

OFS Capital Corp
Form 10-Q
May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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

COMMISSION FILE NUMBER: 814-00813

OFS CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **46-1339639**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

10 S. Wacker Drive, Suite 2500

Chicago, Illinois 60606

(Address of principal executive office)

(847) 734-2060

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares of the issuer's Common Stock, \$0.01 par value, outstanding as of May 4, 2015 was 9,662,940.

OFS CAPITAL CORPORATION

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PART I. FINANCIAL INFORMATION**Item 1. Unaudited Financial Statements****OFS Capital Corporation and Subsidiaries****Consolidated Balance Sheets (unaudited)****(Dollar amounts in thousands, except per share data)**

	March 31, 2015	December 31, 2014
Assets		
Investments, at fair value		
Non-control/non-affiliate investments (cost of \$258,984 and \$258,004, respectively)	\$255,295	\$ 254,666
Affiliate investments (cost of \$58,147 and \$55,569, respectively)	60,889	57,568
Total investments at fair value	316,184	312,234
Cash and cash equivalents	21,297	12,447
Interest receivable	1,230	676
Receivable from investment sold	-	7,223
Prepaid expenses and other assets	525	556
Intangible asset, net of accumulated amortization of \$258 and \$209, respectively	2,242	2,291
Goodwill	1,077	1,077
Deferred financing closing costs, net of accumulated amortization of \$2,658 and \$2,540, respectively	4,754	4,972
Total assets	\$347,309	\$ 341,476
Liabilities		
Accrued professional fees	\$434	\$ 462
Interest payable	742	1,315
Management and incentive fees payable	2,049	1,229
Administration fee payable	541	273
Other payables	241	247
Deferred loan fee revenue	504	572
SBA debentures payable	140,880	127,295
Revolving line of credit	64,348	72,612
Total liabilities	209,739	204,005

Commitments and Contingencies (Note 6)

Net Assets

Preferred stock, par value of \$0.01 per share, 2,000,000 shares authorized,

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0 shares issued and outstanding as of March 31, 2015 and December 31, 2014	-	-
Common stock, par value of \$0.01 per share, 100,000,000 shares authorized, 9,662,940 and 9,650,834 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	97	97
Paid-in capital in excess of par	143,529	143,381
Distributions in excess of net investment income	(8,286)	(7,844)
Accumulated net realized loss	(844)	(844)
Net unrealized appreciation on investments	3,074	2,681
Total net assets	137,570	137,471
Total liabilities and net assets	\$347,309	\$ 341,476
Number of shares outstanding	9,662,940	9,650,834
Net asset value per share	\$14.24	\$ 14.24

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
Investment income		
Interest income		
Non-control/non-affiliate investments	\$5,815	\$3,786
Affiliate investments	1,343	827
Control investment	-	302
Total interest income	7,158	4,915
Dividend and fee income		
Non-control/non-affiliate investments	185	8
Affiliate investments	278	64
Control investment	-	25
Total dividend and fee income	463	97
Total investment income	7,621	5,012
Expenses		
Interest expense	1,230	991
Amortization and write-off of deferred financing closing costs (see Note 7)	547	150
Amortization of intangible asset	49	63
Management fees	1,555	1,264
Incentive fee	375	-
Professional fees	315	454
Administration fee	541	475
General and administrative expenses	260	215
Total expenses	4,872	3,612
Net investment income	2,749	1,400
Net realized and unrealized gain (loss) on investments		
Net realized gain on non-control/non-affiliate investments	90	-
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	(353) 926
Net change in unrealized appreciation/depreciation on affiliate investments	746	519
Net change in unrealized depreciation on control investment	-	(794

Net realized and unrealized gain on investments	483	651
Net increase in net assets resulting from operations	\$3,232	\$2,051
Net investment income per common share - basic and diluted	\$0.28	\$0.15
Net increase in net assets resulting from operations per common share - basic and diluted	\$0.33	\$0.21
Dividends and distributions declared per common share	\$0.34	\$0.34
Basic and diluted weighted average shares outstanding	9,650,969	9,631,155

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets (unaudited)

(Dollar amounts in thousands, except per share data)

	Common Stock Shares	Par	Paid-in Capital in Excess of Par	Distributions in Excess of Net Investment Income	Accumulated Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation) on Investments	Total Net Assets
Balance at January 1, 2014	9,629,797	\$96	\$ 143,126	\$ (4,103)	\$ 2,742	\$ (1,483)	\$ 140,378
Net increase in net assets resulting from operations	-	-	-	1,400	-	651	2,051
Stock issued in connection with dividend reinvestment plan	2,656	-	34	-	-	-	34
Dividends and distributions (1)	-	-	-	(3,274)	-	-	(3,274)
Balance at March 31, 2014	9,632,453	\$96	143,160	(5,977)	2,742	(832)	139,189
Balance at January 1, 2015	9,650,834	\$97	\$ 143,381	\$ (7,844)	\$ (844)	\$ 2,681	\$ 137,471
Net increase in net assets resulting from operations	-	-	-	2,749	90	393	3,232
Stock issued in connection with dividend reinvestment plan	12,106	-	148	-	-	-	148
Dividends and distributions (1)	-	-	-	(3,191)	(90)	-	(3,281)
Balance at March 31, 2015	9,662,940	\$97	\$ 143,529	\$ (8,286)	\$ (844)	\$ 3,074	\$ 137,570

If the tax characteristics of these distributions were determined as of March 31, 2015 and 2014, the Company estimated that approximately 81% and 19% of the distributions would have represented ordinary income and return (1) of capital, respectively, as of March 31, 2015, and approximately 44% and 56% would have represented ordinary income and return of capital, respectively, as of March 31, 2014. See Note 9 - Financial Highlights for detailed disclosure of the tax characteristics of these distributions.

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
Cash Flows From Operating Activities		
Net increase in net assets resulting from operations	\$3,232	\$2,051
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Amortization and write-off of deferred financing closing costs	547	150
Amortization of discounts and premiums	(306)	(304)
Amortization of deferred loan fee revenue	(79)	(37)
Amortization of intangible assets	49	63
Cash collection of deferred loan fee revenue	12	151
Payment-in-kind interest and dividend income	(593)	(126)
Net realized gain on non-control/non-affiliate investments	(90)	-
Net change in unrealized appreciation/depreciation on non-control/non-affiliate investments	353	(926)
Net change in unrealized appreciation/depreciation on affiliate investments	(746)	(519)
Net change in unrealized depreciation on control investment	-	794
Purchase of portfolio investments	(24,588)	(8,901)
Proceeds from principal payments on portfolio investments	10,986	19,899
Proceeds from sale of portfolio investments	18,257	4,493
Changes in operating assets and liabilities:		
Interest receivable	(554)	62
Prepaid expenses and other assets	35	8
Accrued professional fees	(28)	(37)
Due to/from affiliated entities, net	-	217
Interest payable	(573)	(189)
Management and incentive fees payable	820	179
Administration fee payable	268	195
Other payables	7	(43)
Net cash provided by operating activities	7,009	17,180
Cash Flows From Financing Activities		
Net repayment of advances from affiliated entities	-	(14)
Cash dividends and distributions paid	(3,133)	(3,240)
Borrowings under the revolving line of credit	1,200	6,900
Repayments under the revolving line of credit	(9,464)	(12,396)
Draw down on SBA debentures	13,585	-

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Change in other liabilities	(14)	-
Deferred common stock offering costs paid	(4)	-
Deferred financing closing costs paid	(329)	-
Net cash provided by (used in) financing activities	1,841	(8,750)
Net increase in cash and cash equivalents	8,850	8,430
Cash and cash equivalents — beginning of period	12,447	28,569
Cash and cash equivalents — end of period	\$21,297	\$36,999
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$1,803	\$1,180
Supplemental Disclosure of Noncash Financing and Investing Activities:		
Dividends and distributions paid by issuance of common stock	148	34

See Notes to Unaudited Consolidated Financial Statements.

OFS Capital Corporation and Subsidiaries**Consolidated Schedule of Investments (unaudited)**

March 31, 2015

(Dollar amounts in thousands)

Industry Name of Portfolio Company	Investment Type	Interest Rate (1)	Spread Above Index (1)	Maturity
Non-control/Non-affiliate Investments				
Aerospace & Defense				
Aero-Metric, Inc. (4)	Senior Secured Term Loan	8.75%	(L +7.50%)	8/27/17
Whitcraft LLC (4)	Senior Secured Term Loan	6.50%	(L +5.00%)	12/16/15
Banking, Finance, Insurance & Real Estate				
Accurate Group Holdings, Inc.	Subordinated Loan	12.50%	N/A	8/23/18
Captive Resources Midco LLC (4)	Senior Secured Term Loan	6.50%	(L +5.00%)	1/2/19
CSI Financial Services, LLC (4)(5)	Senior Secured Term Loan	7.00%	(L +5.75%)	12/12/18
H.D. Vest, Inc. (5)	Senior Secured Term Loan	9.25%	(L +8.25%)	3/17/21
MYI Acquiror Limited (4)(5)	Senior Secured Term Loan A	5.75%	(L +4.50%)	5/28/19
Townsend Acquisition LLC (4)	Senior Secured Term Loan	5.25%	(L +4.25%)	5/21/20
Capital Equipment				
Dorner MFG, Corp. (4)	Senior Secured Term Loan	5.75%	(L +4.50%)	6/15/17
Elgin Fasteners Group (4)	Senior Secured Term Loan	6.00%	(L +4.75%)	8/26/16
Stancor, Inc.	Senior Secured Term Loan	8.75%	(L +8.00%)	8/19/19
	1,250,000 Class A Units in SCT Holdings, LLC			