

WhiteHorse Finance, Inc.  
Form 10-Q  
May 08, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**Form 10-Q**

**(Mark One)**

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

**For the quarterly period ended March 31, 2015**

**or**

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

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

**Commission file number: 814-00967**

**WHITEHORSE FINANCE, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

**Delaware 45-4247759  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)**

**1450 Brickell Avenue, 31<sup>st</sup> Floor 33131**

**Miami, Florida**  
**(Address of Principal Executive Offices) (Zip Code)**

**(305) 381-6999**

**(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  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

As of May 7, 2015 the Registrant had 14,982,857 shares of common stock, \$0.001 par value, outstanding.

**WHITEHORSE FINANCE, INC.**

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**Part I. Financial Information****Item 1. Financial Statements****WhiteHorse Finance, Inc.****Consolidated Statements of Assets and Liabilities***(in thousands, except share and per share data)*

|  | March 31, 2015<br>(Unaudited) | December 31, 2014 |
|--|-------------------------------|-------------------|
| <b>Assets</b>  |                               |                   |
| Investments, at fair value (amortized cost \$389,329 and \$401,062, respectively)                              | \$ 391,289                    | \$ 403,500        |
| Cash and cash equivalents  | 11,887                        | 11,647            |
| Restricted cash and cash equivalents   | 5,698                         | 4,495             |
| Interest receivable  | 2,725                         | 2,702             |
| Receivable from investments sold   | 4,750                         | —                 |
| Deferred financing costs   | 4,391                         | 4,004             |
| Prepaid expenses and other receivables   | 437                           | 494               |
| <b>Total assets</b>  | <b>\$ 421,177</b>             | <b>\$ 426,842</b> |
| <b>Liabilities</b>   |                               |                   |
| Credit facility  | \$ 100,500                    | \$ 105,500        |
| Senior notes   | 30,000                        | 30,000            |
| Unsecured term loan  | 55,000                        | 55,000            |
| Distributions payable  | 5,319                         | 5,319             |
| Management fees payable  | 5,185                         | 5,006             |
| Accounts payable and accrued expenses  | 361                           | 659               |
| <b>Total liabilities</b>   | <b>196,365</b>                | <b>201,484</b>    |
| <b>Commitments and contingencies (See Note 7)</b>  |                               |                   |
| <b>Net assets</b>  |                               |                   |
| Common stock, 14,982,857 shares issued and outstanding, par value \$0.001 per share and 100,000,000 authorized | 15                            | 15                |
| Paid-in capital in excess of par   | 228,731                       | 228,731           |
| Accumulated overdistributed net investment income  | (5,903)                       | (5,918)           |
| Accumulated realized gains on investments  | 645                           | 728               |
| Accumulated unrealized appreciation on investments   | 1,324                         | 1,802             |
| <b>Total net assets</b>  | <b>224,812</b>                | <b>225,358</b>    |
| <b>Total liabilities and total net assets</b>  | <b>\$ 421,177</b>             | <b>\$ 426,842</b> |

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|                              |            |            |
|------------------------------|------------|------------|
| Number of shares outstanding | 14,982,857 | 14,982,857 |
| Net asset value per share    | \$ 15.00   | \$ 15.04   |

*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Statements of Operations (Unaudited)***(in thousands, except share and per share data)*

|   | Three months ended March 31, |            |
|---|------------------------------|------------|
|   | 2015                         | 2014       |
| Investment income   |                              |            |
| Interest income   | \$ 10,511                    | \$ 7,857   |
| Fee income  | 100                          | 393        |
| Dividend income   | 660                          | —          |
| Total investment income   | 11,271                       | 8,250      |
| Expenses  |                              |            |
| Interest expense  | 1,670                        | 1,355      |
| Base management fees  | 2,120                        | 1,787      |
| Performance-based incentive fees                                    | 1,333                        | 151        |
| Administrative service fees   | 329                          | 325        |
| General and administrative expenses                                 | 485                          | 986        |
| Total expenses, before fees waived                                  | 5,937                        | 4,604      |
| Base management fees waived   | —                            | (344)      |
| Total expenses, net of fees waived                                  | 5,937                        | 4,260      |
| Net investment income   | 5,334                        | 3,990      |
| Realized and unrealized (losses) gains on investments               |                              |            |
| Net realized losses on investments                                  | (83)                         | ) —        |
| Net change in unrealized (depreciation) appreciation on investments | (478)                        | ) 2,380    |
| Net realized and unrealized (losses) gains on investments           | (561)                        | ) 2,380    |
| Net increase in net assets resulting from operations                | \$ 4,773                     | \$ 6,370   |
| Per common share data   |                              |            |
| Basic and diluted earnings per common share                         | \$ 0.32                      | \$ 0.43    |
| Distributions declared per common share                             | \$ 0.36                      | \$ 0.36    |
| Basic and diluted weighted average common shares outstanding        | 14,982,857                   | 14,982,728 |

*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Statements of Changes in Net Assets (Unaudited)***(in thousands, except share and per share data)*

|   | Common Stock |            | Paid-in<br>Capital in | Accumulated<br>Investment | Accumulated<br>Realized<br>Gains<br>(Losses) on<br>Investments | Accumulated<br>Unrealized<br>Appreciation<br>(Depreciation)<br>on<br>Investments | Total Net<br>Assets |
|---|--------------|------------|-----------------------|---------------------------|--|--|---------------------|
|   | Shares       | Par amount | Excess of Par         | Income                    |  |  |                     |
| Balance at December 31, 2013                                  | 14,977,056   | \$ 15      | \$ 228,646            | \$ (854 )                 | \$ —   | \$ (805 )  | \$ 227,002          |
| Stock issued in connection with<br>dividend reinvestment plan | 5,801        | —          | 88                    | —                         | —  | —  | 88                  |
| Net increase in net assets<br>resulting from operations       | —            | —          | —                     | 3,990                     | —  | 2,380  | 6,370               |
| Distributions declared  | —            | —          | —                     | (5,319 )                  | —  | —  | (5,319 )            |
| Balance at March 31, 2014                                     | 14,982,857   | \$ 15      | \$ 228,734            | \$ (2,183 )               | \$ —   | \$ 1,575   | \$ 228,141          |
| Balance at December 31, 2014                                  | 14,982,857   | \$ 15      | \$ 228,731            | \$ (5,918 )               | \$ 728   | \$ 1,802   | \$ 225,358          |
| Net increase in net assets<br>resulting from operations       | —            | —          | —                     | 5,334                     | (83 )  | (478 )   | 4,773               |
| Distributions declared  | —            | —          | —                     | (5,319 )                  | —  | —  | (5,319 )            |
| Balance at March 31, 2015                                     | 14,982,857   | \$ 15      | \$ 228,731            | \$ (5,903 )               | \$ 645   | \$ 1,324   | \$ 224,812          |

*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Statements of Cash Flows (Unaudited)***(in thousands)*

|   | Three months ended March 31, |           |
|---|------------------------------|-----------|
|   | 2015                         | 2014      |
| Cash flows from operating activities  |                              |           |
| Net increase in net assets resulting from operations  | \$ 4,773                     | \$ 6,370  |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: |                              |           |
| Paid in kind income   | (314 )                       | (290 )    |
| Net realized losses on investments  | 83                           | —         |
| Net unrealized depreciation (appreciation) on investments   | 478                          | (2,380 )  |
| Accretion of discount   | (254 )                       | (204 )    |
| Amortization of deferred financing costs  | 176                          | 148       |
| Acquisition of investments  | (26,475 )                    | (16,623 ) |
| Proceeds from principal payments and sales of portfolio investments   | 38,693                       | 5,074     |
| Net changes in operating assets and liabilities:  |                              |           |
| Interest receivable   | (23 )                        | (326 )    |
| Prepaid expenses and other receivables  | 57                           | (62 )     |
| Receivable from investments sold  | (4,750 )                     | —         |
| Payable for investments purchased   | —                            | (16,883 ) |
| Management fees payable   | 179                          | (752 )    |
| Accounts payable and accrued expenses   | (298 )                       | 354       |
| Restricted cash and cash equivalents  | (1,203 )                     | (11,365 ) |
| Net cash provided by (used in) operating activities   | 11,122                       | (36,939 ) |
| Cash flows from financing activities  |                              |           |
| Proceeds from borrowings under credit facility  | 6,000                        | —         |
| Repayment of borrowings under credit facility   | (11,000 )                    | (25,000 ) |
| Deferred financing costs  | (563 )                       | —         |
| Distributions paid to common stockholders, net of distributions reinvested  | (5,319 )                     | (5,229 )  |
| Net cash used in financing activities   | (10,882 )                    | (30,229 ) |
| Net change in cash and cash equivalents   | 240                          | (67,168 ) |
| Cash and cash equivalents at beginning of period  | 11,647                       | 92,905    |
| Cash and cash equivalents at end of period  | \$ 11,887                    | \$ 25,737 |
| Supplemental disclosure of cash flow information:   |                              |           |
| Interest paid   | \$ 1,471                     | \$ 1,202  |
| Supplemental noncash disclosures:   |                              |           |
| Dividends reinvested  | \$ —                         | \$ 88     |



*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Unaudited)****March 31, 2015***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>        | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |   |
|---|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|---|
| North America                               |   |                                    |                      |                         |                       |                   |   |   |
| Debt Investments                            |   |                                    |                      |                         |                       |                   |   |   |
| Broadcasting                                |   |                                    |                      |                         |                       |                   |   |   |
| Multicultural Radio Broadcasting, Inc.      |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan                | L+10.50%<br>(1.00% Floor)               | 11.50%                             | 6/27/19              | \$ 14,850               | \$ 14,850             | \$ 14,880         | 6.62  | % |
| Cable & Satellite                           |   |                                    |                      |                         |                       |                   |   |   |
| Puerto Rico Cable Acquisition Company, Inc. |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan               | L+8.50%<br>(1.00% Floor)                | 9.50%                              | 5/30/19              | 7,000                   | 6,935                 | 7,028             | 3.13  |   |
| Consumer Finance                            |   |                                    |                      |                         |                       |                   |   |   |
| Golden Pear Funding III, LLC <sup>(7)</sup> |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan                | L+9.75%<br>(1.00% Floor)                | 10.75%                             | 12/29/19             | 10,000                  | 9,810                 | 9,840             | 4.38  |   |
| Oasis Legal Finance, LLC <sup>(7)</sup>     |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan               | N/A <sup>(5)</sup>                      | 10.50%                             | 9/30/18              | 9,500                   | 9,351                 | 9,500             | 4.23  |   |
| Sigue Corporation                           |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan               | L+9.50%<br>(1.00% Floor)                | 10.50%                             | 12/27/18             | 25,000                  | 24,602                | 24,775            | 11.02   |   |
|   |   |                                    |                      | 44,500                  | 43,763                | 44,115            | 19.63   |   |
| Data Processing & Outsourced Services       |   |                                    |                      |                         |                       |                   |   |   |
| Future Payment Technologies, L.P.           |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan               | L+12.00%<br>(1.00% Floor)               | 13.00%<br>(2.00% PIK)              | 12/31/18             | 35,895                  | 34,771                | 35,572            | 15.82   |   |
| Diversified Support Services                |   |                                    |                      |                         |                       |                   |   |   |

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|   |                           |        |         |        |        |        |       |
|---|---------------------------|--------|---------|--------|--------|--------|-------|
| Expert Global Solutions, Inc.<br>Second Lien Secured Term<br>Loan | L+11.00%<br>(1.50% Floor) | 12.50% | 10/3/18 | 7,500  | 7,426  | 7,440  | 3.31  |
| Orion Healthcorp, Inc.<br>First Lien Secured Term Loan            | L+9.00%<br>(2.00% Floor)  | 11.00% | 9/30/17 | 9,113  | 8,880  | 9,058  | 4.03  |
| Smile Brands Group Inc.<br>First Lien Secured Term Loan           | L+6.25%<br>(1.25% Floor)  | 7.50%  | 8/16/19 | 11,820 | 11,633 | 11,170 | 4.97  |
|   |                           |        |         | 28,433 | 27,939 | 27,668 | 12.31 |

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**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Unaudited) (Continued)****March 31, 2015***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>                                       | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |
|--|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|
| Electronic Equipment & Instruments<br>AP Gaming I, LLC                     |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan   | L+8.25%<br>(1.00% Floor)                | 9.25%                              | 12/20/20             | \$9,875                 | \$9,613               | \$9,707           | 4.32 %  |
| Food Retail<br>Crews of California, Inc.                                   |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan   | L+11.00%<br>(1.00% Floor)               | 12.00%<br>(1.00% PIK)              | 11/20/19             | 15,055                  | 14,735                | 14,949            | 6.65  |
| First Lien Secured Revolving Loan  | L+11.00%<br>(1.00% Floor)               | 12.00%<br>(1.00% PIK)              | 11/20/19             | —                       | (104 )                | —                 | —   |
| First Lien Secured Delayed Draw Term Loan                                  | L+11.00%<br>(1.00% Floor)               | 12.00%<br>(1.00% PIK)              | 11/20/19             | 2,500                   | 2,396                 | 2,483             | 1.10  |
|  |   |                                    |                      | 17,555                  | 17,027                | 17,432            | 7.75  |
| Health Care Distributors<br>Comprehensive Decubitus Therapy, Inc.          |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan   | P+12.50%<br>(3.25% Floor)               | 15.75%<br>(3.00% PIK)              | 3/15/18              | 11,761                  | 11,593                | 11,690            | 5.20  |
| First Lien Secured Revolving Loan  | P+12.50%<br>(3.25% Floor)               | 15.75%<br>(3.00% PIK)              | 3/15/18              | —                       | (24 )                 | —                 | —   |
| P2 Newco Acquisition, Inc. <sup>(6)</sup><br>Second Lien Secured Term Loan | L+8.50%<br>(1.00% Floor)                | 9.50%                              | 10/22/21             | 10,000                  | 9,912                 | 9,950             | 4.43  |
|  |   |                                    |                      | 21,761                  | 21,481                | 21,640            | 9.63  |
| Health Care Facilities<br>Coastal Sober Living, LLC                        |   |                                    |                      |                         |                       |                   |   |

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|  |                           |        |         |        |        |        |       |
|--|---------------------------|--------|---------|--------|--------|--------|-------|
| First Lien Secured Term Loan   | L+9.25%<br>(1.00% Floor)  | 10.25% | 6/30/19 | 42,680 | 41,977 | 42,510 | 18.91 |
| Grupo HIMA San Pablo, Inc.   |                           |        |         |        |        |        |       |
| First Lien Secured Term Loan   | L+7.00%<br>(1.50% Floor)  | 8.50%  | 1/31/18 | 14,700 | 14,510 | 14,700 | 6.54  |
| Second Lien Secured Term Loan  | N/A <sup>(5)</sup>        | 13.75% | 7/31/18 | 1,000  | 964    | 1,000  | 0.44  |
|  |                           |        |         | 58,380 | 57,451 | 58,210 | 25.89 |
| Health Care Technology<br>Client Network Services, Inc.                            |                           |        |         |        |        |        |       |
| First Lien Secured Term Loan   | L+13.00%<br>(0.50% Floor) | 13.50% | 4/24/19 | 21,756 | 21,430 | 21,756 | 9.68  |
| First Lien Secured Revolving Loan  | P+12.00%<br>(3.25% Floor) | 15.25% | 4/24/19 | —      | —      | —      | —     |
|  |                           |        |         | 21,756 | 21,430 | 21,756 | 9.68  |
| Homebuilding<br>Orleans Homebuilders, Inc.   |                           |        |         |        |        |        |       |
| First Lien Secured Term Loan   | L+8.50%<br>(2.00% Floor)  | 10.50% | 2/14/16 | 16,133 | 16,165 | 16,133 | 7.18  |
| Integrated Telecommunication<br>Services<br>Securus Technologies Holdings,<br>Inc. |                           |        |         |        |        |        |       |
| Second Lien Secured Term Loan  | L+7.75%<br>(1.25% Floor)  | 9.00%  | 4/30/21 | 12,090 | 12,025 | 11,969 | 5.32  |

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Unaudited) (Continued)****March 31, 2015***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>  | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |
|---|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|
| Metal & Glass Containers<br>Pelican Products, Inc. <sup>(6)</sup><br>Second Lien Secured Term Loan                        | L+8.25%<br>(1.00% Floor)                | 9.25%                              | 4/11/21              | \$3,000                 | \$2,980               | \$3,009           | 1.34 %  |
| Oil & Gas Drilling<br>ProPetro Services, Inc.<br>First Lien Secured Term Loan   | L+6.25%<br>(1.00% Floor)                | 7.25%                              | 9/30/19              | 9,250                   | 9,172                 | 8,760             | 3.90  |
| Oil & Gas Exploration &<br>Production<br>Caelus Energy Alaska O3,<br>LLC<br>Second Lien Secured Term Loan                 | L+7.50%<br>(1.25% Floor)                | 8.75%                              | 4/15/20              | 13,000                  | 12,837                | 11,869            | 5.28  |
| Larchmont Resources, LLC<br>First Lien Secured Term Loan  | L+7.25%<br>(1.00% Floor)                | 8.25%                              | 8/7/19               | 1,985                   | 2,023                 | 1,866             | 0.83  |
|   |   |                                    |                      | 14,985                  | 14,860                | 13,735            | 6.11  |
| Oil & Gas Storage &<br>Transportation<br>Sprint Industrial Holdings<br>LLC <sup>(6)</sup><br>First Lien Secured Term Loan | L+5.75%<br>(1.25% Floor)                | 7.00%                              | 5/14/19              | 1,985                   | 1,996                 | 1,897             | 0.84  |
| Other Diversified Financial<br>Services<br>RCS Capital Corporation <sup>(7)</sup><br>Second Lien Secured Term Loan        | L+9.50%<br>(1.00% Floor)                | 10.50%                             | 4/29/21              | 17,750                  | 17,829                | 17,519            | 7.79  |
| The Pay-O-Matic Corp<br>First Lien Secured Term Loan  | L+11.00%<br>(1.00% Floor)               | 12.00%                             | 3/31/18              | 10,000                  | 9,800                 | 9,800             | 4.36  |
|   |   |                                    |                      | 27,750                  | 27,629                | 27,319            | 12.15   |

|   |                          |        |          |           |           |           |          |
|---|--------------------------|--------|----------|-----------|-----------|-----------|----------|
| Specialized Consumer Services                                       |                          |        |          |           |           |           |          |
| Pre-Paid Legal Services, Inc.                                       |                          |        |          |           |           |           |          |
| Second Lien Secured Term Loan                                       | L+8.50%<br>(1.25% Floor) | 9.75%  | 7/1/20   | 18,000    | 17,809    | 18,054    | 8.03     |
| Specialized Finance   |                          |        |          |           |           |           |          |
| GMT Holdings 1, Ltd. & GMT Holdings 12, Ltd. <sup>(4) (6) (7)</sup> |                          |        |          |           |           |           |          |
| First Lien Secured Term Loan  | N/A <sup>(5)</sup>       | 10.00% | 6/30/17  | 3,835     | 3,884     | 3,835     | 1.71     |
| Trucking  |                          |        |          |           |           |           |          |
| Fox Rent A Car, Inc.  |                          |        |          |           |           |           |          |
| Second Lien Secured Term Loan                                       | L+12.00%                 | 12.18% | 10/31/19 | 7,500     | 7,429     | 7,470     | 3.32     |
| Total Debt Investments  |                          |        |          | 374,533   | 369,209   | 370,189   | 164.69   |
| Equity Investments  |                          |        |          |           |           |           |          |
| Diversified Support Services  |                          |        |          |           |           |           |          |
| Constellation Health, LLC Warrants <sup>(6)</sup>                   |                          |        |          |           |           |           |          |
|   | N/A                      | N/A    | 3/31/18  | —         | —         | 890       | 0.40     |
| Food Retail   |                          |        |          |           |           |           |          |
| Crews of California, Inc. Warrants <sup>(6)</sup>                   |                          |        |          |           |           |           |          |
|   | N/A                      | N/A    | 12/31/24 | —         | —         | 127       | 0.06     |
| Nicholas & Associates, LLC Warrants <sup>(6)</sup>                  |                          |        |          |           |           |           |          |
|   | N/A                      | N/A    | 12/31/24 | —         | —         | 24        | 0.01     |
| Pinnacle Management Group, LLC Warrants <sup>(6)</sup>              |                          |        |          |           |           |           |          |
|   | N/A                      | N/A    | 12/31/24 | —         | —         | 46        | 0.02     |
| RC3 Enterprises, LLC Warrants <sup>(6)</sup>                        |                          |        |          |           |           |           |          |
|   | N/A                      | N/A    | 12/31/24 | —         | —         | 13        | 0.01     |
|   |                          |        |          | —         | —         | 210       | 0.10     |
| Specialized Finance   |                          |        |          |           |           |           |          |
| NMFC Senior Loan Program I LLC Units <sup>(6)(7)</sup>              |                          |        |          |           |           |           |          |
|   | N/A                      | N/A    | 6/10/19  | —         | 20,120    | 20,000    | 8.90     |
| Total Equity Investments  |                          |        |          |           | 20,120    | 21,100    | 9.40     |
| Total Investments   |                          |        |          | \$374,533 | \$389,329 | \$391,289 | 174.07 % |

<sup>(1)</sup> All investments are non-controlled/non-affiliate investments as defined by the Investment Company Act of 1940, as amended (the “1940 Act”). Except as otherwise noted, the investments provide collateral for the Credit Facility.

<sup>(2)</sup> The investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (“LIBOR” or “L”) or the Prime Rate (“P”), which resets monthly, quarterly or semiannually.

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(3) The interest rate is the “all-in-rate” including the current index and spread, the fixed rate, and the payment-in-kind (“PIK”) interest rate, as the case may be.

(4) WhiteHorse Finance, Inc.’s investments in GMT Holdings 1, Ltd. and GMT Holdings 12, Ltd. are held through its subsidiary Bayside Financing S.A.R.L.

(5) Interest rate is fixed and accordingly the spread above the index is not applicable.

(6) Investment does not provide collateral for the Credit Facility.

Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any (7) non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets.

*See notes to the consolidated financial statements*



**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments****December 31, 2014***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>   | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |   |
|--|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|---|
| North America<br>Debt Investments<br>Auto Parts & Equipment<br>GST Autoleather, Inc. | L+5.50%<br>(1.00%<br>Floor)             | 6.50%                              | 7/10/20              | \$ 1,995                | \$ 1,990              | \$ 1,975          | 0.88  | % |
| Broadcasting<br>Multicultural Radio<br>Broadcasting, Inc.                            | L+10.50%<br>(1.00%<br>Floor)            | 11.50%                             | 6/27/19              | 14,850                  | 14,850                | 14,865            | 6.60  |   |
| Cable & Satellite<br>Puerto Rico Cable Acquisition<br>Company, Inc.                  | L+8.50%<br>(1.00%<br>Floor)             | 9.50%                              | 5/30/19              | 7,000                   | 6,932                 | 7,007             | 3.11  |   |
| Consumer Finance<br>Golden Pear Funding III, LLC<br>(7)                              | L+9.75%<br>(1.00%<br>Floor)             | 10.75%                             | 12/29/19             | 10,000                  | 9,800                 | 9,880             | 4.38  |   |
| Oasis Legal Finance, LLC <sup>(7)</sup><br>Second Lien Secured Term<br>Loan          | N/A <sup>(5)</sup>                      | 10.50%                             | 9/30/18              | 9,500                   | 9,342                 | 9,434             | 4.19  |   |
| Sigue Corporation<br>Second Lien Secured Term<br>Loan                                | L+9.50%<br>(1.00%<br>Floor)             | 10.50%                             | 12/27/18             | 25,000                  | 24,580                | 24,850            | 11.03   |   |
|  |   |                                    |                      | 44,500                  | 43,722                | 44,164            | 19.60   |   |

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Data Processing & Outsourced  
Services  
Future Payment Technologies,  
L.P.

|                                  |                              |                       |          |        |        |        |       |
|----------------------------------|------------------------------|-----------------------|----------|--------|--------|--------|-------|
| Second Lien Secured Term<br>Loan | L+12.00%<br>(1.00%<br>Floor) | 13.00%<br>(2.00% PIK) | 12/31/18 | 35,716 | 34,534 | 35,716 | 15.85 |
|----------------------------------|------------------------------|-----------------------|----------|--------|--------|--------|-------|

Diversified Support Services  
Orion Healthcorp, Inc.

|                              |                             |        |         |       |       |       |      |
|------------------------------|-----------------------------|--------|---------|-------|-------|-------|------|
| First Lien Secured Term Loan | L+9.00%<br>(2.00%<br>Floor) | 11.00% | 9/30/17 | 9,616 | 9,364 | 9,491 | 4.21 |
|------------------------------|-----------------------------|--------|---------|-------|-------|-------|------|

Smile Brands Group Inc.

|                              |                             |       |         |        |        |        |      |
|------------------------------|-----------------------------|-------|---------|--------|--------|--------|------|
| First Lien Secured Term Loan | L+6.25%<br>(1.25%<br>Floor) | 7.50% | 8/16/19 | 11,850 | 11,655 | 11,577 | 5.14 |
|                              |                             |       |         | 21,466 | 21,019 | 21,068 | 9.35 |

Electronic Equipment &  
Instruments  
AP Gaming I, LLC

|                              |                             |       |          |       |       |       |      |
|------------------------------|-----------------------------|-------|----------|-------|-------|-------|------|
| First Lien Secured Term Loan | L+8.25%<br>(1.00%<br>Floor) | 9.25% | 12/20/20 | 9,900 | 9,630 | 9,623 | 4.27 |
|------------------------------|-----------------------------|-------|----------|-------|-------|-------|------|

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Continued)****December 31, 2014***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>  | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |
|---------------------------------------|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|
| <b>Food Retail</b>                    |   |                                    |                      |                         |                       |                   |   |
| Crews of California, Inc.             |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan          | L+11.00%<br>(1.00% Floor)               | 12.00%<br>(1.00% PIK)              | 11/20/19             | \$ 15,017               | \$ 14,685             | \$ 14,807         | 6.57 %  |
| First Lien Secured Revolving Loan     | L+11.00%<br>(1.00% Floor)               | 12.00%<br>(1.00% PIK)              | 11/20/19             | —                       | (110 )                | —                 | —   |
| First Lien Secured Delayed Draw Loan  | L+11.00%<br>(1.00% Floor)               | 12.00%<br>(1.00% PIK)              | 11/20/19             | —                       | (110 )                | —                 | —   |
|                                       |   |                                    |                      | 15,017                  | 14,465                | 14,807            | 6.57  |
| <b>Health Care Distributors</b>       |   |                                    |                      |                         |                       |                   |   |
| Comprehensive Decubitus Therapy, Inc. |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan          | P+12.50%<br>(3.25% Floor)               | 15.75%<br>(3.00% PIK)              | 3/15/18              | 12,311                  | 12,125                | 12,163            | 5.40  |
| First Lien Secured Revolving Loan     | P+12.50%<br>(3.25% Floor)               | 15.75%<br>(3.00% PIK)              | 3/15/18              | —                       | (26 )                 | —                 | —   |
| P2 Newco Acquisition, Inc.<br>(6)     |   |                                    |                      |                         |                       |                   |   |
| Second Lien Secured Term Loan         | L+8.50%<br>(1.00% Floor)                | 9.50%                              | 10/22/21             | 10,000                  | 9,910                 | 10,010            | 4.44  |
|                                       |   |                                    |                      | 22,311                  | 22,009                | 22,173            | 9.84  |
| <b>Health Care Facilities</b>         |   |                                    |                      |                         |                       |                   |   |
| Coastal Sober Living, LLC             |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan          | L+9.25%<br>(1.00% Floor)                | 10.25%                             | 6/30/19              | 43,230                  | 42,494                | 43,014            | 19.09   |
| Grupo HIMA San Pablo, Inc.            |   |                                    |                      |                         |                       |                   |   |
| First Lien Secured Term Loan          | L+7.00%<br>(1.50% Floor)                | 8.50%                              | 1/31/18              | 14,738                  | 14,534                | 14,679            | 6.51  |
| Second Lien Secured Term Loan         | N/A <sup>(5)</sup>                      | 13.75%                             | 7/31/18              | 1,000                   | 962                   | 997               | 0.44  |
|                                       |   |                                    |                      | 58,968                  | 57,990                | 58,690            | 26.04   |
| <b>Health Care Technology</b>         |   |                                    |                      |                         |                       |                   |   |

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Client Network Services,  
Inc.

|                                   |                           |                       |         |        |        |        |       |
|-----------------------------------|---------------------------|-----------------------|---------|--------|--------|--------|-------|
| First Lien Secured Term Loan      | L+13.00%<br>(0.50% Floor) | 13.50%<br>(1.00% PIK) | 4/24/19 | 28,657 | 28,226 | 28,657 | 12.72 |
| First Lien Secured Revolving Loan | L+12.00%<br>(0.50% Floor) | 12.50%                | 4/24/19 | 1,500  | 1,500  | 1,500  | 0.67  |
|                                   |                           |                       |         | 30,157 | 29,726 | 30,157 | 13.39 |

Homebuilding

Orleans Homebuilders, Inc.

|                              |                          |        |         |        |        |        |      |
|------------------------------|--------------------------|--------|---------|--------|--------|--------|------|
| First Lien Secured Term Loan | L+8.50%<br>(2.00% Floor) | 10.50% | 2/14/16 | 16,175 | 16,214 | 16,175 | 7.18 |
|------------------------------|--------------------------|--------|---------|--------|--------|--------|------|

Home Furnishing Retail  
BDF Acquisition Corp. <sup>(6)</sup>

|                               |                          |       |         |       |       |       |      |
|-------------------------------|--------------------------|-------|---------|-------|-------|-------|------|
| Second Lien Secured Term Loan | L+8.00%<br>(1.00% Floor) | 9.00% | 2/12/22 | 5,000 | 4,907 | 4,975 | 2.21 |
|-------------------------------|--------------------------|-------|---------|-------|-------|-------|------|

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Continued)****December 31, 2014***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>   | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |   |
|--|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|---|
| Human Resource & Employment Services<br>Miller Heiman, Inc.                  |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan   | L+5.75%<br>(1.00% Floor)                | 6.75%                              | 9/30/19              | \$ 3,949                | \$ 3,877              | \$ 3,862          | 1.71  | % |
| Integrated Telecommunication Services<br>Securus Technologies Holdings, Inc. |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan  | L+7.75%<br>(1.25% Floor)                | 9.00%                              | 4/30/21              | 12,090                  | 12,023                | 11,945            | 5.30  |   |
| Internet Software & Services<br>Tourico Holidays, Inc.                       |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan   | L+7.50%<br>(1.00% Floor)                | 8.50%                              | 11/5/18              | 10,000                  | 9,952                 | 9,870             | 4.38  |   |
| Metal & Glass Containers<br>Pelican Products, Inc. <sup>(6)</sup>            |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan  | L+8.25%<br>(1.00% Floor)                | 9.25%                              | 4/11/21              | 3,000                   | 2,979                 | 3,018             | 1.34  |   |
| Oil & Gas Drilling<br>ProPetro Services, Inc.                                |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan   | L+6.25%<br>(1.00% Floor)                | 7.25%                              | 9/30/19              | 9,375                   | 9,293                 | 9,291             | 4.12  |   |
| Oil & Gas Exploration & Production<br>Caelus Energy Alaska O3, LLC           |   |                                    |                      |                         |                       |                   |   |   |
| Second Lien Secured Term Loan  | L+7.50%<br>(1.25% Floor)                | 8.75%                              | 4/15/20              | 13,000                  | 12,831                | 11,635            | 5.16  |   |
| Larchmont Resources, LLC   |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan   | L+7.25%<br>(1.00% Floor)                | 8.25%                              | 8/7/19               | 1,990                   | 2,030                 | 2,000             | 0.89  |   |
|  |   |                                    |                      | 14,990                  | 14,861                | 13,635            | 6.05  |   |
| Oil & Gas Storage & Transportation   |   |                                    |                      |                         |                       |                   |   |   |

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Sprint Industrial Holdings LLC <sup>(6)</sup>

|                              |                          |       |         |       |       |       |      |
|------------------------------|--------------------------|-------|---------|-------|-------|-------|------|
| First Lien Secured Term Loan | L+5.75%<br>(1.25% Floor) | 7.00% | 5/14/19 | 1,990 | 2,002 | 1,994 | 0.88 |
|------------------------------|--------------------------|-------|---------|-------|-------|-------|------|

Other Diversified Financial Services

RCS Capital Corporation<sup>(7)</sup>

|                               |                          |        |         |        |        |        |      |
|-------------------------------|--------------------------|--------|---------|--------|--------|--------|------|
| Second Lien Secured Term Loan | L+9.50%<br>(1.00% Floor) | 10.50% | 4/29/21 | 17,750 | 17,831 | 17,253 | 7.66 |
|-------------------------------|--------------------------|--------|---------|--------|--------|--------|------|

Specialized Consumer Services  
Pre-Paid Legal Services, Inc.

|                               |                          |       |        |        |        |        |      |
|-------------------------------|--------------------------|-------|--------|--------|--------|--------|------|
| Second Lien Secured Term Loan | L+8.50%<br>(1.25% Floor) | 9.75% | 7/1/20 | 18,000 | 17,802 | 17,964 | 7.97 |
|-------------------------------|--------------------------|-------|--------|--------|--------|--------|------|

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Continued)****December 31, 2014***(in thousands)*

| <b>Investment Type<sup>(1)</sup></b>   | <b>Spread Above Index<sup>(2)</sup></b> | <b>Interest Rate<sup>(3)</sup></b> | <b>Maturity Date</b> | <b>Principal Amount</b> | <b>Amortized Cost</b> | <b>Fair Value</b> | <b>Fair Value As A Percentage Of Net Assets</b> |   |
|--|---|------------------------------------|----------------------|-------------------------|-----------------------|-------------------|---|---|
| Specialized Finance<br>GMT Holdings 1, Ltd. & GMT Holdings 12, Ltd. <sup>(4) (6) (7)</sup> |   |                                    |                      |                         |                       |                   |   |   |
| First Lien Secured Term Loan   | N/A <sup>(5)</sup>                      | 10.00%                             | 6/30/17              | \$4,843                 | \$4,907               | \$4,615           | 2.05  | % |
| Trucking<br>Fox Rent A Car, Inc.   | L+12.00%                                | 12.16%                             | 10/31/19             | 7,500                   | 7,427                 | 7,448             | 3.30  |   |
| Second Lien Secured Term Loan  |   |                                    |                      |                         |                       |                   |   |   |
| Total Debt Investments   |   |                                    |                      | 386,542                 | 380,942               | 382,290           | 169.64  |   |
| Equity Investments   |   |                                    |                      |                         |                       |                   |   |   |
| Diversified Support Services<br>Constellation Health, LLC Warrants <sup>(6)</sup>          | N/A                                     | N/A                                | 3/31/18              | —                       | —                     | 950               | 0.42  |   |
| Food Retail<br>Crews of California, Inc. Warrants <sup>(6)</sup>                           | N/A                                     | N/A                                | 12/31/24             | —                       | —                     | 158               | 0.07  |   |
| Nicholas & Associates, LLC Warrants <sup>(6)</sup>   | N/A                                     | N/A                                | 12/31/24             | —                       | —                     | 29                | 0.01  |   |
| Pinnacle Management Group, LLC Warrants <sup>(6)</sup>                                     | N/A                                     | N/A                                | 12/31/24             | —                       | —                     | 57                | 0.03  |   |
| RC3 Enterprises, LLC Warrants <sup>(6)</sup>   | N/A                                     | N/A                                | 12/31/24             | —                       | —                     | 16                | 0.01  |   |
|  |   |                                    |                      | —                       | —                     | 260               | 0.12  |   |
| Specialized Finance<br>NMFC Senior Loan Program I LLC Units <sup>(6)(7)</sup>              | N/A                                     | N/A                                | 6/10/19              | —                       | 20,120                | 20,000            | 8.87  |   |
| Total Equity Investments   |   |                                    |                      | —                       | 20,120                | 21,210            | 9.41  |   |
| Total Investments  |   |                                    |                      | \$386,542               | \$401,062             | \$403,500         | 179.05  | % |

<sup>(1)</sup> All investments are non-controlled/non-affiliate investments as defined by the 1940 Act. Except as otherwise noted, the investments provide collateral for the Credit Facility.

- (2) The investments bear interest at a rate that may be determined by reference to LIBOR or the Prime Rate, which resets monthly, quarterly or semiannually.
- (3) The interest rate is the “all-in-rate” including the current index and spread, the fixed rate, and the PIK interest rate, as the case may be.
- (4) WhiteHorse Finance, Inc.’s investments in GMT Holdings 1, Ltd. and GMT Holdings 12, Ltd. are held through its subsidiary Bayside Financing S.A.R.L.
- (5) Interest rate is fixed and accordingly the spread above the index is not applicable.
- (6) Investment does not provide collateral for the Credit Facility.

Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any  
(7) non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets.

*See notes to the consolidated financial statements*



**WhiteHorse Finance, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2015**

*(in thousands, except share and per share data)*

**NOTE 1 – ORGANIZATION**

WhiteHorse Finance, Inc. (“WhiteHorse Finance” and, together with its subsidiaries, the “Company”) is an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the “1940 Act”). In addition, for tax purposes, WhiteHorse Finance elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

On December 4, 2012, WhiteHorse Finance priced its initial public offering (the “IPO”), selling 6,666,667 shares. Concurrent with the IPO, certain of the Company’s directors, officers, the managers of its investment adviser and their immediate family members or entities owned by, or family trusts for the benefit of, such persons, purchased an additional 472,673 shares through a private placement transaction exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). WhiteHorse Finance’s common stock trades on the NASDAQ Global Select Market under the symbol “WHF”.

The Company’s investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing small-cap companies across a broad range of industries that typically carry a floating interest rate based on the London Interbank Offered Rate (“LIBOR”). It may also opportunistically make investments at other levels of a company’s capital structure, including mezzanine loans or equity interests and may receive warrants to purchase common stock in connection with its debt investments.

WhiteHorse Finance’s investment activities are managed by H.I.G. WhiteHorse Advisers, LLC (“WhiteHorse Advisers”). H.I.G. WhiteHorse Administration, LLC (“WhiteHorse Administration”) provides administrative services necessary for the Company to operate.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation: The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include WhiteHorse Finance, Inc., its wholly owned subsidiary, WhiteHorse Finance Warehouse, LLC, and its subsidiary, Bayside Financing S.A.R.L. All significant intercompany balances and transactions and have been eliminated. Additionally, the accompanying consolidated financial statements and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. This Form 10-Q should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2014. The current period’s results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2015.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements. Actual results could differ from those estimates.

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

Investments are measured at fair value as determined in good faith by the Company’s investment committee, generally on a quarterly basis, and such valuations are reviewed by the audit committee of the board of directors and ultimately approved by the board of directors, based on, among other factors, consistently applied valuation procedures on each measurement date. Any changes to the valuation methodology are reviewed by management and the Company’s board of directors to confirm that the changes are justified. The Company continues to review and refine its valuation procedures in response to market changes.

The Company engages independent external valuation firms to periodically review material investments. These external reviews are used by the board of directors to review the Company’s internal valuation of each investment over the year.

Investment Transactions : The Company records investment transactions on a trade date basis. These transactions may settle subsequent to the trade date depending on the transaction type. Certain expenses related to legal and tax consultation, due diligence, rating fees, valuation expenses and independent collateral appraisals may arise when the Company makes certain investments. These expenses are recognized in the consolidated statements of operations as they are incurred.

Revenue Recognition: The Company’s revenue recognition policies are as follows:

*Sales*: Realized gains or losses on the sales of investments are calculated by using the specific identification method.

*Investment Income*: Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. The Company may also receive closing, commitment, prepayment, amendment and other fees from portfolio companies in the ordinary course of business.

Dividend income is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

Closing fees associated with investments in portfolio companies are deferred and recognized as interest income over the respective terms of the applicable loans using the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan closing fees are recorded as part of interest income. Commitment fees are based upon the undrawn portion committed by the Company and are recorded as interest income on an accrual basis. Prepayment, amendment and other fees are recognized when earned, generally when such fees are receivable, and are included in fee income on the consolidated statements of operations.

The Company may invest in loans that contain a payment-in-kind (“PIK”) interest rate provision. PIK interest is accrued at the contractual rates and added to loan principal on the reset dates.

*Non-accrual:* Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. The Company may conclude that non-accrual status is not required if the loan has sufficient collateral value and is in the process of collection. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current. As of March 31, 2015 and December 31, 2014, the Company had no non-accrual loans.

Cash and Cash Equivalents: Cash and cash equivalents include cash, deposits with financial institutions, and short-term liquid investments in money market funds with original maturities of three months or less.

Restricted Cash and Cash Equivalents: Restricted cash and cash equivalents include amounts that are collected and held by the trustee appointed as custodian of the assets securing the Company's credit facility. Restricted cash is held by the trustee for the payment of interest expense and principal on the outstanding borrowings or reinvestment into new assets. Restricted cash that represents interest or fee income is transferred to unrestricted cash accounts by the trustee once a quarter after the payment of operating expenses and amounts due under the Credit Facility (as defined below).

Deferred Financing Costs: Deferred financing costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. These amounts are amortized using the effective interest method and are included in interest expense in the consolidated statements of operations over the estimated life of the borrowings.

Income Taxes: The Company elected to be treated as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC, among other requirements, the Company is required to distribute at least 90% of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, the Company is generally required to pay a nondeductible excise tax equal to 4% of the amount by which (1) 98% of ordinary income for the calendar year (taking into account certain deferrals and elections), (2) 98.2% of capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which the Company paid no U.S. federal income tax exceed distributions for the year. The Company accrues estimated excise tax on the amount, if any, that estimated taxable income is expected to exceed the level of stockholder distributions described above.

The Company's tax returns are subject to examination by federal, state and local taxing authorities. Because many types of transactions are susceptible to varying interpretations under U.S. federal and state income tax laws and regulations, the amounts reported in the accompanying consolidated financial statements may be subject to change at a later date by the respective taxing authorities.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statement is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Penalties or interest that may be assessed related to any income taxes would be classified as general administrative expenses on the consolidated statements of operations. The Company had no amounts accrued for interest or penalties on March 31, 2015 or December 31, 2014. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. Tax returns for each of the federal tax years since 2012 remain subject to examination by the Internal Revenue Service.

Dividends and Distributions: Dividends and distributions to common stockholders are recorded on the ex-dividend date. Quarterly distribution payments are determined by the board of directors and are paid from taxable earnings estimated by management and may include a return of capital and/or capital gains. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment.

The Company maintains an “opt out” dividend reinvestment plan for common stockholders. As a result, if the Company declares a dividend or other distribution, stockholders’ cash distributions will be automatically reinvested in additional shares of common stock, unless they specifically “opt out” of the dividend reinvestment plan so as to receive cash distributions.

Earnings per Share: The Company calculates earnings per share as earnings available to stockholders divided by the weighted average number of shares outstanding during the period.

Risks and Uncertainties: In the normal course of business, the Company encounters primarily two significant types of economic risks: credit and market. Credit risk is the risk of default on the Company’s investments that result from an issuer’s, borrower’s or derivative counterparty’s inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments due to changes in interest rates, spreads or other market factors, including the value of the collateral underlying investments held by the Company. Management believes that the carrying value of its investments are fairly stated, taking into consideration these risks along with estimated collateral values, payment histories and other market information.

Newly Adopted Accounting Standards: As permitted by Section 7(a)(2)(B) of the Securities Act, the Company has elected to defer the adoption of new and revised accounting standards applicable to public companies until they are also applicable to private companies. There are currently no such standards being deferred that will, in management’s opinion, have a material impact on the consolidated financial statements.

Recent Accounting Pronouncements: During April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, containing new guidance that will require debt issuance costs related to a recognized debt liability of a reporting entity to be presented in the statement of assets and liabilities as a direct reduction from the carrying amount of such debt liability. This guidance is effective for annual and interim periods beginning on or after December 15, 2015. The Company is currently evaluating the impact of adopting this ASU on the consolidated financial statements.

During February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which amends the consolidation requirements set forth under ASC Topic 810. Under this revised standard, greater emphasis is placed on

risk of loss when determining a controlling financial interest. This standard also amends how variable interests held by a reporting entity's related parties affect the reporting entity's consolidation conclusion. The amendments made by ASU 2015-02 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this ASU on the consolidated financial statements.



**NOTE 3 — INVESTMENTS**

Investments consisted of the following:

|                           | March 31, 2015    |            | December 31, 2014 |            |
|---------------------------|-------------------|------------|-------------------|------------|
|                           | Amortized<br>Cost | Fair Value | Amortized<br>Cost | Fair Value |
| First lien secured loans  | \$204,339         | \$ 205,034 | \$218,882         | \$ 220,038 |
| Second lien secured loans | 164,870           | 165,155    | 162,060           | 162,252    |
| Equity                    | 20,120            | 21,100     | 20,120            | 21,210     |
| Total                     | \$389,329         | \$ 391,289 | \$401,062         | \$ 403,500 |

The following table shows the portfolio composition by industry grouping at fair value:

|                                       | March 31, 2015 |         | December 31, 2014 |         |   |
|---------------------------------------|----------------|---------|-------------------|---------|---|
|                                       |                |         |                   |         |   |
| Auto Parts & Equipment                | \$—            | —       | % \$1,975         | 0.49    | % |
| Broadcasting                          | 14,880         | 3.80    | 14,865            | 3.68    |   |
| Cable & Satellite                     | 7,028          | 1.80    | 7,007             | 1.74    |   |
| Consumer Finance                      | 44,115         | 11.27   | 44,164            | 10.95   |   |
| Data Processing & Outsourced Services | 35,572         | 9.09    | 35,716            | 8.85    |   |
| Diversified Support Services          | 28,558         | 7.30    | 22,018            | 5.46    |   |
| Electronic Equipment & Instruments    | 9,707          | 2.48    | 9,623             | 2.38    |   |
| Food Retail                           | 17,642         | 4.51    | 15,067            | 3.73    |   |
| Health Care Distributors              | 21,640         | 5.53    | 22,173            | 5.50    |   |
| Health Care Facilities                | 58,210         | 14.88   | 58,690            | 14.54   |   |
| Health Care Technology                | 21,756         | 5.56    | 30,157            | 7.47    |   |
| Homebuilding                          | 16,133         | 4.12    | 16,175            | 4.01    |   |
| Home Furnishing Retail                | —              | —       | 4,975             | 1.23    |   |
| Human Resource & Employment Services  | —              | —       | 3,862             | 0.96    |   |
| Integrated Telecommunication Services | 11,969         | 3.06    | 11,945            | 2.96    |   |
| Internet Software & Services          | —              | —       | 9,870             | 2.45    |   |
| Metal & Glass Containers              | 3,009          | 0.77    | 3,018             | 0.75    |   |
| Oil & Gas Drilling                    | 8,760          | 2.24    | 9,291             | 2.30    |   |
| Oil & Gas Exploration & Production    | 13,735         | 3.51    | 13,635            | 3.38    |   |
| Oil & Gas Storage & Transportation    | 1,897          | 0.48    | 1,994             | 0.49    |   |
| Other Diversified Financial Services  | 27,319         | 6.98    | 17,253            | 4.28    |   |
| Specialized Consumer Services         | 18,054         | 4.61    | 17,964            | 4.45    |   |
| Specialized Finance                   | 23,835         | 6.09    | 24,615            | 6.10    |   |
| Trucking                              | 7,470          | 1.92    | 7,448             | 1.85    |   |
| Total                                 | \$391,289      | 100.00% | \$403,500         | 100.00% | % |

The portfolio companies underlying the investments are located in the United States. As of March 31, 2015 and December 31, 2014, the weighted average remaining term of the Company's debt investments was approximately 4.2 years and 4.5 years, respectively.

#### **NOTE 4 – FAIR VALUE MEASUREMENTS**

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active public markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3:* Significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability.

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

A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. During the three months ended March 31, 2015, there were no changes in the observability of valuation inputs that would have resulted in a reclassification of assets between any levels. During the three months ended March 31, 2014, changes in the observability of valuation inputs resulted in the reclassification of one asset from Level 3 to Level 2, with no other reclassification between levels.

Fair value for each investment is derived using a combination of valuation methodologies that, in the judgment of the investment committee of the Company's investment adviser are most relevant to such investment, including, without limitation, being based on one or more of the following: (i) market prices obtained from market makers for which the investment committee has deemed there to be enough breadth (number of quotes) and depth (firm bids) to be indicative of fair value, (ii) the price paid or realized in a completed transaction or binding offer received in an arms'-length transaction, (iii) a discounted cash flow analysis, (iv) the guideline public company method, (v) the similar transaction method or (vi) the option pricing method.

The following table presents investments (as shown on the consolidated schedule of investments) that were measured at fair value as of March 31, 2015:

|                           | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---------------------------|----------------|----------------|----------------|--------------|
| First lien secured loans  | \$ —           | \$ —           | \$205,034      | \$205,034    |
| Second lien secured loans | —              | —              | 165,155        | 165,155      |
| Equity                    | —              | —              | 21,100         | 21,100       |
| Total investments         | \$ —           | \$ —           | \$391,289      | \$391,289    |

The following table presents investments (as shown on the consolidated schedule of investments) that were measured at fair value as of December 31, 2014:

|                           | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---------------------------|----------------|----------------|----------------|--------------|
| First lien secured loans  | \$ —           | \$ —           | \$220,038      | \$220,038    |
| Second lien secured loans | —              | —              | 162,252        | 162,252      |
| Equity                    | —              | —              | 21,210         | 21,210       |
| Total investments         | \$ —           | \$ —           | \$403,500      | \$403,500    |

The following table presents the changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2015:

|                                   | <b>First Lien Secured Loans</b> | <b>Second Lien Secured Loans</b> | <b>Equity</b> | <b>Total Investments</b> |
|-----------------------------------|---------------------------------|----------------------------------|---------------|--------------------------|
| Balance at December 31, 2014      | \$ 220,038                      | \$ 162,252                       | \$21,210      | \$ 403,500               |
| Funding of investments            | 19,050                          | 7,425                            | —             | 26,475                   |
| Non-cash interest income          | 136                             | 178                              | —             | 314                      |
| Accretion of discount             | 139                             | 115                              | —             | 254                      |
| Proceeds from pay downs and sales | (33,943 )                       | (4,750 )                         | —             | (38,693 )                |
| Net realized gains (losses)       | 77                              | (160 )                           | —             | (83 )                    |

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|  |            |            |           |            |
|--|------------|------------|-----------|------------|
| Net unrealized (depreciation) appreciation | (463 )     | 95         | (110 )    | (478 )     |
| Balance at March 31, 2015                  | \$ 205,034 | \$ 165,155 | \$ 21,100 | \$ 391,289 |

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The following table presents the changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2014:

|                                   | <b>First Lien Secured Loans</b> | <b>Second Lien Secured Loans</b> | <b>Equity</b> | <b>Total Investments</b> |
|-----------------------------------|---------------------------------|----------------------------------|---------------|--------------------------|
| Balance at December 31, 2013      | \$ 141,059                      | \$ 131,380                       | \$ —          | \$ 272,439               |
| Funding of investments            | 9,700                           | 4,900                            | —             | 14,600                   |
| Non-cash interest income          | 115                             | 175                              | —             | 290                      |
| Accretion of discount             | 107                             | 98                               | —             | 205                      |
| Proceeds from pay downs and sales | (5,074 )                        | —                                | —             | (5,074 )                 |
| Net unrealized appreciation       | 572                             | 1,552                            | —             | 2,124                    |
| Transfers out of Level 3          | —                               | (17,102 )                        | —             | (17,102 )                |
| Balance at March 31, 2014         | \$ 146,479                      | \$ 121,003                       | \$ —          | \$ 267,482               |

The significant unobservable inputs used in the fair value measurement of the Company's investments are the discount rate, market quotes and exit multiples. A significant increase in the discount rate for an investment would result in a significantly lower fair value measurement. A significant increase in the market quoted price would result in a significantly higher fair value measurement.

Quantitative information about Level 3 fair value measurements is as follows:

| Investment Type           | Fair Value at March 31, 2015 | Valuation Techniques                                     | Unobservable Inputs | Range (Weighted Average)                                 |               |                      |
|---------------------------|------------------------------|--|---------------------|--|---------------|----------------------|
| First lien secured loans  | \$ 123,945                   | Discounted cash flows                                    | Discount rate       | 8.8% – 17.2% (12.2%)                                     |               |                      |
|                           |                              |  | Exit multiple       | 5.5x – 9.5x (6.5x)                                       |               |                      |
|                           | 9,800                        | Consensus pricing  | Market quotes       | 98.0   |               |                      |
|                           |                              |  | 71,289              | Weighting of discounted cash flows and consensus pricing | Discount rate | 7.4% – 15.1% (10.8%) |
|                           |                              |  |                     |  | Market quotes | 91.0 – 100.1 (97.2)  |
|                           |                              |  |                     |  | Exit multiple | 3.8x – 9.5x (8.9x)   |
| \$ 205,034                |                              |  |                     |  |               |                      |
| Second lien secured loans | \$ 78,317                    | Discounted cash flows                                    | Discount rate       | 10.5% – 14.6% (13.2%)                                    |               |                      |
|                           |                              |  | Exit multiple       | 5.0x – 6.5x (5.9x)                                       |               |                      |
|                           | 86,838                       | Weighting of discounted cash flows and consensus pricing | Discount rate       | 10.2% – 13.6% (11.2%)                                    |               |                      |
|                           |                              |  | Market quotes       | 79.9 – 101.0 (96.5)                                      |               |                      |
|                           |                              |  | Exit multiple       | 5.0x – 8.5x (6.1x)                                       |               |                      |
| \$ 165,155                |                              |  |                     |  |               |                      |
| Equity                    | \$ 20,000                    | Discounted cash flows                                    | Discount rate       | 11.4%  |               |                      |
|                           |                              | 1,100  | Black-Scholes model | Volatility   | 25.0%         |                      |

|                           |            |
|---------------------------|------------|
|                           | \$ 21,100  |
| Total Level 3 investments | \$ 391,289 |

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| Investment Type           | Fair Value at<br>December 31, 2014 | Valuation<br>Techniques                                     | Unobservable<br>Inputs | Range<br>(Weighted Average) |
|---------------------------|------------------------------------|---|------------------------|-----------------------------|
| First lien secured loans  | \$ 138,606                         | Discounted cash flows                                       | Discount rate          | 9.1% – 22.5% (12.9%)        |
|                           |                                    |   | Exit multiple          | 2.5x – 9.5x (6.1x)          |
|                           | 81,432                             | Weighting of discounted cash<br>flows and consensus pricing | Discount rate          | 7.6% – 13.6% (10.1%)        |
|                           |                                    |   | Market quotes          | 95.5 – 99.5 (98.1)          |
|                           | \$ 220,038                         |   | Exit multiple          | 5.1x – 11.9x (6.0x)         |
| Second lien secured loans | \$ 70,997                          | Discounted cash flows                                       | Discount rate          | 11.2% – 14.6% (13.0%)       |
|                           |                                    |   | Exit multiple          | 5.0x – 6.5x (5.6x)          |
|                           | 91,255                             | Weighting of discounted cash<br>flows and consensus pricing | Discount rate          | 9.6% – 14.7% (11.7%)        |
|                           |                                    |   | Market quotes          | 89.8 – 101.0 (97.0)         |
|                           | \$ 162,252                         |   | Exit multiple          | 1.0x – 8.5x (5.6x)          |
| Equity                    | \$ 20,000                          | Discounted cash flows<br>Black-Scholes model                | Discount rate          | 11.2%                       |
|                           | 1,210                              |   | Volatility             | 25.0%                       |
|                           | \$ 21,210                          |   |                        |                             |
| Total Level 3 investments | \$ 403,500                         |   |                        |                             |

Valuation of investments may be determined by weighting various valuation techniques. Significant judgment is required in selecting the assumptions used to determine the fair values of these investments. The valuation methods selected for a particular investment are based on the circumstances and on the sufficiency of data available to measure fair value. If more than one valuation method is used to measure fair value, the results are evaluated and weighted, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the nature of the instrument, whether the instrument is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires a greater degree of judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3.



The determination of fair value using the selected methodologies takes into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public and private exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment, compliance with agreed upon terms and covenants, and assessment of credit ratings of an underlying borrower. These valuation methodologies involve a significant degree of judgment to be exercised.

As it relates to investments which do not have an active public market, there is no single standard for determining the estimated fair value. Valuations of privately held investments are inherently uncertain, and they may fluctuate over short periods of time and may be based on estimates. The determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed.

In some cases, fair value for such investments is best expressed as a range of values derived utilizing different methodologies from which a single estimate may then be determined. Consequently, fair value for each investment may be derived using a combination of valuation methodologies that, in the judgment of the investment professionals, are most relevant to such investment. The selected valuation methodologies for a particular investment are consistently applied on each measurement date. However, a change in a valuation methodology or its application from one measurement date to another is possible if the change results in a measurement that is equally or more representative of fair value in the circumstances.

The following table presents the carrying values and fair values of the Company's borrowings as of March 31, 2015 and December 31, 2014. The fair values of the credit facility and unsecured term loan were estimated by discounting remaining payments using applicable market rates or market quotes for similar instruments at the measurement date, if available. The fair value of the senior notes was estimated using the unadjusted quoted price as of the valuation date.

|                     | Fair Value Level | March 31, 2015 |            | December 31, 2014 |            |
|---------------------|------------------|----------------|------------|-------------------|------------|
|                     |                  | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| Credit facility     | 3                | \$100,500      | \$105,328  | \$105,500         | \$109,231  |
| Senior notes        | 2                | 30,000         | 30,267     | 30,000            | 30,017     |
| Unsecured term loan | 3                | 55,000         | 54,072     | 55,000            | 54,442     |
|                     |                  | \$185,500      | \$189,667  | \$190,500         | \$193,690  |

## NOTE 5 – BORROWINGS

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after giving effect to such borrowing. As of March 31, 2015, the Company's asset coverage for borrowed amounts was 221.2%.

Credit Facility: On September 27, 2012, the Company entered into a \$150,000 revolving credit and security agreement with Natixis, New York Branch, acting as facility agent (the "Credit Facility"). On August 13, 2014, the Company amended the terms of its Credit Facility to (a) extend the reinvestment period from September 27, 2014 to March 27, 2015, with the option to extend the reinvestment period by an additional six months to September 27, 2015, (b) extend the final maturity date from September 27, 2020 to September 27, 2021, (c) increase the borrowing capacity under certain conditions by reducing certain concentration limitations, (d) reduce the commitment fee from 1.00% to 0.75% and (e) include an accordion feature which allows for the expansion of the borrowing limit up to \$200,000 subject to consent from the lenders and other customary conditions. On March 12, 2015, the Company exercised its option to extend the reinvestment period from March 27, 2015 to September 27, 2015.

The Credit Facility bears interest at the daily commercial paper rate plus 2.25% on outstanding borrowings. The Company also incurs a commitment fee of 0.75% per annum on any undrawn balance. The Credit Facility is secured by all of the assets held by WhiteHorse Warehouse. In connection with this agreement, WhiteHorse Finance Warehouse, LLC pledged securities with a fair value of \$351,498 and \$357,678, respectively, as of March 31, 2015 and December 31, 2014, as collateral for the Credit Facility. The Credit Facility has a final maturity date of September 27, 2021. Under the Credit Facility, the Company has made certain customary representations and warranties and is required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility includes usual and customary events of default for credit facilities of this nature. At March 31, 2015, the Company had \$100,500 outstanding borrowings and \$49,500 undrawn under the Credit Facility. At December 31, 2014, the Company had \$105,500 outstanding borrowings and \$44,500 undrawn under the Credit Facility. Weighted average outstanding borrowings were \$104,611 and \$1,944 at weighted average interest rates of 2.55% and 2.54% for the three months ended March 31, 2015 and 2014, respectively. The Company's ability to draw down undrawn funds under the Credit Facility is determined by collateral and portfolio quality requirements stipulated in the credit and security agreement. At March 31, 2015 and December 31, 2014, \$49,500 and \$44,500, respectively, were available to be drawn by the Company based on these requirements.

Senior Notes: On July 23, 2013, the Company completed a public offering of \$30,000 of aggregate principal amount of 6.50% senior notes due 2020 (the "Senior Notes"), the net proceeds of which were used to reduce outstanding obligations under the Company's unsecured term loan. Interest on the Senior Notes is paid quarterly on March 31, June 30, September 30 and December 31, at an annual rate of 6.50%. The Senior Notes mature on July 31, 2020. The

Senior Notes are the Company's direct senior unsecured obligations, rank senior to the Company's unsecured term loan and are structurally subordinate to borrowings under the Credit Facility. The Senior Notes are listed on the NASDAQ Global Select Market under the symbol "WHFBL".

Unsecured Term Loan: On November 8, 2012, the Company entered into a \$90,000 unsecured term loan agreement with Citibank, N.A., as the sole lead arranger, and H.I.G. Bayside Loan Opportunity Fund II, L.P. ("Loan Fund II"), as guarantor. On July 9, 2013, the Company amended the terms of its unsecured term loan to subordinate the unsecured term loan to the Senior Notes (as defined below). On July 19, 2013, the Company further amended the terms of its unsecured term loan to lower the annual interest rate from LIBOR plus 2.75% to LIBOR plus 2.20%. The amendment also extended the maturity date by one year to July 3, 2015. On July 24, 2013, the Company repaid \$35,000 of its original borrowings. On December 22, 2014, the Company further amended the unsecured term loan agreement to (i) reduce the annual interest rate by 55 basis points, from LIBOR plus 2.2% to LIBOR plus 1.65% and (ii) extend the maturity date by one year to July 3, 2016. The amendment was effective as of January 6, 2015.

Under the terms of the amended unsecured term loan, with respect to which the Company pledged no collateral to the lenders, the Company is required to pay interest monthly at the annual rate, except at its option and under certain other circumstances at one of several other interest rates. The unsecured term loan is subject to customary covenants and events of default, such as failure to pay the principal of, or interest on, the unsecured term loan, the occurrence of certain events of bankruptcy, insolvency or reorganization or a payment default under certain of our other debt obligations. The unsecured term loan includes customary restrictions that limit the Company's ability to pay dividends under certain circumstances, to merge with another entity unless it is the surviving entity following the merger and to amend its organizational documents. Loan Fund II has guaranteed the Company's obligation to make payments under the unsecured term loan. Loan Fund II, as the guarantor of the unsecured term loan, has the right to require the lenders to assign the loan to it under certain circumstances. The Company is permitted to prepay amounts outstanding under the unsecured term loan in whole or in part without penalty.

## NOTE 6 – RELATED PARTY TRANSACTIONS

Investment Advisory Agreement: WhiteHorse Advisers serves as the Company's investment adviser in accordance with the terms of an investment advisory agreement (the "Investment Advisory Agreement"). Subject to the overall supervision of the Company's board of directors, the investment adviser manages the day-to-day operations of, and provides investment management services to, the Company. Under the terms of the Investment Advisory Agreement, WhiteHorse Advisers:

- determines the composition of the investment portfolio, the nature and timing of the changes to the portfolio and the manner of implementing such changes;

- identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and

- closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

In addition, WhiteHorse Advisers provides the Company with access to personnel and an investment committee. Under the Investment Advisory Agreement, the Company pays WhiteHorse Advisers a fee for investment management services consisting of a base management fee and an incentive fee. The Investment Advisory Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

### *Base Management Fee*

The base management fee is calculated at an annual rate of 2.0% of consolidated gross assets, including cash and cash equivalents and assets purchased with borrowed funds, and is payable quarterly in arrears. The base management fee is calculated based on the average carrying value of the Company's consolidated gross assets, including cash and cash equivalents and assets purchased with borrowed funds, at the end of the two most recently completed calendar quarters, appropriately adjusted for any share issuances or repurchases during the quarter. The management fees for any partial month or quarter is appropriately pro-rated.

WhiteHorse Advisers agreed to waive that portion of the base management fee payable with respect to cash and cash equivalents and restricted cash and cash equivalents to which it would otherwise be entitled under the Investment Advisory Agreement for the fiscal quarters ended December 31, 2013 and March 31, 2014; and for the fiscal quarter ended June 30, 2014 only to the extent that the determination of base management fees would otherwise include

March 31, 2014 cash and cash equivalents and restricted cash and cash equivalents for the purpose of calculating the average carrying value of consolidated gross assets. The waived fees are not subject to recoupment by the Investment Adviser.

During the three months ended March 31, 2015 and 2014, the Company incurred base management fees of \$2,120 and \$1,443, respectively, net of fees waived.

*Performance-based Incentive Fee*

The performance-based incentive fee consists of two components that are independent of each other, except as provided by the incentive fee cap and deferral mechanism discussed below.

The calculations of these two components have been structured to include a fee limitation such that no incentive fee will be paid to the investment adviser for any quarter if, after such payment, the cumulative incentive fees paid to the investment adviser for the period that includes the current fiscal quarter and the 11 full preceding fiscal quarters, referred to as the “Incentive Fee Look-back Period,” would exceed 20.0% of the Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period. Each quarterly incentive fee is subject to the Incentive Fee Cap (as defined below) and a deferral mechanism through which the investment adviser may recap a portion of such deferred incentive fees, which is referred to together as the “Incentive Fee Cap and Deferral Mechanism.”

This limitation is accomplished by subjecting each incentive fee payable to a cap, which is referred to as the “Incentive Fee Cap.” The Incentive Fee Cap in any quarter is equal to (a) 20.0% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the investment adviser during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any quarter, the Company will pay no incentive fee to our investment adviser in that quarter. The Company will only pay incentive fees to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. To the extent that the payment of incentive fees is limited by the Incentive Fee Cap and Deferral Mechanism, the payment of such fees may be deferred and paid in subsequent quarters up to three years after their date of deferment, subject to applicable limitations included in the Investment Advisory Agreement. The deferral component of the Incentive Fee Cap and Deferral Mechanism may cause incentive fees that accrued during one fiscal quarter to be paid to the investment adviser at any time during the 11 full fiscal quarters following such initial full fiscal quarter.

The Incentive Fee Look-back Period commenced on January 1, 2013. Prior to January 1, 2016, the Incentive Fee Look-back Period will consist of fewer than 12 full fiscal quarters.

The “Cumulative Pre-Incentive Fee Net Return” refers to the sum of (a) Pre-Incentive Fee Net Investment Income for each period during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains, cumulative realized capital losses, cumulative unrealized capital depreciation and cumulative unrealized capital appreciation during the applicable Incentive Fee Look-back Period.

The first component, which is income-based, is calculated and payable quarterly in arrears, commenced with the quarter beginning January 1, 2013, based on Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter, subject to the Incentive Fee Cap and Deferral Mechanism. For this purpose, “Pre-Incentive Fee Net Investment Income” means, in each case on a consolidated basis, interest income, distribution income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus the Company’s operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement (the “Administration Agreement”), any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

The operation of the first component of the incentive fee for each quarter is as follows:

no incentive fee is payable to the Company’s investment adviser in any calendar quarter in which Pre-Incentive Fee Net Investment Income does not exceed the “Hurdle Rate” of 1.75% (7.00% annualized);

100% of 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 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser. This portion of our Pre-Incentive Fee Net Investment Income (which exceeds the Hurdle Rate but is less than 2.1875%) is referred to as the “catch-up.” The effect of the catch-up is that, if such Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, the investment adviser will receive 20% of such Pre-Incentive Fee Net Investment Income as if the Hurdle Rate did not apply; and

20% of the amount of such Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser (once the Hurdle Rate is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Net Investment Income).

The portion of such incentive fee that is attributable to deferred interest (such as PIK interest or original issue discount) will be paid to the investment adviser, together with interest from the date of deferral to the date of payment, only if and to the extent that the Company actually receives such interest in cash, and any accrual will be reversed if and to the extent such interest is reversed in connection with any write-off or similar treatment of the investment giving rise to any deferred interest accrual. Any reversal of such amounts would reduce net income for the quarter by the net amount of the reversal (after taking into account the reversal of incentive fees payable) and would result in a reduction and possibly elimination of the incentive fees for such quarter.

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. Since the Hurdle Rate is fixed, as interest rates rise, it will be easier for the investment adviser to surpass the Hurdle Rate and receive an incentive fee based on Pre-Incentive Fee Net Investment Income.

Net investment income used to calculate this component of the incentive fee is also included in the amount of consolidated gross assets used to calculate the 2.0% base management fee. These calculations will be appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second component, the capital gains component of the incentive fee, which is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), commenced on January 1, 2013, and equals 20% of cumulative aggregate realized capital gains from January 1, 2013 through the end of the calendar year, computed net of aggregate cumulative realized capital losses and aggregate cumulative unrealized capital depreciation through the end of each year, less the aggregate amount of any previously paid capital gains incentive fees and subject to the Incentive Fee Cap and Deferral Mechanism. If such amount is negative, then no capital gains incentive fee will be payable for the year. Additionally, if the Investment Advisory Agreement is terminated as of a date that is not a calendar year end, the termination date will be treated as though it were a calendar year end for purposes of calculating and paying the capital gains incentive fee. The capital gains component of the incentive fee is not subject to any minimum return to stockholders.

Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter where it incurs a loss subject to the Incentive Fee Cap and Deferral Mechanism. For example, if the Company receives Pre-Incentive Fee Net Investment Income in excess of the Hurdle Rate, it will pay the applicable incentive fee even after incurring a loss in that quarter due to realized and unrealized capital losses.

During the three months ended March 31, 2015 and 2014, the Company incurred performance-based incentive fees of \$1,327 and \$151, respectively.



Administration Agreement: Pursuant to the Administration Agreement, WhiteHorse Administration furnishes the Company with office facilities, equipment and clerical, bookkeeping and record keeping services to enable the Company to operate. WhiteHorse Administration also provides the Company with access to the resources necessary for it to perform its obligations as collateral manager of WhiteHorse Warehouse under the Credit Facility. Under the Administration Agreement, WhiteHorse Administration performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records which the Company is required to maintain and preparing reports to its stockholders and reports filed with the Securities and Exchange Commission (the "SEC"). In addition, WhiteHorse Administration assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Payments under the Administration Agreement equal an amount based upon the Company's allocable portion of WhiteHorse Administration's overhead in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of the cost of its chief compliance officer, chief operating officer and chief financial officer along with their respective staffs. Under the Administration Agreement, WhiteHorse Administration also provides on the Company's behalf managerial assistance to those portfolio companies to which the Company is required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that WhiteHorse Administration outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without any profit to WhiteHorse Administration.

Substantially all the Company's payments of operating expenses to third parties were made by a related party, for which it received reimbursement from the Company.

During the three months ended March 31, 2015 and 2014, the Company incurred allocated administrative service fees of \$329 and \$325, respectively.

Co-investments with Related Parties: At March 31, 2015 and December 31, 2014, certain officers or employees affiliated with or employed by WhiteHorse Advisers and its related entities maintained co-investments in the Company's investments of \$115 and \$139, respectively.

**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

Commitments: The Company had outstanding commitments to fund investments totaling \$19,500 and \$20,500 as of March 31, 2015 and December 31, 2014, respectively.

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

Legal proceedings: In the normal course of business, the Company, the investment adviser and the administrator may be subject to legal and regulatory proceedings that are generally incidental to its ongoing operations. While there can be no assurance of the ultimate disposition of any such proceedings, the Company does not believe any such disposition will have a material adverse effect on the Company's consolidated financial statements.

**NOTE 8 – FINANCIAL HIGHLIGHTS**

The following is a schedule of financial highlights:

|   | <b>Three months ended March 31,</b> |   |             |    |
|---|-------------------------------------|---|-------------|----|
|   | <b>2015</b>                         |   | <b>2014</b> |    |
| <u>Per share data:</u> <sup>(1)</sup>                         |                                     |   |             |    |
| Net asset value, beginning of period                          | \$ 15.04                            |   | \$ 15.16    |    |
| Net investment income   | 0.36                                |   | 0.27        |    |
| Net realized and unrealized (losses) gains on investments     | (0.04                               | ) | 0.16        |    |
| Net increase in net assets resulting from operations          | 0.32                                |   | 0.43        |    |
| Distributions declared  | (0.36                               | ) | (0.36       | )  |
| Net asset value, end of period                                | \$ 15.00                            |   | \$ 15.23    |    |
| Total annualized return based on market value <sup>(2)</sup>  | 30.55                               | % | (27.91      | )% |
| Total annualized return based on net asset value              | 8.48                                | % | 11.25       | %  |
| Net assets, end of period                                     | \$ 224,786                          |   | \$ 228,141  |    |
| Per share market value at end of period                       | \$ 12.42                            |   | \$ 14.07    |    |
| Shares outstanding end of period                              | 14,982,857                          |   | 14,982,857  |    |
| <u>Ratios/Supplemental Data:</u> <sup>(3)</sup>               |                                     |   |             |    |
| Ratio of expenses before incentive fees to average net assets | 8.28                                | % | 7.26        | %  |
| Ratio of incentive fees to average net assets                 | 2.37                                | % | 0.26        | %  |
| Ratio of total expenses to average net assets                 | 10.65                               | % | 7.52        | %  |
| Ratio of net investment income to average net assets          | 9.48                                | % | 7.05        | %  |
| Portfolio turnover ratio                                      | 6.66                                | % | 1.81        | %  |

(1) Calculated using the average shares outstanding method.

(2) Total return is based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with the dividend reinvestment plan.

(3) With the exception of the portfolio turnover rate, ratios are reported on an annualized basis.

Financial highlights are calculated for each securities class taken as a whole. An individual stockholder's return and ratios may vary based on the timing of capital transactions.

The Company did not waive any base management fees during the three months ended March 31, 2015. During the three months ended March 31, 2014, WhiteHorse Advisers irrevocably waived \$344 of base management fees. Had WhiteHorse Advisers not waived these fees, the annualized ratios of expense without incentive fees, incentive fees and total expenses to average net assets would have been 7.83%, 0.00% and 7.83%, respectively, for the three months ended March 31, 2014.

**NOTE 9 – CHANGE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE**

The following information sets forth the computation of the basic and diluted per share net increase in net assets resulting from operations:

|  | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2015</b>                         | <b>2014</b> |
| Net increase in net assets resulting from operations                             | \$ 4,747                            | \$ 6,370    |
| Weighted average shares outstanding  | 14,982,857                          | 14,982,728  |
| Basic and diluted per share net increase in net assets resulting from operations | \$ 0.32                             | \$ 0.43     |

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

*The information contained in this section should be read in conjunction with our Consolidated Financial Statements appearing elsewhere in this quarterly report on Form 10-Q. In this quarterly report on Form 10-Q, "we", "us", "our" and "WhiteHorse Finance" refer to WhiteHorse Finance, Inc. and its consolidated subsidiaries.*

### Forward-Looking Statements

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, including statements as to:

- our future operating results;
- our ability to consummate new investments and the impact of such investments;
- our business prospects and the prospects of our prospective portfolio companies;
- the ability of our portfolio companies to achieve their objectives;
- our contractual arrangements and relationships with third parties;
- changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes to the value of our assets;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the impact of increased competition;
- the ability of our investment adviser to locate suitable investments for us and to monitor our investments;
  
- our expected financings and investments and the rate at which our investments are refunded by portfolio companies;
  
- our ability to pay dividends or make distributions;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our prospective portfolio companies; and
- the impact of future acquisitions and divestitures.

We use words such as "may," "might," "will," "intends," "should," "could," "can," "would," "expects," "believes," "estimates," "predicts," "potential," "plan" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Item 1A—Risk Factors" in our annual report on Form 10-K and elsewhere in this quarterly report on Form 10-Q.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report on Form 10-Q, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the U.S. Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

You should understand that under Sections 27A(b)(2)(B) and (D) of the Securities Act of 1933, as amended, or the Securities Act, and Sections 21E(b)(2)(B) and (D) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in connection with this quarterly report on Form 10-Q or any periodic reports we file under the Exchange Act.

## Overview

We are an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for tax purposes, we elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

We were formed on December 28, 2011 and commenced operations on January 1, 2012. We were originally capitalized with approximately \$176.3 million of contributed assets from H.I.G. Bayside Debt & LBO Fund II, L.P. and H.I.G. Bayside Loan Opportunity Fund II, L.P., each of which is an affiliate of H.I.G. Capital, L.L.C., or H.I.G. Capital. These assets were contributed as of January 1, 2012 in exchange for 11,752,383 units in WhiteHorse Finance, LLC. On December 4, 2012, we converted from a Delaware limited liability company into a Delaware corporation and elected to be treated as a business development company under the 1940 Act. In this quarterly report on Form 10-Q, we refer to this conversion as the “BDC Conversion” and, where applicable, “shares” refer to our units prior to the BDC Conversion and to shares of common stock in our corporation after the BDC Conversion. As part of the BDC Conversion, all outstanding units in WhiteHorse Finance, LLC were converted to 7,826,284 shares of common stock of WhiteHorse Finance, Inc.

On December 4, 2012, we priced our initial public offering, or the IPO, selling 6,666,667 shares. Concurrent with the IPO, certain of our directors and officers, the managers of our investment adviser and their immediate family members or entities owned by, or family trusts for the benefit of, such persons, purchased an additional 472,673 shares through a private placement exempt from registration under the Securities Act. Our shares are listed on the NASDAQ Global Select Market under the symbol “WHF”.

We are a direct lender targeting debt investments in privately held, small-cap companies located in North America. Our investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing small-cap companies across a broad range of industries that typically carry a floating interest rate based on the London Interbank Offered Rate, or LIBOR, plus a spread and have terms generally ranging from three to six years. While we focus principally on originating senior secured loans to small-cap companies, we may also opportunistically make investments at other levels of a company's capital structure, including mezzanine loans or equity interests, and in companies outside of the small-cap market, to the extent we believe the investment presents an opportunity to achieve an attractive risk-adjusted return. We also may receive warrants to purchase common stock in connection with our debt investments. We expect to generate current income through the receipt of interest payments, as well as origination and other fees, capital appreciation and dividends.



Our investment activities are managed by H.I.G. WhiteHorse Advisers, LLC, or WhiteHorse Advisers, and supervised by our board of directors, a majority of whom are independent of us, WhiteHorse Advisers and its affiliates. Under an investment advisory agreement with WhiteHorse Advisers, or the Investment Advisory Agreement, we have agreed to pay WhiteHorse Advisers an annual base management fee based on our average consolidated gross assets as well as an incentive fee based on our investment performance. We have also entered into an administration agreement, or the Administration Agreement, with H.I.G. WhiteHorse Administration, LLC, or WhiteHorse Administration. Under the Administration Agreement, we have agreed to reimburse WhiteHorse Administration for our allocable portion (subject to the review and approval of our independent directors) of overhead and other expenses incurred by WhiteHorse Administration in performing its obligations under the Administration Agreement.

As of March 31, 2015, our investment portfolio consisted primarily of senior secured loans across 35 positions in 29 companies, with an aggregate fair value of \$391.3 million. As of December 31, 2014, our investment portfolio consisted primarily of senior secured loans across 37 positions in 31 companies, with an aggregate fair value of approximately \$403.5 million. At both dates, the majority of our portfolio comprised senior secured loans to small-cap borrowers.

### *Revenues*

We generate revenue in the form of interest payable on the debt securities that we hold and capital gains and distributions, if any, on the portfolio company investments that we originate or acquire. Our debt investments, whether in the form of senior secured loans or mezzanine loans, typically have terms ranging from three to six years and bear interest at a fixed or floating rate based on a premium over LIBOR. Interest on debt securities is generally payable monthly or quarterly, with the amortization of principal generally being deferred for several years from the date of the initial investment. In some cases, we may also defer payments of interest for the first few years after our investment. The principal amount of the debt securities and any accrued but unpaid interest generally become due at the maturity date. In addition, we generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. We capitalize loan origination fees, original issue discount and market discount, and we then amortize such amounts as interest income. Upon the prepayment of a loan or debt security, we record any unamortized loan origination fees as interest income. We record prepayment premiums on loans and debt securities as interest income when we receive such amounts. Dividend income is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

### *Expenses*

Our primary operating expenses include (1) investment advisory fees to WhiteHorse Advisers; (2) our allocable portion of overhead expenses under the Administration Agreement; (3) the interest expense on our outstanding debt; and (4) other operating costs as detailed below. Our investment advisory fees compensate our investment adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments.

We bear all other costs and expenses of our operations and transactions, including:

• our organization;

• calculating our net asset value and net asset value per share (including the costs and expenses of independent valuation firms);

• fees and expenses, including travel expenses, incurred by WhiteHorse Advisers or payable to third parties in performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;

• the costs of all future offerings of common shares and other securities, and other incurrences of debt;

• the base management fee and any incentive fee;

• distributions on our shares;

• transfer agent and custody fees and expenses;

• amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments;

• brokerage fees and commissions;

• registration fees;

• listing fees;

• taxes;

• independent directors' fees and expenses;

• costs associated with our reporting and compliance obligations under the 1940 Act and applicable U.S. federal and state securities laws;

• the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;

• costs of holding stockholder meetings;

• our fidelity bond;

• directors and officers/errors and omissions liability insurance and any other insurance premiums;

• litigation, indemnification and other non-recurring or extraordinary expenses;

• direct costs and expenses of administration and operation, including audit and legal costs;

• fees and expenses associated with marketing efforts, including deal sourcing and marketing to financial sponsors;

dues, fees and charges of any trade association of which we are a member; and

all other expenses reasonably incurred by us or WhiteHorse Administration in connection with administering our business, including rent and our allocable portion of the costs and expenses of our chief compliance officer, chief financial officer and chief operating officer along with their respective staffs.

## Consolidated Results of Operations

The results of operations described below may not be indicative of the results we report in future periods. Net investment income and net increase in net assets can vary substantially from period to period due to various reasons, including the level of new investments and the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, quarterly comparisons of net increases in net assets resulting from operations may not be meaningful.

### *Investment Income*

Investment income for the three months ended March 31, 2015 and 2014 totaled \$11.3 million and \$8.3 million, respectively, and was primarily attributable to interest, dividends and fees earned from investments in portfolio companies. Investment income increased primarily as a result of an increase in the average earning investment balance.

### *Operating Expenses*

Expenses, net of fees waived, were \$5.9 million and \$4.3 million for the three months ended March 31, 2015 and 2014, respectively.

Interest expense on our Credit Facility, Senior Notes and Unsecured Term Loan (each as defined below under “Financial Condition, Liquidity and Capital Resources”) totaled \$1.7 million and \$1.4 million for the three months ended March 31, 2015 and 2014, respectively. The increase was due primarily to a higher outstanding balance on our Credit Facility.

Base management fees, net of fees waived, totaled \$2.1 million and \$1.4 million for the three months ended March 31, 2015 and 2014, respectively. Base management fees increased due to the increase in total assets, as well the agreement to waive a portion of base management during the three months ended March 31, 2014. WhiteHorse Advisers agreed to waive that portion of the base management fees payable with respect to cash and cash equivalents to which it otherwise would have been entitled to under the Investment Advisory Agreement in determining the carrying value of consolidated gross assets as of December 31, 2013 and March 31, 2014. This agreement resulted in the waiver of \$0.4 million of base management fees by WhiteHorse Advisers during the three months ended March 31, 2014. The waived fees are not subject to recoupment by WhiteHorse Advisers.

Performance-based incentive fees totaled \$1.3 million and \$0.2 million for the three months ended March 31, 2015 and 2014, respectively. Performance-based incentive fees increased due to the application of the hurdle rate provisions in the Investment Advisory Agreement.

Administrative fees for the three months ended March 31, 2015 and 2014 totaled \$0.3 million and \$0.3 million, respectively.

General and administrative expenses were \$0.5 million and \$1.0 million for the three months ended March 31, 2015 and 2014, respectively. General and administrative expenses for the three months ended March 31, 2014, included non-recurring capital markets related professional fees of approximately \$0.4 million.

*Net Realized and Unrealized (Losses) Gains on Investments*

We incurred net realized losses of \$0.1 million on the sales of investments during the three months ended March 31, 2015. We incurred no realized gains or losses for the three months ended March 31, 2014.

For the three months ended March 31, 2015 and 2014, we incurred net unrealized depreciation of \$0.5 million and net unrealized appreciation of \$2.4 million, respectively, due to credit related adjustments and the reversal of unrealized depreciation or appreciation due to repayments or disposals.

## Financial Condition, Liquidity and Capital Resources

As a business development company, we distribute substantially all of our net income to our stockholders. We generate cash primarily from offerings of securities, the Credit Facility and cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to fund a portion of our investments through future borrowings under the Credit Facility. In the future, we may obtain borrowings under other credit facilities and from issuances of senior securities. We may also borrow funds to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities, if the market for debt financing presents attractively priced debt financing opportunities or if our board of directors determines that leveraging our portfolio would be in our best interest and the best interests of our stockholders.

Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. Any decision to sell shares below the then-current net asset value per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. On August 1, 2014, our stockholders approved a proposal authorizing us, with the approval of our board of directors, to sell shares of our common stock during the next 12 months at a price below the then-current net asset value per share, subject to certain limitations as described in the proxy statement for our annual meeting of stockholders. Any sale or other issuance of shares of our common stock at a price below net asset value per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our net asset value per share.

Restricted cash and cash equivalents include amounts that are collected and held by the trustee appointed as custodian of the assets securing the Credit Facility. Restricted cash is held by the trustee for the payment of interest expense and principal on the outstanding borrowings or reinvestment into new assets. Restricted cash that represents interest or fee income is transferred to unrestricted cash accounts by the trustee once a quarter after the payment of operating expenses and amounts due under the Credit Facility.

Our operating activities generated cash and cash equivalents of \$11.1 million during the three months ended March 31, 2015, primarily from the net divestiture of investments. Our financing activities used cash and cash equivalents of \$10.9 million during the three months ended March 31, 2015, primarily for the repayment of borrowings under the Credit Facility and the payment of distributions to stockholders.

Our operating activities used cash and cash equivalents of \$36.9 million during the three months ended March 31, 2014, primarily for the net acquisition of investments. Our financing activities used cash and cash equivalents of \$30.2 million during the three months ended March 31, 2014, primarily for the repayment of borrowings under the Credit Facility and the payment of distributions to stockholders.

As of March 31, 2015, we had cash and cash equivalents resources of \$17.6 million, including \$5.7 million of restricted cash. As of the same date, we had approximately \$49.5 million undrawn and available to be drawn based on the collateral and portfolio quality requirements stipulated in the related credit and security agreement.

As of December 31, 2014, we had cash and cash equivalents resources of \$16.1 million, including \$4.5 million of restricted cash. As of the same date, we had approximately \$44.5 million undrawn and available to be drawn under the Credit Facility based on the collateral and portfolio quality requirements stipulated in the related credit and security agreement.

*Credit Facility*

On September 27, 2012, our wholly owned subsidiary, WhiteHorse Finance Warehouse LLC, or WhiteHorse Warehouse, entered into a \$150 million secured revolving credit facility, or the Credit Facility, with an asset-backed commercial paper conduit, for which Natixis, New York Branch, provides liquidity support, to finance the business of WhiteHorse Warehouse in acquiring, managing and financing loans consistent with our investment strategy.

On August 13, 2014, we amended the terms of the Credit Facility to (a) extend the reinvestment period from September 27, 2014 to March 27, 2015, with the option to extend the reinvestment period by an additional six months to September 27, 2015, (b) extend the final maturity date from September 27, 2020 to September 27, 2021, (c) increase the borrowing capacity under certain conditions by reducing certain concentration limitations, (d) reduce the commitment fee from 1.00% to 0.75% and (e) include an accordion feature which allows for the expansion of the borrowing limit up to \$200 million subject to consent from the lenders and other customary conditions. On March 12, 2015, we exercised our option to extend the reinvestment period from March 27, 2015 to September 27, 2015.

As of March 31, 2015 and December 31, 2014, respectively, we had \$100.5 million and \$105.5 million in outstanding borrowings under the Credit Facility and, based on the collateral and portfolio requirements stipulated in the Credit Facility agreement, approximately \$49.5 million and approximately \$44.5 million, respectively, was available to be drawn on such dates. The Credit Facility is secured by all of the assets of WhiteHorse Warehouse, which included loans with a fair value of \$351.5 million and \$357.7 million as of March 31, 2015 and December 31, 2014, respectively.

The Credit Facility includes customary events of default for credit facilities of this nature, including breaches of representations, warranties or covenants by WhiteHorse Warehouse or by us, insolvency events affecting WhiteHorse Warehouse or us, the occurrence of a change in control, failure to maintain certain overcollateralization ratios required under the Credit Facility, if we or an approved affiliate or successor collateral manager cease to act as collateral manager, if we or one of our executive officers commits fraud or is indicted for a felony with respect to the Credit Facility or if we, one of our investment advisory affiliates or any of their respective executive officers commits fraud or is indicted for a felony in the performance of similar investment advisory services for others.

Other than as described below in this paragraph, each loan made under the Credit Facility bears interest at an applicable commercial paper rate plus 2.25% (if the lender is a commercial conduit which has funded the loan through the issuance of commercial paper) or at LIBOR plus 2.75% (if the lender is not a commercial paper conduit or has not otherwise funded the loan through the issuance of commercial paper). We also incur a commitment fee of 0.75% per annum on any undrawn balance. Our ability to draw under the Credit Facility is scheduled to terminate at the end of the reinvestment period on September 27, 2015. At the expiration of the reinvestment period, the interest rate on borrowings under the Credit Facility will increase by 0.50%. Following an event of default, the interest rate applicable on obligations under the Credit Facility that are not paid when due will increase by 2.00% per annum. If the



commercial paper rate or LIBOR cannot be determined or it is illegal for a lender to charge such rate, then the interest rate applicable under the Credit Facility will be a base rate equal to the highest of the prime rate as announced in The Wall Street Journal, the federal funds rate plus 0.50% or a specified LIBOR, in each case as defined in the Credit Facility.

If we fail to perform our obligations under the Credit Facility or the related loan sale agreement and collateral management agreement, an event of default may occur under the Credit Facility, which could cause the Lender to accelerate all of the outstanding debt and other obligations under the Credit Facility or to exercise other remedies under the Credit Facility. Any such developments could have a material adverse effect on our financial conditions and results of operations.

If any of our contractual obligations discussed above are terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Advisory Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders. In anticipation of the expiration of the reinvestment period under the Credit Facility on September 27, 2015, we are evaluating refinancing options.

#### *Senior Notes*

On July 23, 2013, we completed a public offering of \$30.0 million of aggregate principal amount of 6.50% senior notes due 2020, or the Senior Notes, the net proceeds of which were used to reduce outstanding obligations under our unsecured term loan. Interest on the Senior Notes is paid quarterly on March 31, June 30, September 30 and December 31, at an annual rate of 6.50%. The Senior Notes mature on July 31, 2020. The Senior Notes are our direct senior unsecured obligations, rank senior to our unsecured term loan and are structurally subordinate to borrowings under the Credit Facility. The Senior Notes are listed on the NASDAQ Global Select Market under the symbol "WHFBL".

### *Unsecured Term Loan*

On November 8, 2012, the Company entered into a \$90,000 unsecured term loan agreement with Citibank, N.A., as the sole lead arranger, and H.I.G. Bayside Loan Opportunity Fund II, L.P., or Loan Fund II, as guarantor. On July 9, 2013, the Company amended the terms of its unsecured term loan to subordinate the unsecured term loan to the Senior Notes (as defined below). On July 19, 2013, the Company further amended the terms of its unsecured term loan to lower the annual interest rate from LIBOR plus 2.75% to LIBOR plus 2.20%. The amendment also extended the maturity date by one year to July 3, 2015. On December 22, 2014, the Company further amended the unsecured term loan agreement to (i) reduce the annual interest rate by 55 basis points, from LIBOR plus 2.2% to LIBOR plus 1.65% and (ii) extend the maturity date by one year to July 3, 2016. The amendment was effective as of January 6, 2015.

As of March 31, 2015 and December 31, 2014, respectively, we had \$55.0 million and \$55.0 million in outstanding borrowings under our unsecured term loan.

Under the terms of the amended unsecured term loan, with respect to which the Company pledged no collateral to the lenders, the Company is required to pay interest monthly at the annual rate, except at its option and under certain other circumstances at one of several other interest rates. The unsecured term loan is subject to customary covenants and events of default, such as failure to pay the principal of, or interest on, the unsecured term loan, certain events of bankruptcy, insolvency or reorganization occur or a payment default under certain of our other debt obligations. The unsecured term loan includes customary restrictions that limit the Company's ability to pay dividends under certain circumstances, to merge with another entity unless it is the surviving entity following the merger and to amend its organizational documents. Loan Fund II has guaranteed the Company's obligation to make payments under the unsecured term loan. Loan Fund II, as the guarantor of the unsecured term loan, has the right to require the lenders to assign the loan to it under certain circumstances. The Company is permitted to prepay amounts outstanding under the unsecured term loan in whole or in part without penalty.

### **Portfolio Investments and Yield**

As of March 31, 2015, our investment portfolio consisted primarily of senior secured loans across 35 positions in 29 companies with an aggregate fair value of \$391.3 million. As of that date, the majority of our portfolio was comprised of senior secured loans to small-cap borrowers and approximately 96.1% of those loans were variable-rate investments (primarily indexed to LIBOR). As of March 31, 2015, our portfolio had an average investment size of \$11.2 million, with investment sizes ranging from less than \$0.1 million to \$43 million and a weighted average effective yield of 11.4%.

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As of December 31, 2014, our investment portfolio consisted primarily of senior secured loans across 37 positions in 31 companies with an aggregate fair value of \$403.5 million. As of that date, the majority of our portfolio was comprised of senior secured loans to small-cap borrowers and approximately 96.1% of those loans were variable-rate investments (primarily indexed to LIBOR). As of December 31, 2014, our portfolio had an average investment size of \$10.9 million, with investment sizes ranging from less than \$0.1 million to \$43.0 million and a weighted average effective yield of 11.3%.

For the three months ended March 31, 2015, WhiteHorse Finance invested \$19.7 million in new and existing portfolio companies, offset by repayments and sales of \$31.9 million. Repayments included \$3.4 million of scheduled repayments and \$0.4 million of unscheduled repayments. In the first quarter ended March 31, 2015 and continuing into the current quarter, we have experienced deal flow at reasonable pricing levels.

For the three months ended March 31, 2014, WhiteHorse Finance invested \$16.6 million in new and existing portfolio companies, offset by repayments of \$5.1 million. Repayments were comprised entirely of scheduled repayments.

We actively monitor and manage our portfolio with regard to individual company performance as well as general market conditions. Investment decisions on new originations generally include an analysis of the impact of the new loan on our broader portfolio, including a “top-down” assessment of portfolio diversification and risk exposure. This assessment includes a review of portfolio concentration by issuer, industry, geography and type of credit as well as an evaluation of our portfolio’s exposure to macroeconomic factors and cyclical trends.

We believe that consistent, active monitoring of individual companies and the broader market is integral to portfolio management and a critical component of our investment process. Our investment adviser uses several methods to evaluate and monitor the performance and fair value of our investments, which may include the following:

- frequent discussions with management and sponsors, including board observation rights where possible;
- comparing/analyzing financial performance to the portfolio company’s business plan, as well as our internal projections developed at underwriting;
- tracking portfolio company compliance with covenants as well as other metrics identified at initial investment stage, such as acquisitions, divestitures, product development and specified management hires; and
- periodic review by the investment committee of each asset in the portfolio and more rigorous monitoring of “watch list” positions.

As part of the monitoring process, our investment adviser regularly assesses the risk profile of each of our investments and, on a quarterly basis, grades each investment on a risk scale of 1 to 5. This risk rating system is intended to identify and assess risks relative to when we initially made the investment and could be impacted by such factors as company-specific performance, changes in collateral, changes in potential exit opportunities or macroeconomic conditions.

All investments are initially assigned a rating of 2, as this grade represents a company that is meeting initial expectations with regard to performance and outlook. A rating may be improved to a 1 if, in the opinion of our investment adviser, a portfolio company’s risk of loss has been reduced relative to initial expectations. An investment will be assigned a rating of 3 if the risk of loss has increased relative to initial expectations and will be assigned a rating of 4 if our investment principal is at a material risk of not being fully repaid. A rating of 5 indicates an investment is in payment default and has significant risk of not receiving full repayment.

The following table shows the distribution of our investments on the 1 to 5 investment performance rating scale at fair value:

| Investment Performance Rating | March 31, 2015<br>Investments at Fair Value of<br>(Dollars in Millions) Portfolio | December 31, 2014<br>Investments at Fair Value of<br>(Dollars in Millions) Portfolio |
|-------------------------------|---|--|
|                               |   |  |
|                               |   |  |
|                               |   |  |
|                               |   |  |
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|                 |          |       |            |       |   |
|-----------------|----------|-------|------------|-------|---|
| 1               | \$ —     | —     | % \$ —     | —     | % |
| 2               | 357.6    | 91.4  | 403.5      | 100.0 |   |
| 3               | 33.7     | 8.6   | —          | —     |   |
| 4               | —        | —     | —          | —     |   |
| 5               | —        | —     | —          | —     |   |
| Total Portfolio | \$ 391.3 | 100.0 | % \$ 403.5 | 100.0 | % |

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## **Inflation**

Inflation has not had a significant effect on our results of operations in any of the reporting periods presented in our consolidated financial statements. However, from time to time, inflation may impact the operating results of our portfolio companies.

## **Off-Balance Sheet Arrangements**

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve elements of liquidity and credit risk in excess of the amount recognized on the statements of assets and liabilities. As of March 31, 2015 and December 31, 2014, respectively, we had commitments to fund approximately \$19.5 million and \$20.5 million of revolving lines of credit or delayed draw facilities. During the three months ended March 31, 2015, we funded \$2.5 million of commitments outstanding as of December 31, 2014.

## **Distributions**

In order to maintain our status as a RIC and to avoid corporate-level tax on income, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years on which we paid no U.S. federal income tax.

During the three months ended March 31, 2015 and 2014, we declared to stockholders distributions of \$0.355 and \$0.355 per share, for total distributions of \$5.3 million and \$5.3 million, respectively.

The timing and amount of our quarterly distributions, if any, are determined by our board of directors. While we intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution, we may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a business development company under the 1940 Act. If we

do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our status as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. During the three months ended March 31, 2015, distributions to stockholders included a return of capital for tax purposes, which we estimate to be approximately \$0.5 million, based on current earnings for the fiscal year ending December 31, 2015. The specific tax characteristics of the distribution will be reported to stockholders on Form 1099-DIV after the end of the calendar year 2015 and in our periodic reports with the SEC. Stockholders should read any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders’ cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically “opts out” of our dividend reinvestment plan. If a stockholder opts out, that stockholder receives cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes.

## Contractual Obligations

A summary of our significant contractual payment obligations as of March 31, 2015 is as follows:

|                               | Payments Due by Period (Dollars in Millions) |                     |             |             |                      |
|-------------------------------|--|---------------------|-------------|-------------|----------------------|
|                               | Total  | Less Than<br>1 Year | 1 – 3 Years | 3 – 5 Years | More Than<br>5 Years |
| Credit Facility               | \$ 100.5                                     | \$ —                | \$ —        | \$ —        | \$ 100.5             |
| Senior Notes                  | 30.0   | —                   | —           | —           | 30.0                 |
| Unsecured Term Loan           | 55.0   | —                   | 55.0        | —           | —                    |
| Total contractual obligations | \$ 185.5                                     | \$ —                | \$ 55.0     | \$ —        | \$ 130.5             |

As of March 31, 2015, we had approximately \$49.5 million of unused borrowing capacity under the Credit Facility, all of which was available to be drawn.

We entered into the Investment Advisory Agreement with WhiteHorse Advisers in accordance with the 1940 Act. The Investment Advisory Agreement became effective upon the pricing of the IPO. Under the Investment Advisory Agreement, WhiteHorse Advisers manages our day-to-day investment operations and provides us with access to personnel and an investment committee and certain other resources so that we may fulfill our obligation to act as collateral manager of WhiteHorse Warehouse under the Credit Facility. Payments under the Investment Advisory Agreement in future periods will equal the sum of (1) a management fee equal to 2% of the value of our consolidated gross assets and (2) an incentive fee based on our performance. See “Investment Advisory Agreement” in Note 6 to the consolidated financial statements.

We also entered into the Administration Agreement with WhiteHorse Administration on December 4, 2012. Pursuant to the Administration Agreement, WhiteHorse Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. WhiteHorse Administration also furnishes us with the resources necessary for us to act as collateral manager to WhiteHorse Warehouse under the Credit Facility. If requested to provide managerial assistance to our portfolio companies, WhiteHorse Administration will be paid an additional amount based on the services provided, which amount will not, in any case, exceed the amount we receive from the portfolio companies for such services. Payments under the Administration Agreement are based upon our allocable portion of WhiteHorse Administration’s overhead expenses in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief compliance officer, chief financial officer and chief operating officer along with their respective staffs.

## Related Party Transactions



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

• WhiteHorse Advisers manages the day-to-day operations of, and provides investment management services to, us pursuant to the Investment Advisory Agreement.

• WhiteHorse Administration and certain of its affiliates provide us with the office facilities and administrative services, including access to the resources necessary for us to perform our obligations as collateral manager of WhiteHorse Warehouse under the Credit Facility and for certain portfolio companies, pursuant to the Administration Agreement.

• We have entered into a license agreement with an affiliate of H.I.G. Capital pursuant to which we have been granted a non-exclusive, royalty-free license to use the “WhiteHorse” name.

WhiteHorse Advisers, WhiteHorse Administration or their respective affiliates may have other clients with similar, different or competing investment objectives. In serving in these multiple capacities, WhiteHorse Advisers, WhiteHorse Administration or their respective affiliates 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. Such persons may face conflicts in the allocation of investment opportunities among us and other investment funds or accounts advised by or affiliated with WhiteHorse Advisers or WhiteHorse Administration. WhiteHorse Advisers or its affiliates 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. However, we can offer no assurance that such opportunities will be allocated to us fairly or equitably in the short-term or over time.

### **Critical Accounting Policies**

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. We have identified the following as critical accounting policies.

#### *Basis for Consolidation*

Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, codified in Topic 946, Financial Services-Investment Companies, or ASC Topic 946, we are precluded from consolidating any entity other than another investment company. As provided under ASC Topic 946, we generally consolidate any investment company when we own 100% of its partners' or members' capital or equity units. We own a 100% equity interest in WhiteHorse Warehouse, which is an investment company for accounting purposes. As such, we have consolidated the accounts of WhiteHorse Warehouse and its subsidiary, Bayside Financial Financing S.A.R.L., into our financial statements. As a result of this consolidation, the amount outstanding under Credit Facility is treated as our indebtedness.

#### *Valuation of Portfolio Investments*

We value our investments in accordance with Accounting Standards Codification, or "ASC", Topic 820 — *Fair Value Measurements and Disclosures*. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC Topic 820's definition of fair value focuses on exit price in the principal, or most advantageous, market and prioritizes the use of market-based inputs over entity-specific inputs within a measurement of fair value.

Our portfolio consists primarily of debt investments. These investments are valued at their bid quotations obtained from unaffiliated market makers or other financial institutions that trade in similar investments or based on prices provided by independent third party pricing services. For investments where there are no available bid quotations, fair value is derived using proprietary models that consider the analyses of independent valuation agents as well as credit risk, liquidity, market credit spreads and other applicable factors for similar transactions.

Due to the nature of our strategy, our portfolio includes relatively illiquid investments that are privately held. Valuations of privately held investments are inherently uncertain, may fluctuate over short periods of time and may be based on estimates. The determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we ultimately realize upon the disposal of such investments.

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

The valuation process is conducted at the end of each fiscal quarter, with a portion of our valuations of portfolio companies without market quotations subject to review by one or more independent valuation firms each quarter. When an external event occurs with respect to one of our portfolio companies, such as a purchase transaction, public offering or subsequent equity sale occurs, we expect to use the pricing indicated by such external event to corroborate our valuation.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

• Our quarterly valuation process begins with each portfolio company or investment being initially valued by investment professionals of our investment adviser responsible for credit monitoring.

• Preliminary valuation conclusions are then documented and discussed with our investment committee and our investment adviser.

• The audit committee of the board of directors reviews these preliminary valuations.

• At least once annually, the valuation for each portfolio investment is reviewed by an independent valuation firm.

• The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith.



Fair value is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Our fair value analysis includes an analysis of the value of any unfunded loan commitments. Financial investments recorded at fair value in the consolidated financial statements are categorized for disclosure purposes based upon the level of judgment associated with the inputs used to measure their value. The valuation hierarchical levels are based upon the transparency of the inputs to the valuation of the investment as of the measurement date. The three levels are defined as follows:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active public markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3:* Significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability.

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

Fair value for each investment is derived using a combination of valuation methodologies that, in the judgment of the investment committee of the investment adviser are most relevant to such investment, including being based on one or more of the following: (i) market prices obtained from market makers for which the investment committee has deemed there to be enough breadth (number of quotes) and depth (firm bids) to be indicative of fair value, (ii) the price paid or realized in a completed transaction or binding offer received in an arms'-length transaction, (iii) a discounted cash flow analysis, (iv) the guideline public company method, (v) the similar transaction method or (vi) the option pricing method.

*Investment Transactions and Related Investment Income and Expense*

We record our investment transactions on a trade date basis, which is the date when we have determined that all material terms have been defined for the transactions. These transactions could possibly settle on a subsequent date depending on the transaction type. All related revenue and expenses attributable to these transactions are reflected on our consolidated statement of operations commencing on the trade date unless otherwise specified by the transaction documents. Realized gains and losses on investment transactions are recorded on the specific identification method.

We accrue interest income if we expect that ultimately we will be able to collect it. Generally, when an interest payment default occurs on a loan in our portfolio, or if our management otherwise believes that the issuer of the loan will not be able to service the loan and other obligations, we place the loan on non-accrual status and will cease recognizing interest income on that loan until all principal and interest is current through payment or until a restructuring occurs, such that the interest income is deemed to be collectible. However, we remain contractually entitled to this interest. We may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. Accrued interest is written off when it becomes probable that such interest will not be collected and the amount of uncollectible interest can be reasonably estimated. Any original issue discounts, as well as any other purchase discounts or premiums on debt investments, are accreted or amortized to interest income or expense, respectively, over the maturity periods of the investments. Dividend income is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

Interest expense is recorded on an accrual basis. Certain expenses related to legal and tax consultation, due diligence, rating fees, valuation expenses and independent collateral appraisals may arise when we make certain investments. These expenses are recognized in the consolidated statements of operations as they are incurred.

#### *Loan Origination, Facility, Commitment and Amendment Fees*

We may receive fees in addition to interest income from the loans during the life of the investment. We may receive origination fees upon the origination of an investment. We defer these origination fees and deduct them from the cost basis of the investment and subsequently accrete them into income over the term of the loan. We may receive facility, commitment and amendment fees, which are paid to us on an ongoing basis. We accrue facility fees, sometimes referred to as asset management fees, as a percentage periodic fee on the base amount (either the funded facility amount or the committed principal amount). Commitment fees are based upon the undrawn portion committed by us and we record them on an accrual basis. Amendment fees are paid in connection with loan amendments and waivers and we account for them upon completion of the amendments or waivers, generally when such fees are receivable. We include any such fees in interest and fee income on the consolidated statements of operations.

#### **Recent Accounting Pronouncements**

During April 2015, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update, or ASU, 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, containing new guidance that will require debt issuance costs related to a recognized debt liability of a reporting entity to be presented in the statement of assets and liabilities as a direct reduction from the carrying amount of such debt liability. This guidance is effective for annual and interim periods beginning on or after December 15, 2015. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements.

During February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which amends the consolidation requirements set forth under ASC Topic 810. Under this revised standard, greater emphasis is placed on risk of loss when determining a controlling financial interest. This standard also amends how variable interests held by a reporting entity's related parties affect the reporting entity's consolidation conclusion. The amendments made by ASU 2015-02 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. During the period covered by our financial statements, many of the loans in our portfolio had floating interest rates, and we expect that many of our loans to portfolio companies in the future will also have floating interest rates. These loans are usually based on a floating rate based on LIBOR that resets quarterly to the applicable LIBOR. Interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. Since we plan to use debt to finance 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.

Assuming that the consolidated statement of financial condition as of March 31, 2015 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates (dollars in millions).

| Basis point increase | Increase in Interest | Increase in Interest | Net Increase |
|----------------------|----------------------|----------------------|--------------|
|                      | Income               | Expense              | (Decrease)   |
| 100                  | \$ 0.8               | \$ 1.6               | \$ (0.7 )    |
| 200                  | 4.1                  | 3.1                  | 1.0          |
| 300                  | 7.6                  | 4.7                  | 2.9          |
| 400                  | 11.2                 | 6.2                  | 5.0          |
| 500                  | 14.8                 | 7.8                  | 7.0          |

As of March 31, 2015, 97.9% of the floating rate investments in our portfolio had interest rate floors. Variable-rate investments subject to a floor generally reset periodically to the applicable floor and, in the case of investments in our portfolio, quarterly to a floor based on LIBOR, only if the floor exceeds the index. Under these loans, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor.

Although management believes that this analysis is indicative of our existing sensitivity to interest rate changes, it does not adjust for changes in the credit markets, the size, credit quality or composition of the assets in our portfolio and other business developments, including borrowing, that could affect net increase in net assets resulting from operations or net income. It also does not adjust for the effect of the time-lag between a change in the relevant interest rate index and the rate adjustment under the applicable loan. Accordingly, we can offer no assurances that actual results would not differ materially from the statement above.

We may in the future hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts to the extent permitted under the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.





#### **Item 4: Controls and Procedures**

As of the period covered by this report, we, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on our evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in our periodic SEC filings. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, are based upon certain assumptions about the likelihood of future events and can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. There has not been any change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **Part II – Other Information**

### **Item 1: Legal Proceedings**

Although we may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise, each of WhiteHorse Finance, WhiteHorse Advisers and WhiteHorse Administration is currently not a party to any material legal proceedings.

### **Item 1A: Risk Factors**

In addition to other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our annual report on Form 10-K for the year ended December 31, 2014 and in our registration statement on Form N-2, as amended, filed with the SEC on May 30, 2014 (effective as of September 29, 2014), which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

### **Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3: Defaults Upon Senior Securities**

None.

### **Item 4: Mine Safety Disclosures**

Not applicable.

**Item 5: Other Information**

None.

**Item 6: Exhibits**

**EXHIBIT INDEX**

**Number Description**

- |       |   |
|-------|---|
| 31.1* | Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2* | Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1* | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*      |
| 32.2* | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*      |

\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**WhiteHorse Finance, Inc.**

Dated: May 8, 2015 By/s/ Jay Carvell  
Jay Carvell  
Chief Executive Officer  
(Principal Executive Officer)

Dated: May 8, 2015 By/s/ Gerhard Lombard  
Gerhard Lombard  
Chief Financial Officer  
(Principal Accounting and Financial Officer)