe OFS's 17-year history as a middle-market lending platform and its market position make it a leading lender to many sponsors and other deal sources, especially in the currently under-served lending environment, and we have extensive relationships with potential borrowers and other lenders. Since its inception, OFS (together with its predecessor) has closed in excess of 1,400 transactions with aggregate commitments in excess of \$8.4 billion. We believe that because of its relationships and its reputation in the marketplace as a source of debt capital to the middle-market, OFS receives relationship-based early looks at many investment opportunities, allowing it to be selective in the transactions it pursues. Finally, we believe that our strong relationship with the investment professionals on the investment committee of Tamarix GP, as well as our relationship with the lenders to OFS Capital WM, will significantly expand the investment opportunities available to us.

Structuring with a High Level of Service and Operational Orientation. We intend to provide client-specific and creative financing structures to our portfolio companies. Based on our experience in lending to middle-market companies, we believe that the middle-market companies we target, as well as sponsor groups we may pursue, require a higher level of service, creativity and knowledge than has historically been provided by other service providers more accustomed to participating in commodity-like loan transactions. We believe the broad expertise of the investment professionals of OFS Advisor will enable us to identify, assess and structure investments successfully across all levels of a company's capital structure and to manage potential risk and return at all stages of the economic cycle. We will not be subject to many of the regulatory limitations that govern traditional lending institutions such as banks. As a result, we expect to be flexible in selecting and structuring investments, adjusting investment criteria, transaction structures and, in some cases, the types of securities in which we invest. This approach should enable OFS Advisor to identify attractive investment opportunities throughout the economic cycle so that we can make investments consistent with our stated objective even during turbulent periods in the capital markets.

Rigorous Credit Analysis and Approval Procedures. OFS Advisor intends to utilize the established, disciplined investment process of OFS for reviewing lending opportunities, structuring transactions and monitoring investments. Using OFS's disciplined approach to lending, OFS Advisor will seek to minimize credit losses through effective underwriting, comprehensive due diligence investigations, structuring and, where appropriate, the implementation of restrictive debt covenants. We expect that OFS Advisor will select borrowers whose businesses will retain significant enterprise value, even in a depressed market. We intend to use our capital resources to help our portfolio companies maintain sufficient liquidity to avoid the need for a distressed sale. While emphasizing thorough credit analysis, we intend to maintain strong relationships with sponsors and other deal sources by offering rapid initial feedback, from the OFS Advisor investment committee member leading the applicable deal team, to each investment opportunity shown to us.

Operating and Regulatory Structure

Our investment activities will be managed by OFS Advisor under the direction of our board of directors. A majority of our board of directors are independent of us, OFS Advisor and our and their respective affiliates.

As a business development company, we will be required to comply with certain regulatory requirements. For example, while we are permitted to finance investments using leverage, which may include the issuance of shares of preferred stock, or notes and other borrowings, our ability to use leverage is limited in significant respects. See Regulation. Any decision on our part to use leverage will depend upon our assessment of the

Table of Contents

attractiveness of available investment opportunities in relation to the costs and perceived risks of such leverage. The use of leverage to finance investments creates certain risks and potential conflicts of interest. See Risk Factors Risks Relating to our Business and Structure Regulations governing our operation as a business development company affect our ability to and the way in which we raise additional capital. As a business development company, we will need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage. and Risk Factors Risks Relating to our Business and Structure We intend to finance our investments with borrowed money, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Also, as a business development company, we will generally be prohibited from acquiring assets other than qualifying assets unless, after giving effect to any acquisition, at least 70% of our total assets are qualifying assets. Qualifying assets generally include securities of eligible portfolio companies, cash, cash equivalents, U.S. government securities and high-quality debt instruments maturing in one year or less from the time of investment. Under the rules of the 1940 Act, eligible portfolio companies include (a) private domestic operating companies, (b) public domestic operating companies whose securities are not listed on a national securities exchange (e.g., the New York Stock Exchange, NYSE Amex Equities and The Nasdaq Global Market) or registered under the Securities Exchange Act of 1934, as amended (the Exchange Act) and (c) public domestic operating companies having a market capitalization of less than \$250 million. Public domestic operating companies whose securities are quoted on the over-the-counter bulletin board and through Pink OTC Markets, Inc. are not listed on a national securities exchange and therefore are eligible portfolio companies.

We intend to elect to be treated for U.S. federal income tax purposes as a RIC under the Code. In order to be treated as a RIC, we must satisfy certain source of income, asset diversification and distribution requirements. See Material U.S. Federal Income Tax Considerations.

In addition, Tamarix LP is subject to regulation and oversight by the SBA. See Regulation Small Business Investment Company Regulations and Risk Factors Tamarix LP is subject to SBA regulations. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. SBA regulations currently limit the amount that an SBIC may borrow to up to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed \$225 million. Further, the SBA restricts the ability of SBICs to release their investors from their capital commitments and requires that SBICs invest idle funds in accordance with SBA regulations. SBIC regulations also include restrictions on a change of control or other transfers of limited partnership interests in an SBIC. In addition, Tamarix LP may also be limited in its ability to make distributions to us if it does not have sufficient accumulated net profit, in accordance with SBA regulations. Tamarix LP's receipt of an SBIC license and a \$30.1 million SBA leverage commitment does not assure that Tamarix LP will receive SBA-guaranteed debenture funding, and such funding is dependent upon Tamarix LP's continuing to be in compliance with SBA regulations and policies. It also does not assure that Tamarix LP will receive the additional SBA leverage commitment that would be necessary for Tamarix LP to receive SBA-guaranteed debenture funding in the maximum amount permitted under SBA regulations.

We have no prior history of operating as a business development company, have never operated an SBIC, and none of OFS Advisor or any of its affiliates has prior experience managing or administering a business development company or an SBIC.

Conflicts of Interests

Subject to certain 1940 Act restrictions on co-investments with affiliates, OFS Advisor will offer us the right to participate in all investment opportunities that it determines are appropriate for us in view of our

Table of Contents

investment objective, policies and strategies and other relevant factors. Such offers will be subject to the exception that, in accordance with OFS Advisor's allocation policy, we might not participate in each individual opportunity but will, on an overall basis, be entitled to participate fairly and equitably with other entities managed by OFS Advisor and its affiliates.

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

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

risk and return profile of the investment vehicles;

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

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

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

total amount of funds committed to the investment vehicles; and

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

In situations where co-investment with other entities managed by OFS Advisor or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, OFS Advisor will need to decide whether we or such other entity or entities will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. We and OFS Advisor may submit an exemptive application to the SEC to permit greater flexibility to negotiate the terms of co-investments under the circumstances where our board of directors determines that it would be advantageous for us to co-invest with other funds managed by OFS Advisor or its affiliates in a manner consistent with our investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. We cannot assure you that any application for exemptive relief will be granted by the SEC, or that, if granted, it would be on the same terms requested by us. See Related-Party Transactions and Certain Relationships.

If the underwriters exercise their option to purchase additional shares of our common stock, OFS Advisor has agreed to pay the sales load attributable to those additional shares. This could incentivize OFS Advisor to cause us to make more speculative investments or increase our debt outstanding in an effort to recoup its payment out of additional advisory compensation.

Table of Contents

Corporate Information

Our principal executive offices are located at 2850 West Golf Road, 5th Floor, Rolling Meadows, Illinois 60008, and our telephone number is (847) 734-2060. Our corporate website is located at <http://www.ofscapitalcorp.com>. Information on our website is not incorporated into or a part of this prospectus.

Implications of Being an Emerging Growth Company

We qualify as an emerging growth company, as that term is used in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

An exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act);

No non-binding advisory votes on executive compensation or golden parachute arrangements; and

Reduced financial statement and executive compensation requirements.

Notwithstanding the foregoing, we have determined that we will comply with Section 404(b) of the Sarbanes-Oxley Act regarding auditor attestation when applicable to us. We have not yet determined whether we will take advantage of any other exemptions that are not already applicable to business development companies. If we do take advantage of any of the other exemptions, we do not know if some investors will find our common stock less attractive as a result. The result may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the Securities Act), for complying with new or revised accounting standards. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We could remain an emerging growth company for up to five years, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1 billion, (b) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

Table of Contents

THE OFFERING SUMMARY

Common Stock Offered by Us	6,666,667 shares (or 7,666,667 shares if the underwriters exercise their option to purchase additional shares of our common stock in full).
Common Stock to be Outstanding after this Offering	9,578,691 shares, or 10,578,691 shares if the underwriters exercise their option to purchase additional shares of our common stock.
Use of Proceeds	Our net proceeds from this offering will be approximately \$88.0 million, or approximately \$103.0 million if the underwriters exercise their option to purchase additional shares of our common stock. If the underwriters exercise their option to purchase additional shares of our common stock, OFS Advisor has agreed to pay the sales load attributable to those additional shares.

We intend to use the net proceeds of this offering, together with cash on hand, to repay \$90.0 million of outstanding indebtedness under the WM Credit Facility and to use the remaining net proceeds, if any, to invest in portfolio companies in accordance with our investment objective and the strategies described in this prospectus, including through OFS Capital WM and Tamarix LP, and for general corporate purposes.

The WM Credit Facility indebtedness to be repaid includes \$64.7 million of class A loans and \$25.3 million of class B loans. Outstanding class A loans accrue interest at a rate per annum equal to LIBOR plus 2.75% (or 4.75% if an event of default has occurred). Outstanding class B loans accrue interest at a rate per annum equal to LIBOR plus 6.50% (or 8.50% if an event of default has occurred). The class A loans and the class B loans mature on December 31, 2016, which maturity date will be extended by one year if the reinvestment period is extended by one year.

We may also pay other operating expenses, such as due diligence expenses of potential new investments, from the net proceeds of this offering.

We intend to use substantially all of the net proceeds of this offering for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. Pending such investments, we intend to invest the net proceeds of this offering primarily in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Use of Proceeds.

Table of Contents

Symbol on The Nasdaq Global Market

OFS

Distributions

Subsequent to the completion of this offering, and to the extent we have income and cash available, we intend to distribute quarterly dividends to our stockholders, beginning with the first calendar quarter after the completion of this offering. We intend to pay a distribution of \$0.34 per share for the quarter ending December 31, 2012. The amount of any such distribution will be proportionately reduced to reflect the number of days remaining in the quarter after the completion of this offering. Shares offered in this prospectus will be entitled to receive this dividend payment. We anticipate that this dividend will be paid from income generated primarily by interest and dividend income earned on our investment portfolio. The specific tax characteristics of our dividend will be reported to stockholders after the end of the calendar year. Future quarterly dividends, if any, will be determined by our board of directors. Any dividends to our stockholders will be declared out of assets legally available for distribution.

Taxation

We intend to elect to be treated, and intend to qualify thereafter, as a RIC under the Code, beginning with our taxable year ending December 31, 2012. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders. To obtain and maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any. See Distributions and Material U.S. Federal Income Tax Considerations.

Leverage

As a business development company, we are permitted under the 1940 Act to borrow funds to finance a portion of our investments. As a result, we may be exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings, also known as leverage, increase the potential for gain and loss on amounts invested and therefore increase the risks associated with investing in our securities. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. If we are granted the proposed exemptive relief, debt of Tamarix LP will be excluded from our 200% asset coverage test under the 1940 Act. In addition, the costs associated with our borrowings, including any increase in the management fee payable to OFS Advisor, will be borne by our stockholders.

On September 28, 2010, OFS Funding repaid the remaining balance under the Old Credit Facility in the aggregate principal amount of \$56.1 million, plus accrued and unpaid interest, in full and terminated the Old Credit Facility in connection with the OFS Capital WM Transaction and OFSAM Cash Contribution. Under the WM Credit Facility, OFS Capital WM, our wholly-owned subsidiary, had debt in the amount of \$155.0 million outstanding as of June 30, 2012.

Table of Contents

Dividend Reinvestment Plan

We have adopted a dividend reinvestment plan for our stockholders, which is an opt out dividend reinvestment plan. Under this plan, if we declare a cash dividend or other distribution, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution. If a stockholder opts out, that stockholder will receive cash dividends or other distributions. Stockholders who receive dividends and other distributions in the form of shares of common stock generally are subject to the same U.S. federal tax consequences as stockholders who elect to receive their distributions in cash; however, since their cash dividends will be reinvested, such stockholders will not receive cash with which to pay any applicable taxes on reinvested dividends. See Dividend Reinvestment Plan.

Investment Advisory Fees

We pay OFS Advisor a fee for its services under the Investment Advisory Agreement consisting of two components a base management fee and an incentive fee. Under the Investment Advisory Agreement, from the completion of this offering through October 31, 2013, the base management fee paid to OFS Advisor will be calculated at an annual rate of 0.875% 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). After October 31, 2013, the base management fee will be calculated at an annual rate of 1.75% 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). The incentive fee consists of two parts.

The first part is calculated and payable quarterly in arrears and equals 20.0% of our pre-incentive fee net investment income for the immediately preceding quarter, subject to a preferred return, or hurdle, and a catch up feature.

The second part is determined and payable in arrears as of the end of each calendar year in an amount equal to 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of the year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The incentive fee is determined on a consolidated basis and, as such, will apply to the operations of Tamarix LP and OFS Capital WM if and for so long as their financial statements are consolidated with ours. See Management and Other Agreements Investment Advisory Agreement.

Administration Agreement

We will reimburse OFS Services under an administration agreement (the Administration Agreement) for our allocable portion (subject to the review and approval of our board of directors) of overhead and other expenses, including furnishing us with office facilities and equipment and providing clerical, bookkeeping, record-keeping, necessary software licences and subscriptions and other administrative services at such facilities. To the extent that OFS Services outsources

Table of Contents

any of its functions, we will pay the fees associated with such functions on a direct basis without incremental profit to OFS Services. See Management and Other Agreements Administration Agreement.

License Arrangements

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. For a description of the license agreement, see Management and Other Agreements License Agreement.

Risk Factors

An investment in our common stock is subject to risks. See Risk Factors beginning on page 23 of this prospectus to read about factors you should consider before deciding to invest in shares of our common stock.

Trading

Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. We are not generally able to issue and sell our common stock at a price below our net asset value per share unless we have stockholder approval. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. See Risk Factors.

Custodian and Transfer Agent

U.S. Bank National Association will serve as our custodian, and American Stock Transfer & Trust Company, LLC will serve as our transfer and dividend paying agent and registrar. See Custodian, Transfer and Dividend Paying Agent and Registrar.

Available Information

We have filed with the SEC a registration statement on Form N-2, of which this prospectus is a part, under the Securities Act. This registration statement contains additional information about us and the shares of our common stock being offered by this prospectus. After the completion of this offering, we will be required to file periodic reports, current reports, proxy statements and other information with the SEC. This information will be available at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549 and on the SEC's website at <http://www.sec.gov>. Information on the operation of the SEC's public reference room may be obtained by calling the SEC at (800) SEC-0330.

We maintain a website at <http://www.ofscapitalcorp.com> and intend to make all of our periodic and current reports, proxy statements and other information available, free of charge, on or through our website. Information on our website is not incorporated into or part of this prospectus. You may also obtain such information free of charge by contacting us in writing at 2850 West Golf Road, 5th Floor, Rolling Meadows, Illinois 60008, Attention: Investor Relations.

Table of Contents**FEES AND EXPENSES**

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

Stockholder transaction expenses:

Sales load (as a percentage of offering price)	6.23%	(1)
Offering expenses (as a percentage of offering price)	5.82%	(2)
Dividend reinvestment plan expenses	0.00%	(3)
Total stockholder transaction expenses (as a percentage of offering price)	12.05%	

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

Base management fee payable under Investment Advisory Agreement	2.39%	(4)
Incentive fees payable under Investment Advisory Agreement	0.00%	(5)
Interest payments on borrowed funds	4.02%	(6)
Other expenses	2.24%	(7)(8)
Acquired fund fees and expenses	0.91%	(9)
Total annual expenses	9.56%	(8)
Reduction in first year base management fee payable under Investment Advisory Agreement	(1.20)%	(4)
Total annual expenses after reduction in first year base management fee	8.36%	

- (1) The sales load (underwriting discount and commission) with respect to the shares of our common stock sold in this offering, which is a one-time fee paid to the underwriters, is the only sales load paid in connection with this offering. **At the initial public offering price of \$15.00 per share, purchasers in this offering will not bear, directly or indirectly, this fee.** If the underwriters exercise their option to purchase additional shares of our common stock, OFS Advisor has agreed to pay the sales load attributable to those additional shares.
- (2) Amount reflects estimated offering expenses of approximately \$5,815,289. **At the initial public offering price of \$15.00 per share, purchasers in this offering will not bear, directly or indirectly, these expenses.**
- (3) The expenses of the dividend reinvestment plan are included in other expenses. For additional information, see Dividend Reinvestment Plan.
- (4) The initial base management fee will be 0.875% 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). After October 31, 2013, the base management fee will increase to 1.75% 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). For the purposes of this table, we have assumed that the management fee will remain at 0.875% through October 31, 2013, and 1.75% thereafter as set forth in the Investment Advisory Agreement. This is reflected in the table above by showing the higher 1.75% base management fee, which is applicable after October 31, 2013, in the line item titled Base management fee payable under Investment Advisory Agreement, and then, in the line item titled Reduction in first year base management fee payable under Investment Advisory Agreement, deducting the difference between the higher fee applicable after October 31, 2013 and the initial

Table of Contents

0.875% fee. We may from time to time decide it is appropriate to change the terms of the agreement. Under the 1940 Act, any material change to our Investment Advisory Agreement must be submitted to stockholders for approval. See Management and Other Agreements Investment Advisory Agreement.

The 2.39% fee reflected in the table is calculated by determining the ratio that the base management fee bears to our net assets attributable to common stock (rather than our total assets). The estimate of our base management fee referenced in the table is based on our total assets (other than cash and cash equivalents but including assets purchased with borrowed money and assets of any consolidated entity) and net assets pro forma as of June 30, 2012 after giving effect to this offering and the expected repayment of indebtedness, as discussed in more detail under Use of Proceeds.

- (5) We may have capital gains and interest income that could result in the payment of an incentive fee to OFS Advisor in the first year after completion of this offering. However, the incentive fee payable to OFS Advisor is based on our performance and will not be paid unless we achieve certain goals. As we cannot predict whether we will meet the necessary performance targets, we have assumed an incentive fee of 0% in this chart. The incentive fee consists of two parts:

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

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

The second part, payable annually in arrears, equals 20.0% of our realized capital gains on a cumulative basis as of the closing of this offering through the end of the year, if any (or upon the termination of the Investment Advisory Agreement, as of the termination date), computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The incentive fee is determined on a consolidated basis and, as such, will apply to the operations of Tamarix LP and OFS Capital WM if and for so long as their financial statements are consolidated with ours.

See Management and Other Agreements Investment Advisory Agreement.

- (6) Interest payments on borrowed funds represents an estimate of our annualized interest expenses based on actual interest and credit facility expenses incurred for the three months ended June 30, 2012. Under the WM Credit Facility, our wholly-owned subsidiary, OFS Capital WM, had debt in the amount of \$155.0 million outstanding as of June 30, 2012.

As discussed in more detail under Use of Proceeds, we expect to use the proceeds of this offering, together with cash on hand, to repay certain indebtedness under the WM Credit Facility. In addition, any outstanding class A loans will accrue interest at a reduced rate equal to LIBOR plus 2.75% pursuant to amendments to OFS Capital WM's lending arrangements in September 2012. As a result, we expect that our actual interest payments on borrowed funds will be less than the estimate reflected in the table.

We may borrow additional funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. We also anticipate that Tamarix LP will incur additional leverage upon SBA approval and compliance with other customary procedures. Our stockholders will bear directly or indirectly the costs of borrowings under any debt instruments we may enter into.

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

Table of Contents

Agreements Administration Agreement. Other expenses also includes the Madison fee. These expenses are based on estimated amounts for the current fiscal year.

(8) Estimated.

(9) Our stockholders indirectly bear the expenses of underlying funds or other investment vehicles that would be investment companies under section 3(a) of the 1940 Act but for the exceptions to that definition provided for in sections 3(c)(1) and 3(c)(7) of the 1940 Act (Acquired Funds) in which we invest. For the purposes of this table, we treat Tamarix LP as an Acquired Fund and the fees and expenses represent our estimate of the annualized management fees and administrative expenses payable directly by this entity based on actual management fees and administrative expenses for the three months ended June 30, 2012. You will incur these fees and expenses indirectly through OFS Capital s ownership interests in Tamarix LP. For purposes of this table, the calculation of Acquired Fund fees and expenses does not include the portions of the investment advisory fee incurred by us under the Investment Advisory Agreement or the administrative fee incurred by us under the Administrative Agreement and attributable to the operations of Tamarix LP (which are part of the base management fee and other expenses listed above).

Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above. The expense amounts assume a base management fee of 0.875% for the first year, and 1.75% for the years thereafter. Transaction expenses are included in the following example. **At the initial public offering price of \$15.00 per share, purchasers in this offering will not bear, directly or indirectly, these transaction expenses.**

	1 year	3 years	5 years	10 years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 204.0	\$ 376.4	\$ 531.1	\$ 848.0
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return from realized capital gains	\$ 204.0	\$ 393.6	\$ 560.1	\$ 887.2

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash dividend, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

Table of Contents

GLOSSARY OF CERTAIN TERMS

As used in this prospectus, except as otherwise indicated, the terms:

2010 Distribution refers to our distribution to OFSAM concurrently with the OFS Capital WM Transaction of a substantial portion of our remaining loan portfolio and certain of our equity investments due to the fact that we and an affiliated fund both had investments in these portfolio companies;

BDC Conversion refers to our conversion from a Delaware limited liability company into a Delaware corporation, OFS Capital Corporation, together with our elections to be treated as a business development company under the 1940 Act and a RIC under the Code;

OFS refers, collectively, to the activities and operations of OFSAM and its subsidiaries and certain affiliates;

OFS Advisor refers to OFS Capital Management, LLC, a Delaware limited liability company and wholly-owned subsidiary of OFSAM, and our investment adviser;

OFS Capital, we, us, our and the **Registrant** refer to OFS Capital, LLC, a Delaware limited liability company and direct wholly-owned subsidiary of OFSAM, and its consolidated subsidiaries for the periods prior to consummation of the BDC Conversion, and refer to OFS Capital Corporation, a Delaware corporation, and its consolidated subsidiaries for the periods after the consummation of the BDC Conversion;

OFS Capital WM refers to OFS Capital WM, LLC, a Delaware limited liability company and our wholly-owned subsidiary;

OFS Capital WM Cash Consideration refers to the cash received by us from OFS Capital WM in the OFS Capital WM Transaction, which we transferred to OFS Funding, and which OFS Funding used to repay a substantial portion of the outstanding balance under the Old Credit Facility;

OFS Capital WM Transaction refers to the sale of a substantial portion of our loan portfolio to OFS Capital WM in exchange for all the equity interests in OFS Capital WM and the OFS Capital WM Cash Consideration in connection with OFS Capital WM's entry into the WM Credit Facility;

OFS Funding refers to OFS Funding, LLC, a Delaware limited liability company and our wholly-owned subsidiary, and the entity which historically held our investment portfolio;

OFS senior professionals refers to the senior professional employees of OFSC contracted to OFS Advisor under the Staffing Agreement, who are deemed employees of OFS Advisor for all purposes under the 1940 Act and the Advisers Act;

OFS Services refers to OFS Capital Services, LLC, a Delaware limited liability company and wholly-owned subsidiary of OFSAM, and our administrator;

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OFSAM refers to Orchard First Source Asset Management, LLC, a Delaware limited liability company and our parent company prior to the completion of this offering;

OFSAM Cash Contribution refers to the cash contribution made by OFSAM to us simultaneously with the OFS Capital WM Transaction, which we transferred to OFS Funding, and which OFS Funding used, together with cash on hand, to payoff the remaining balance under the Old Credit Facility in full;

OFSC refers to Orchard First Source Capital, Inc., a Delaware corporation and wholly-owned subsidiary of OFSAM, which employs all of OFSAM's investment professionals, and is an affiliate of OFS Advisor;

Table of Contents

Tamarix LP refers to Tamarix Capital Partners, L.P., a Delaware limited partnership through which we expect to continue to pursue a portion of our investment strategy;

WM 2011 Credit Facility Amendments refers to certain amendments to OFS Capital WM's lending arrangements entered into in February 2011 that permitted us to treat the OFS Capital WM Closing as a sale for accounting purposes from that date forward;

WM 2012 Credit Facility Amendments refers to certain amendments entered into in March 2012 that will give us greater authority over certain decisions with respect to OFS Capital WM's portfolio, including amendments, modifications and restructurings of such investments, and noticing and waiving defaults and accelerating portfolio loans, and that require us to consolidate the OFS Capital WM financial statements into ours as of March 30, 2012;

WM Consolidation Adjustments refers to the financial statement adjustments to consolidate OFS Capital WM's financial statements into our own as a result of the WM 2012 Credit Facility Amendments; and

WM Credit Facility refers to the \$180 million senior secured revolving credit facility, which OFS Capital WM entered into with Wells Fargo and Madison Capital to finance its business.

In this prospectus, we use the term leveraged to refer to companies of any size with non-investment grade debt outstanding or, if not explicitly rated, debt which we believe would be rated as non-investment grade based on their leverage levels and other terms. In addition, we use the term middle-market to refer to companies which may exhibit one or more of the following characteristics: number of employees between 150 and 2,000; revenues between \$50 million and \$300 million; annual EBITDA between \$5 million and \$50 million; generally, private companies owned by private equity firms or owners/operators; and enterprise value between \$25 million and \$500 million. See The Company Investment Criteria/Guidelines.

Table of Contents

RISK FACTORS

Investing in our common stock involves a number of significant risks. Before you invest in our common stock, you should be aware of various risks associated with the investment, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business and Structure

We have never operated as a business development company, qualified to be treated as a RIC or operated an SBIC, and none of OFS Advisor or its affiliates has ever managed a business development company, a RIC or an SBIC, and we may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.

We have never operated as a business development company or qualified to be treated as a RIC, and none of OFS Advisor or its affiliates has ever managed a business development company. As a result of our limited experience as a business development company, we are subject to the business risks and uncertainties associated with new entities of these types, including the risk that we will not achieve our investment objective, or that we will not qualify or maintain our qualification to be treated as a RIC, and that the value of your investment could decline substantially.

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs. Business development companies are required, for example, to invest at least 70% of their total assets primarily in securities of U.S. private or thinly traded public companies, cash, cash equivalents, U.S. government securities and other high-quality debt instruments that mature in one year or less from the date of investment. Furthermore, any failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a business development company. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a business development company, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business. Moreover, qualification for treatment as a RIC requires satisfaction of source-of-income, asset diversification and distribution requirements. None of us, OFS Advisor or any of our or their respective affiliates has any experience operating under these constraints, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective.

We intend to continue to pursue a portion of our investment strategy through Tamarix LP; however, we have never operated or managed an SBIC. Although Tamarix LP has received an SBIC license, none of us, OFS Advisor or any of our or its respective affiliates has any experience in operating an SBIC or complying with SBA regulations and requirements. As a result, our lack of experience may hinder our ability to obtain the necessary approvals from the SBA in connection with the acquisition of the ownership interests of Tamarix LP and Tamarix GP that we do not already own or, even if such approvals are received, to take advantage of investment opportunities through Tamarix LP and to achieve our investment objective.

Table of Contents

We are dependent upon the OFS senior professionals for our future success and upon their access to the investment professionals and partners of OFS and its affiliates, including Tamarix GP's management personnel.

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

In addition, the day-to-day investment activities of Tamarix LP are managed by the three investment professionals of Tamarix GP, each of whom, together with Glenn Pittson, our Chief Executive Officer, serves on the investment committee of Tamarix LP. If we are able to acquire the interests in Tamarix LP and Tamarix GP that we do not already own, we anticipate that the three investment professionals will become employees of OFSC. The departure of any of Tamarix GP's management personnel could have a material adverse effect on our ability to obtain the necessary approvals from the SBA in connection with the acquisition of the ownership interests in Tamarix LP and Tamarix GP that we do not already own and our strategy to make investments through Tamarix LP.

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

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

The investment committee that will oversee our investment activities is provided by OFS Advisor under the Investment Advisory Agreement. OFS Advisor's investment committee consists of Richard Ressler (Chairman), Glenn Pittson, Bilal Rashid, Jeffrey Cerny and Kathi Inorio. The loss of any member of OFS Advisor's investment committee or of other OFS senior professionals would limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition and results of operation.

Table of Contents

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

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

A substantial portion of our senior secured loan portfolio was purchased by OFS Capital WM, our wholly-owned subsidiary, using borrowed funds and will be managed by an unaffiliated loan manager.

OFS Capital WM financed the purchase from us of a substantial portion of our loan portfolio using funds borrowed under the WM Credit Facility. While investors in OFS Capital will continue to benefit from the loan assets sold to OFS Capital WM by virtue of our ownership of 100% of the equity interests in OFS Capital WM, they will also be exposed to the risks associated with those assets. For example, lenders have a first lien on the loan assets sold to OFS Capital WM and will have a superior claim to our claim as equityholder in any liquidation of OFS Capital WM. In addition, lenders have a first lien on our equity interests in OFS Capital WM and will have a superior claim to a claim by our investors on those equity interests in any liquidation of OFS Capital. Additionally, OFS Capital WM will be managed by an affiliate of Madison Capital (an indirect wholly-owned subsidiary of New York Life Investments), as loan manager, pursuant to the WM Credit Facility documentation, which prescribes the order in which payments are to be applied and contains other contractual restrictions. Accordingly, at least in the near term, our success will depend, to a certain degree, on the administration of OFS Capital WM's portfolio by an unaffiliated loan manager. If the loan manager is unable to generate sufficient returns to permit payments to us under the WM Credit Facility documentation or defaults in its obligation thereunder, we could be materially and adversely affected. In addition, we could have a conflict of interest with Madison Capital and its affiliates by virtue of the fact that Madison Capital holds class B loans under the WM Credit Facility, whereas our interest is as an equityholder.

We may not replicate the historical results achieved by OFSAM or other entities managed or sponsored by OFSAM and its other affiliates.

Our primary focus in making investments may differ from those of OFS Funding to date and from OFSAM's other proprietary investments or the investments of other investment funds, accounts or other investment vehicles that are or have been managed by OFSAM or its other affiliates. Although our historical concentration has been investments in senior secured loans, we intend to pursue an investment strategy that will also focus on investments in unitranche, second-lien and mezzanine loans and, to a lesser extent, warrants and other equity securities. In addition, as a result of the OFS Capital WM Transaction, we no longer have sole management control over the assets we sold to OFS Capital WM, or any assets subsequently acquired by OFS Capital WM, and these assets may not achieve or replicate historical results. In connection with the 2010 Distribution, we distributed to OFSAM a substantial portion of our remaining loan portfolio and certain of our equity investments. As a result of these transactions, we will no longer receive income from these investments. We may consider co-investing in portfolio investments with OFSAM or its other affiliates or other investment funds, accounts or investment vehicles managed by OFSAM or its other affiliates. Any such investments will be subject to regulatory limitations and approvals by directors who are not interested persons, as defined in the 1940 Act. We can offer no assurance, however, that we will pursue or obtain such approvals or develop opportunities that comply with such limitations. We also cannot assure you that we will replicate the historical results achieved by OFSAM or its other affiliates, and we caution you that our investment returns could be

Table of Contents

substantially lower than the returns achieved by them in prior periods. Additionally, all or a portion of the prior results may have been achieved in particular market conditions which may never be repeated. Moreover, current or future market volatility and regulatory uncertainty may have an adverse impact on our future performance.

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

Our ability to achieve our investment objective and grow will depend on our ability to manage our business. This will depend, in turn, on OFS Advisor's ability to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon OFS Advisor's execution of our investment process, its ability to provide competent, attentive and efficient services to us and, to a lesser extent, our access to financing on acceptable terms. OFS Advisor will have substantial responsibilities under the Investment Advisory Agreement. The OFS senior professionals and other personnel of OFS Advisor's affiliates, including OFSC, may be called upon to provide managerial assistance to our portfolio companies. These activities may distract them or slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition and results of operations. In addition, as a result of the OFS Capital WM Transaction, we no longer have sole management control over a substantial portion of our historical portfolio.

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

Although we are currently the only entity managed by OFS Advisor, affiliates of OFS Advisor manage other assets and a CLO fund and OFS Advisor and/or its affiliates may manage other entities in the future, and these other funds and entities may have similar or overlapping investment strategies. The members of OFS Advisor's investment committee serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds or other investment vehicles managed by OFS Advisor or its affiliates. Similarly, OFS Advisor and/or its affiliates may have, or may have other clients with, similar, different or competing investment objectives. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our stockholders. OFS Advisor will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

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

risk and return profile of the investment vehicles;

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

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

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

total amount of funds committed to the investment vehicles; and

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

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

Table of Contents

OFS Advisor's investment committee, OFS Advisor or its affiliates may, from time to time, possess material non-public information, limiting our investment discretion.

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

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

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

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

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

Many of our portfolio investments are expected to be made in the form of securities that are not publicly traded. As a result, our board of directors will determine the fair value of these securities in good faith as described below in . Many of our portfolio investments will be recorded at fair value as determined in good faith by our board of directors and, as a result, there may be uncertainty as to the value of our portfolio investments. In connection with that determination, investment professionals from OFS Advisor may provide our board of directors with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. In addition, the members of our board of directors who are not independent directors have a substantial indirect pecuniary interest in OFS Advisor. The participation of OFS Advisor's investment professionals in our valuation process, and the indirect pecuniary interest in OFS Advisor by those members of our board of directors, could result in a conflict of interest since

Table of Contents

OFS Advisor's management fee is based, in part, on our total assets (other than cash and cash equivalents but including assets purchased with borrowed amounts and including assets owned by any consolidated entity).

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

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

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

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

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

We are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Those transactions include purchases and sales, and so-called joint transactions, in which we and one or more of our affiliates are engaging together in certain types of profit-making activities. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we are generally prohibited from engaging in purchases or sales of assets or joint transactions with such affiliates, absent the prior approval of our independent directors. Additionally, without the approval of the SEC, we are prohibited from engaging in purchases or sales of assets or joint transactions with the following affiliated persons: (a) our officers, directors, and employees; (b) OFS Advisor and its affiliates; and (c) any person who owns more than 25% of our voting securities or certain of that person's affiliates.

We may, however, invest alongside OFSAM and its other affiliates or their respective other clients in certain circumstances where doing so is consistent with applicable law and SEC staff interpretations. For example, we may invest alongside such accounts consistent with guidance promulgated by the SEC staff permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that OFS Advisor, acting on our behalf and on behalf of other clients, negotiates no term other than price. We may also invest alongside OFSAM and its other affiliates or their respective other clients as otherwise permissible under regulatory guidance, applicable regulations and OFS Advisor's allocation policy. Under this allocation policy, if two or more investment vehicles with similar or overlapping investment strategies are in their investment periods, an available opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational, offering or similar documents, if any, for such investment vehicles. In the absence of any such provisions, OFS Advisor will consider the following factors and the weight that should be given with respect to each of these factors:

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

Table of Contents

risk and return profile of the investment vehicles;

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

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

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

total amount of funds committed to the investment vehicles; and

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

In situations where co-investment with such other accounts is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer or where the different investments could be expected to result in a conflict between our interests and those of other accounts, OFS Advisor will need to decide which account will proceed with the investment. The decision by OFS Advisor to allocate an opportunity to another entity could cause us to forego an investment opportunity that we otherwise would have made. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which OFSAM and its other affiliates or a fund managed by OFSAM or its other affiliates has previously invested. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. These restrictions may limit the scope of investment opportunities that would otherwise be available to us.

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of members of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. The SEC has interpreted the business development company regulations governing transactions with affiliates to prohibit certain joint transactions between entities that share a common investment adviser. Historically, we have invested in a number of the same middle-market companies as a fund managed by OFSAM or one of its affiliates. Most of these co-investments have been in securities of the same seniority. Concurrently with the OFS Capital WM Transaction, we distributed to OFSAM a substantial portion of our loan portfolio and certain of our equity investments. In connection with our election to be regulated as a business development company, we will not be permitted to co-invest with other funds managed by OFSAM or one of its affiliates in certain types of negotiated investment transactions unless we receive exemptive relief from the SEC permitting us to do so. Although we may apply to the SEC for exemptive relief to permit such co-investment and liquidity transactions, subject to certain conditions, we cannot be certain that any application for such relief will be granted or what conditions will be placed on such relief.

We may not obtain the necessary approvals from the SBA in connection with our proposed acquisition of the ownership interests in Tamarix LP and Tamarix GP that we do not already own, and we may not be able to acquire such interests.

Tamarix LP has received an SBIC license to operate as a stand-alone entity. Additional approvals of the SBA will be required in connection with our proposed acquisition of the ownership interests in Tamarix LP and Tamarix GP that we do not already own due to the fact that, following such acquisition, Tamarix LP will be what is known as a drop-down SBIC. We cannot guarantee that the SBA will provide those necessary approvals. Additionally, the owners of the remaining ownership interests in Tamarix LP and Tamarix GP are under no contractual obligation to sell us their interests. If the SBA does not issue the approvals necessary for us to acquire the remaining ownership interests in Tamarix LP and Tamarix GP, or the other holders of the ownership interests are unwilling to sell us their interests, our ability to benefit from Tamarix LP's investment opportunities will be correspondingly limited. In the event we are unable to acquire the remaining ownership interests in Tamarix LP and Tamarix GP, we anticipate that we will invest substantially less in Tamarix LP than we would have otherwise, and no more than our current commitment aggregating \$25 million in respect of both entities. While our investment objective and strategy will remain the same, the inability to acquire the remaining ownership interests in Tamarix LP and therefore utilize the full leverage capacity of Tamarix LP will potentially

Table of Contents

reduce the return on our investments or force us to seek alternative sources of debt financing. An inability to obtain acceptable alternative financing could limit our ability to grow our business and execute our business strategy and could decrease our earnings, if any, which may have an adverse effect on the value of our securities.

We may not receive exemptive relief from the SEC to permit us to exclude the debt of Tamarix LP from our asset coverage test, which may decrease our capacity to fund investments with debt capital.

We expect to apply for exemptive relief from the SEC to permit us to exclude the debt of Tamarix LP guaranteed by the SBA from our 200% asset coverage test under the 1940 Act. We cannot assure you that we will receive exemptive relief from the SEC and if we do not receive an exemption for this SBA debt, we would have reduced capacity to fund investments with debt capital. As a result, we may not be able to realize fully the benefits of Tamarix LP and may not achieve our investment objective.

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

SBA regulations currently limit the amount that an SBIC may borrow to up to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed \$225 million. Assuming we are able to acquire the ownership interests in Tamarix LP and Tamarix GP that we do not already own, we cannot presently predict whether or not we will borrow the maximum permitted amount; if we reach the maximum dollar amount of SBA guaranteed debentures permitted, and thereafter require additional capital, our cost of capital may increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, Tamarix LP's status as an SBIC and its receipt of a \$30.1 million SBA leverage commitment does not automatically assure that it will receive SBA guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon whether Tamarix LP is and continues to be in compliance with SBA regulations and policies and whether funding is available. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by Tamarix LP.

Tamarix LP is subject to SBA regulations.

We expect our investment strategy will continue to be augmented by Tamarix LP, which is regulated by the SBA. It is our intention to seek to acquire all of the limited partnership interests in Tamarix LP and all the limited liability company interests in Tamarix GP that are currently owned or subscribed for by other persons. These acquisitions would require further approval from the SBA. We cannot assure you that the SBA would grant that further approval or that the holders of those ownership interests would agree to transfer them to us.

The SBIC license allows Tamarix LP to receive SBA-guaranteed debenture funding, subject to the issuance of a leverage commitment by the SBA and other customary procedures. Tamarix LP has received a \$30.1 million SBA leverage commitment and may receive additional leverage commitments from the SBA. However, receipt of SBA-guaranteed debenture funding is subject to its compliance with SBA regulations and policies. We cannot assure you that Tamarix LP will satisfy the conditions to receipt of such funding or that it will otherwise be able to make additional draws on its existing commitment or receive additional commitments from the SBA.

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. If Tamarix LP fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit its ability to make new

Table of Contents

investments. The SBA, as a creditor, will have a superior claim to Tamarix LP's assets over Tamarix LP's limited partners and our stockholders in the event Tamarix LP is liquidated or the SBA exercises its remedies under the SBA debentures issued by Tamarix LP in the event of a default. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because of our ownership interest in Tamarix LP.

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

Tamarix LP is subject to ongoing regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. The SBA restricts the ability of SBICs to release their investors from their capital commitments and requires that SBICs invest idle funds in accordance with SBA regulations. The SBA also prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of a licensed SBIC as well as other transfers of limited partnership interests. In addition, Tamarix LP may also be limited in its ability to make distributions to us if it does not have sufficient accumulated net profit, in accordance with SBA regulations. These requirements may make it more difficult for us to achieve our investment objective.

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

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

As a business development company, we generally will be required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. If this ratio declines below 200%, we will not be able to incur additional debt and could be required to sell a portion of our investments to repay some debt when it is disadvantageous to do so. This could have a material adverse effect on our operations, and we may not be able to

Table of Contents

make distributions. The amount of leverage that we employ will depend on OFS Advisors and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses, on a pro forma basis after giving effect to the pro forma adjustments discussed in more detail below under Unaudited Pro Forma Condensed Combined Financial Statements. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%
Corresponding return to common stockholder(1)	-51%	-31%	-12%	8%	27%

(1) Assumes \$216.8 million in total pro forma assets, \$155.0 million in pro forma debt outstanding, \$55.7 million in pro forma net assets and an average cost of funds of 4.3%. Assumptions are based on our financial condition and our average cost of funds at June 30, 2012. Based on our outstanding pro forma indebtedness of \$155.0 million as of June 30, 2012 and the average cost of funds of 4.3% as of that date, our investment portfolio must experience an annual return of at least 3.0% to cover interest payments on the outstanding debt.

To the extent we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income.

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

You should also be aware that a rise in the general level of interest rates typically leads to higher interest rates applicable to our debt inve