

WhiteHorse Finance, Inc.  
Form 10-Q  
November 07, 2018

**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  
ACT OF 1934**

**For the quarterly period ended September 30, 2018**

**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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

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As of November 7, 2018 the Registrant had 20,546,032 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)*

|  | September 30,<br>2018<br>(Unaudited) | December 31, 2017 |
|--|--------------------------------------|-------------------|
| <b>Assets</b>  |                                      |                   |
| Investments, at fair value   |                                      |                   |
| Non-controlled/non-affiliate company investments   | \$ 435,932                           | \$ 404,434        |
| Non-controlled affiliate company investments   | 73,688                               | 36,246            |
| Total investments, at fair value (amortized cost \$482,145 and \$448,522, respectively)  | 509,620                              | 440,680           |
| Cash and cash equivalents  | 11,481                               | 35,219            |
| Restricted cash and cash equivalents   | 15,116                               | 3,717             |
| Interest receivable  | 4,506                                | 4,947             |
| Receivables from investments sold  | 599                                  | 783               |
| Prepaid expenses and other receivables   | 521                                  | 185               |
| Total assets   | \$ 541,843                           | \$ 485,531        |
| <b>Liabilities</b>   |                                      |                   |
| Debt   | \$ 195,708                           | \$ 182,122        |
| Distributions payable  | 7,294                                | 7,289             |
| Management and incentive fees payable  | 11,724                               | 7,848             |
| Payables for investments purchased   | 7,780                                | -                 |
| Accounts payable and accrued expenses  | 742                                  | 701               |
| Interest payable   | 899                                  | 527               |
| Advances received from unfunded credit facilities  | 42                                   | 92                |
| Total liabilities  | 224,189                              | 198,579           |
| Commitments and contingencies (See Note 7)   |                                      |                   |
| <b>Net assets</b>  |                                      |                   |
| Common stock, 20,546,032 and 20,531,948 shares issued and outstanding, par value \$0.001 per share, respectively, and 100,000,000 authorized | 21                                   | 20                |

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|   |            |   |            |   |
|---|------------|---|------------|---|
| Paid-in capital in excess of par                                      | 302,498    |   | 302,292    |   |
| Accumulated overdistributed net investment income                     | (11,696    | ) | (6,784     | ) |
| Accumulated net realized losses on investments                        | (644       | ) | (734       | ) |
| Accumulated net unrealized appreciation (depreciation) on investments | 27,475     |   | (7,842     | ) |
| Total net assets  | 317,654    |   | 286,952    |   |
| Total liabilities and total net assets                                | \$ 541,843 |   | \$ 485,531 |   |
| Number of shares outstanding  | 20,546,032 |   | 20,531,948 |   |
| Net asset value per share   | \$ 15.46   |   | \$ 13.98   |   |

*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 September 30, |           | Nine months ended September 30, |           |
|---|----------------------------------|-----------|---------------------------------|-----------|
|   | 2018                             | 2017      | 2018                            | 2017      |
| Investment income                                     |                                  |           |                                 |           |
| From non-controlled/non-affiliate company investments |                                  |           |                                 |           |
| Interest income                                       | \$ 13,843                        | \$ 12,235 | \$ 40,871                       | \$ 36,830 |
| Fee income  | 875                              | 161       | 3,855                           | 1,986     |
| From non-controlled affiliate company investments     |                                  |           |                                 |           |
| Dividend income                                       | 600                              | 628       | 1,851                           | 2,068     |
| Total investment income                               | 15,318                           | 13,024    | 46,577                          | 40,884    |
| Expenses  |                                  |           |                                 |           |
| Interest expense                                      | 3,283                            | 2,379     | 8,649                           | 7,382     |
| Base management fees                                  | 2,761                            | 2,481     | 7,813                           | 7,133     |
| Performance-based incentive fees                      | 4,865                            | 1,487     | 10,900                          | 4,852     |
| Administrative service fees                           | 175                              | 246       | 525                             | 538       |
| General and administrative expenses                   | 572                              | 481       | 1,843                           | 1,571     |
| Total expenses, before fees waived                    | 11,656                           | 7,074     | 29,730                          | 21,476    |
| Base management fees waived                           | (115)                            | -         | (115)                           | -         |
| Total expenses, net of fees waived                    | 11,541                           | 7,074     | 29,615                          | 21,476    |
| Net investment income                                 | 3,777                            | 5,950     | 16,962                          | 19,408    |
| Realized and unrealized gains (losses) on investments |                                  |           |                                 |           |
| Net realized gains                                    |                                  |           |                                 |           |
| Non-controlled/non-affiliate company investments      | 17                               | 133       | 90                              | 156       |
| Net realized gains                                    | 17                               | 133       | 90                              | 156       |
| Net change in unrealized appreciation (depreciation)  |                                  |           |                                 |           |
| Non-controlled/non-affiliate company investments      | (1,164)                          | 1,390     | (2,125)                         | 2,323     |
| Non-controlled affiliate company investments          | 16,832                           | 1,583     | 37,442                          | 4,073     |
| Net change in unrealized appreciation                 | 15,668                           | 2,973     | 35,317                          | 6,396     |
| Net realized and unrealized gains on investments      | 15,685                           | 3,106     | 35,407                          | 6,552     |
| Net increase in net assets resulting from operations  | \$ 19,462                        | \$ 9,056  | \$ 52,369                       | \$ 25,960 |

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Per Common Share Data

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Basic and diluted earnings per common share                  | \$ 0.95    | \$ 0.45    | \$ 2.55    | \$ 1.36    |
| Dividends and distributions declared per common share        | \$ 0.36    | \$ 0.36    | \$ 1.07    | \$ 1.07    |
| Basic and diluted weighted average common shares outstanding | 20,545,726 | 20,518,104 | 20,536,591 | 19,062,764 |

*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<br>Excess of Par | Accumulated<br>Overdistributed<br>Net<br>Investment<br>Income | Accumulated<br>Net<br>Realized<br>Losses<br>on<br>Investments | Accumulated<br>Net<br>Unrealized<br>Appreciation<br>(Depreciation)<br>on<br>Investments | Total Net<br>Assets |
|--|--------------|------------|--|---|---|---|---------------------|
|  | Shares       | Par amount |  |   |   |   |                     |
| Balance at December 31, 2016                                   | 18,303,890   | \$ 18      | \$ 272,242                             | \$ (5,423)  | \$ (842)  | \$ (16,606)   | \$ 249,389          |
| Stock issued in connection with public offering                | 2,200,000    | 2          | 30,285                                 | -   | -   | -   | 30,287              |
| Stock issued in connection with distribution reinvestment plan | 14,214       | -          | 197                                    | -   | -   | -   | 197                 |
| Net increase in net assets resulting from operations           | -            | -          | -                                      | 19,408  | 156   | 6,396   | 25,960              |
| Distributions declared   | -            | -          | -                                      | (20,285)  | -   | -   | (20,285)            |
| Balance at September 30, 2017                                  | 20,518,104   | \$ 20      | \$ 302,724                             | \$ (6,300)  | \$ (686)  | \$ (10,210)   | \$ 285,548          |
| Balance at December 31, 2017                                   | 20,531,948   | \$ 20      | \$ 302,292                             | \$ (6,784)  | \$ (734)  | \$ (7,842)  | \$ 286,952          |
| Stock issued in connection with distribution reinvestment plan | 14,084       | 1          | 206                                    | -   | -   | -   | 207                 |
| Net increase in net assets resulting from operations           | -            | -          | -                                      | 16,962  | 90  | 35,317  | 52,369              |
| Distributions declared   | -            | -          | -                                      | (21,874)  | -   | -   | (21,874)            |
| Balance at September 30, 2018                                  | 20,546,032   | \$ 21      | \$ 302,498                             | \$ (11,696)   | \$ (644)  | \$ 27,475   | \$ 317,654          |

*See notes to the consolidated financial statements*

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

|   | <b>Nine months ended</b> |           |
|---|--------------------------|-----------|
|   | <b>September 30,</b>     |           |
|   | 2018                     | 2017      |
| Cash flows from operating activities  |                          |           |
| Net increase in net assets resulting from operations  | \$52,369                 | \$25,960  |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities: |                          |           |
| Paid-in-kind income   | (460 )                   | (540 )    |
| Net realized gains on investments   | (90 )                    | (156 )    |
| Net unrealized appreciation on investments  | (35,317 )                | (6,396 )  |
| Accretion of discount   | (3,503 )                 | (2,323 )  |
| Amortization of deferred financing costs  | 933                      | 623       |
| Acquisition of investments  | (209,790)                | (94,783 ) |
| Proceeds from principal payments and sales of portfolio investments   | 180,220                  | 80,589    |
| Net changes in operating assets and liabilities:  |                          |           |
| Interest receivable   | 441                      | (647 )    |
| Prepaid expenses and other receivables  | (336 )                   | 818       |
| Receivables from investments sold   | 184                      | (681 )    |
| Payables for investments purchased  | 7,780                    | (995 )    |
| Management and incentive fees payable   | 3,876                    | 1,042     |
| Accounts payable and accrued expenses   | 41                       | 546       |
| Interest payable  | 372                      | 8         |
| Advances received from unfunded credit facilities   | (50 )                    | -         |
| Net cash (used in) provided by operating activities   | (3,330 )                 | 3,065     |
| Cash flows from financing activities  |                          |           |
| Proceeds from sales of common stock, net of offering costs  | -                        | 30,287    |
| Borrowings  | 130,400                  | 102,567   |
| Repayments of debt  | (116,900)                | (102,567) |
| Deferred financing costs  | (847 )                   | (1,033 )  |
| Distributions paid to common stockholders, net of distributions reinvested  | (21,662 )                | (19,302 ) |
| Net cash (used in) provided by financing activities   | (9,009 )                 | 9,952     |
| Net change in cash, cash equivalents and restricted cash  | (12,339 )                | 13,017    |
| Cash, cash equivalents and restricted cash at beginning of period   | 38,936                   | 28,894    |
| Cash, cash equivalents and restricted cash at end of period   | \$26,597                 | \$41,911  |

Supplemental disclosure of cash flow information:

|               |         |         |
|---------------|---------|---------|
| Interest paid | \$7,344 | \$6,751 |
|---------------|---------|---------|

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of assets and liabilities that sum to the total of the same amounts presented in the consolidated statements of cash flows:

|   | September 30, |          |
|---|---------------|----------|
|   | 2018          | 2017     |
| Cash and cash equivalents   | \$11,481      | \$37,103 |
| Restricted cash   | 15,116        | 4,808    |
| Total cash, cash equivalents and restricted cash presented in consolidated statements of cash flows | \$26,597      | \$41,911 |

*See notes to the consolidated financial statements*

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments (Unaudited)

September 30, 2018

*(in thousands)*

| Investment Type <sup>(1)</sup>  | Spread Above Index <sup>(2)</sup>           | Interest Rate <sup>(3)</sup> | Acquisition Date <sup>(10)</sup> | Maturity Date | Principal/Share Amount | Amortized Cost | Fair Value <sup>(11)</sup> | Fair Value As A Percentage of Net Assets |
|---|---|------------------------------|----------------------------------|---------------|------------------------|----------------|----------------------------|--|
| North America<br>Debt Investments<br>Advertising<br>Fluent, LLC<br>First Lien Secured Term Loan     | L+ 7.00%<br><br><br><br>(0.50%<br>Floor)    | 9.24%                        | 03/26/18                         | 03/27/23      | 11,593                 | \$ 11,593      | \$ 11,593                  | 3.65 %                                   |
| Outcome Health<br>First Lien Secured Term Loan  | L+ 9.50%<br><br>(1.00%<br>Floor)            | 11.94%<br><br>(3.00%<br>PIK) | 12/22/16                         | 12/22/21      | 10,267                 | 9,615          | 8,639                      | 2.72                                     |
|   |   |                              |                                  |               | 21,860                 | 21,208         | 20,232                     | 6.37                                     |
| Automotive Retail<br>Team Car Care<br>Holdings, LLC<br>First Lien Secured Term Loan <sup>(12)</sup> | base rate+<br>7.99%<br><br>(1.00%<br>Floor) | 10.26%                       | 02/26/18                         | 02/23/23      | 17,299                 | 16,956         | 16,989                     | 5.35                                     |
| Broadcasting<br>Alpha Media, LLC<br>First Lien Secured Term Loan                                    | L+ 6.00%<br><br>(1.00%<br>Floor)            | 8.20%                        | 08/14/18                         | 02/25/22      | 11,163                 | 10,798         | 10,768                     | 3.39                                     |
| Multicultural Radio<br>Broadcasting, Inc.<br>First Lien Secured Term Loan                           | L+ 8.00%                                    | 10.24%                       | 12/28/17                         | 12/28/22      | 18,471                 | 18,157         | 18,323                     | 5.77                                     |

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|  |                  |        |          |          |        |        |        |       |  |
|--|------------------|--------|----------|----------|--------|--------|--------|-------|--|
|  | (1.00%<br>Floor) |        |          |          |        |        |        |       |  |
| Rural Media Group, Inc.<br>First Lien Secured Term<br>Loan   | L+ 7.86%         | 10.20% | 12/29/17 | 12/29/22 | 7,044  | 6,925  | 6,903  | 2.17  |  |
|  | (1.00%<br>Floor) |        |          |          | 36,678 | 35,880 | 35,994 | 11.33 |  |
| Cable & Satellite<br>Bulk Midco, LLC<br>First Lien Secured Term<br>Loan  | L+ 7.35%         | 9.68%  | 06/08/18 | 06/08/23 | 15,000 | 14,789 | 14,792 | 4.66  |  |
|  | (1.00%<br>Floor) |        |          |          |        |        |        |       |  |
| Data Processing &<br>Outsourced Services<br>FPT Operating<br>Company, LLC/<br>TLabs Operating<br>Company, LLC<br>First Lien Secured Term<br>Loan | L+ 8.25%         | 10.35% | 12/23/16 | 12/23/21 | 25,559 | 25,232 | 24,858 | 7.83  |  |
|  | (1.00%<br>Floor) |        |          |          |        |        |        |       |  |
| Department Stores<br>Mills Fleet Farm Group,<br>LLC<br>Second Lien Secured<br>Term Loan  | L+ 9.75%         | 11.99% | 02/26/16 | 02/26/23 | 7,146  | 7,054  | 7,146  | 2.25  |  |
|  | (1.00%<br>Floor) |        |          |          |        |        |        |       |  |
| Diversified Support<br>Services<br>Account Control<br>Technology Holdings,<br>Inc.<br>First Lien Secured Term<br>Loan                            | L+ 8.75%         | 11.09% | 04/28/17 | 04/28/22 | 6,413  | 6,281  | 6,370  | 2.01  |  |
|  | (1.00%<br>Floor) |        |          |          |        |        |        |       |  |
| ImageOne Industries,<br>LLC<br>First Lien Secured Term<br>Loan   | L+ 7.50%         | 9.74%  | 01/11/18 | 01/11/23 | 7,321  | 7,196  | 7,102  | 2.24  |  |
|  | (1.00%<br>Floor) |        |          |          | 13,734 | 13,477 | 13,472 | 4.25  |  |
| Environmental &<br>Facilities Services   |                  |        |          |          |        |        |        |       |  |

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|  |                            |                       |          |          |        |        |        |      |
|--|----------------------------|-----------------------|----------|----------|--------|--------|--------|------|
| Montrose Environmental Group, Inc.<br>Second Lien Secured Term Loan                  | L+ 9.50%<br>(1.00% Floor)  | 11.74%                | 09/29/17 | 09/30/20 | 8,500  | 8,387  | 8,500  | 2.68 |
| Food Retail<br>AG Kings Holdings, Inc.<br>First Lien Secured Term Loan               | L+ 9.95%<br>(1.00% Floor)  | 12.34%                | 08/10/16 | 08/10/21 | 13,031 | 12,709 | 11,988 | 3.77 |
| Crews of California, Inc.<br>First Lien Secured Term Loan                            | L+ 11.00%<br>(1.00% Floor) | 13.13%<br>(1.00% PIK) | 11/20/14 | 11/20/19 | 10,607 | 10,561 | 10,501 | 3.31 |
| First Lien Secured Revolving Loan  | L+ 11.00%<br>(1.00% Floor) | 13.13%<br>(1.00% PIK) | 06/05/15 | 11/20/19 | 5,158  | 5,128  | 5,107  | 1.61 |
| First Lien Secured Delayed Draw Loan   | L+ 11.00%<br>(1.00% Floor) | 13.13%<br>(1.00% PIK) | 03/27/15 | 11/20/19 | 3,046  | 3,030  | 3,016  | 0.95 |
|  |                            |                       |          |          | 31,842 | 31,428 | 30,612 | 9.64 |
| Health Care Facilities<br>Grupo HIMA San Pablo, Inc.<br>First Lien Secured Term Loan | L+ 9.00%<br>(1.50% Floor)  | 11.34%                | 04/01/18 | 05/31/19 | 14,250 | 14,250 | 11,229 | 3.53 |
| Second Lien Secured Term Loan <sup>(8)</sup>   | N/A                        | 15.75%<br>(2.00% PIK) | 02/01/13 | 07/31/18 | 1,028  | 1,024  | 103    | 0.03 |
|  |                            |                       |          |          | 15,278 | 15,274 | 11,332 | 3.56 |

See notes to consolidated financial statements

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments (Unaudited) - (continued)

September 30, 2018

*(in thousands)*

| Investment Type <sup>(1)</sup>  | Spread Above Index <sup>(2)</sup> | Interest Rate <sup>(3)</sup> | Acquisition Date <sup>(10)</sup> | Maturity Date | Principal/Share Amount | Amortized Cost | Fair Value <sup>(11)</sup> | Fair Value As A Percentage of Net Assets |
|---|-----------------------------------|------------------------------|----------------------------------|---------------|------------------------|----------------|----------------------------|--|
| Health Care Services<br>PMA Holdco, LLC<br>First Lien Secured Term Loan                         | L+ 7.50%<br>(1.00%<br>Floor)      | 9.89%                        | 06/28/18                         | 06/28/23      | 14,969                 | \$ 14,667      | \$ 14,684                  | 4.62 %                                   |
| Internet Retail<br>Clarus Commerce, LLC<br>First Lien Secured Term Loan                         | L+ 8.56%<br>(1.00%<br>Floor)      | 10.81%                       | 03/09/18                         | 03/09/23      | 17,100                 | 16,919         | 16,903                     | 5.32                                     |
| Internet Software & Services<br>London Trust Media Incorporated<br>First Lien Secured Term Loan | L+ 8.00%<br>(1.00%<br>Floor)      | 10.34%                       | 02/01/18                         | 02/01/23      | 11,069                 | 10,925         | 10,913                     | 3.44                                     |
| StackPath, LLC & Highwinds Capital, Inc.<br>Second Lien Secured Term Loan                       | L+ 9.50%<br>(1.00%<br>Floor)      | 12.01%                       | 02/03/17                         | 02/02/24      | 18,000                 | 17,657         | 17,820                     | 5.61                                     |
| Investment Banking & Brokerage<br>JVMC Holdings Corp.<br>(f/k/a RJO Holdings                    |                                   |                              |                                  |               | 29,069                 | 28,582         | 28,733                     | 9.05                                     |



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|   |                  |                |          |          |        |        |        |       |
|---|------------------|----------------|----------|----------|--------|--------|--------|-------|
| Corp)<br>First Lien First Out<br>Secured Term Loan                                  | L+ 8.02%         | 10.26%         | 05/05/17 | 05/05/22 | 12,656 | 12,452 | 12,656 | 3.98  |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
| First Lien Last Out<br>Secured Term Loan  | L+<br>12.00%     | 14.24%         | 05/05/17 | 05/05/22 | 4,688  | 4,612  | 4,688  | 1.48  |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
|   |                  |                |          |          | 17,344 | 17,064 | 17,344 | 5.46  |
| IT Consulting & Other<br>Services<br>AST-Applications<br>Software Technology<br>LLC |                  |                |          |          |        |        |        |       |
| First Lien Secured Term<br>Loan   | L+ 8.00%         | 10.24%         | 01/10/17 | 01/10/23 | 4,203  | 4,133  | 4,077  | 1.28  |
|   | (1.00%<br>Floor) | (1.00%<br>PIK) |          |          |        |        |        |       |
| Leisure Facilities<br>Planet Fit Indy 10 LLC  |                  |                |          |          |        |        |        |       |
| First Lien Incremental<br>Term Loan   | L+ 7.25%         | 9.59%          | 11/30/17 | 03/07/22 | 9,915  | 9,747  | 9,915  | 3.12  |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
| First Lien Initial Delayed<br>Draw Loan   | L+ 7.25%         | 9.58%          | 11/30/17 | 03/07/22 | 6,183  | 6,162  | 6,183  | 1.95  |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
| First Lien Initial Term<br>Loan   | L+ 7.25%         | 9.57%          | 11/30/17 | 03/07/22 | 131    | 130    | 131    | 0.04  |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
| Lift Brands, Inc.   |                  |                |          |          |        |        |        |       |
| First Lien Secured Term<br>Loan   | L+ 7.00%         | 9.39%          | 04/16/18 | 04/16/23 | 10,885 | 10,678 | 10,670 | 3.36  |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
| First Lien Secured<br>Revolving Loan <sup>(7)</sup>                                 | L+ 7.00%         | 9.09%          | 04/16/18 | 04/16/23 | -      | -      | -      | -     |
|   | (1.00%<br>Floor) |                |          |          |        |        |        |       |
| Honors Holdings, LLC  |                  |                |          |          |        |        |        |       |
| First Lien Secured Term<br>Loan   | L+ 8.94%         | 11.28%         | 07/17/18 | 07/17/23 | 7,500  | 7,392  | 7,377  | 2.32  |
|   |                  |                |          |          |        |        |        |       |
|   |                  |                |          |          | 34,614 | 34,109 | 34,276 | 10.79 |
| Oil & Gas Exploration &<br>Production<br>Caelus Energy Alaska<br>O3, LLC            |                  |                |          |          |        |        |        |       |

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|   |           |        |          |          |        |        |        |      |
|---|-----------|--------|----------|----------|--------|--------|--------|------|
| Second Lien Secured<br>Term Loan  | L+ 7.50%  | 9.84%  | 04/04/14 | 04/15/20 | 13,000 | 12,952 | 11,931 | 3.76 |
|   | (1.25%    |        |          |          |        |        |        |      |
|   | Floor)    |        |          |          |        |        |        |      |
| Other Diversified<br>Financial Services<br>Sigue Corporation <sup>(4)</sup> |           |        |          |          |        |        |        |      |
| Second Lien Secured<br>Term Loan  | L+ 12.00% | 14.39% | 12/27/13 | 12/27/18 | 25,000 | 24,976 | 24,575 | 7.74 |
|   | (1.00%    |        |          |          |        |        |        |      |
|   | Floor)    |        |          |          |        |        |        |      |
| Packaged Foods & Meats<br>Lenny & Larry's, LLC                              |           |        |          |          |        |        |        |      |
| First Lien Secured Term<br>Loan   | L+ 6.86%  | 9.02%  | 05/15/18 | 05/15/23 | 13,496 | 13,247 | 13,226 | 4.16 |
|   | (1.00%    |        |          |          |        |        |        |      |
|   | Floor)    |        |          |          |        |        |        |      |
| Research & Consulting<br>Services<br>Nelson Worldwide, LLC                  |           |        |          |          |        |        |        |      |
| First Lien Secured Term<br>Loan   | L+ 8.00%  | 10.49% | 01/09/18 | 01/09/23 | 17,622 | 17,245 | 17,128 | 5.39 |
|   | (1.00%    |        |          |          |        |        |        |      |
|   | Floor)    |        |          |          |        |        |        |      |
| First Lien Secured<br>Revolving Loan <sup>(7)</sup>                         | L+ 8.00%  | 10.48% | 01/09/18 | 01/09/23 | 1,234  | 1,208  | 1,191  | 0.37 |
|   | (1.00%    |        |          |          |        |        |        |      |
|   | Floor)    |        |          |          |        |        |        |      |
|   |           |        |          |          | 18,856 | 18,453 | 18,319 | 5.76 |
| Security & Alarm<br>Services<br>SecurAmerica, LLC                           |           |        |          |          |        |        |        |      |
| First Lien Secured Term<br>Loan   | L+ 9.00%  | 11.31% | 11/17/17 | 11/17/22 | 11,320 | 11,086 | 11,301 | 3.56 |
|   | (1.00%    |        |          |          |        |        |        |      |
|   | Floor)    |        |          |          |        |        |        |      |

See notes to consolidated financial statements

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments (Unaudited) - (continued)

September 30, 2018

*(in thousands)*

| Investment Type <sup>(1)</sup>   | Spread Above Index <sup>(2)</sup> | Interest Rate <sup>(3)</sup> | Acquisition Date <sup>(10)</sup> | Maturity Date | Principal/Share Amount | Amortized Cost | Fair Value <sup>(11)</sup> | Fair Value As A Percentage of Net Assets |   |
|--|-----------------------------------|------------------------------|----------------------------------|---------------|------------------------|----------------|----------------------------|--|---|
| Specialized Finance<br>Golden Pear Funding<br>Assetco, LLC <sup>(5)</sup>  |                                   |                              |                                  |               |                        |                |                            |  |   |
| Second Lien Secured<br>Term Loan   | L+<br>10.50%<br>(1.00%<br>Floor)  | 12.67%                       | 09/20/18                         | 03/20/24      | 17,500                 | \$ 17,152      | \$ 17,150                  | 5.40                                     | % |
| Oasis Legal Finance,<br>LLC <sup>(5)</sup>                                 |                                   |                              |                                  |               |                        |                |                            |  |   |
| Second Lien Secured<br>Term Loan   | L+<br>10.75%<br>(1.00%<br>Floor)  | 12.85%                       | 09/09/16                         | 03/09/22      | 20,000                 | 19,750         | 20,000                     | 6.30                                     |   |
|  |                                   |                              |                                  |               | 37,500                 | 36,902         | 37,150                     | 11.70                                    |   |
| Technology Hardware,<br>Storage & Peripherals<br>Source Code Midco,<br>LLC |                                   |                              |                                  |               |                        |                |                            |  |   |
| First Lien Secured<br>Term Loan  | L+<br>8.75%<br>(1.00%<br>Floor)   | 11.09%                       | 05/04/18                         | 05/04/23      | 14,545                 | 14,212         | 14,218                     | 4.48                                     |   |
| Trucking<br>Sunteck / TTS<br>Holdings, LLC                                 |                                   |                              |                                  |               |                        |                |                            |  |   |
| Second Lien Secured<br>Term Loan   | L+<br>9.00%<br>(1.00%<br>Floor)   | 11.33%                       | 12/15/16                         | 06/15/22      | 3,500                  | 3,459          | 3,500                      | 1.10                                     |   |
| Total Debt Investments   |                                   |                              |                                  |               | 447,412                | 440,446        | 434,164                    | 136.70                                   |   |

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|   |     |     |          |          |           |           |           |          |
|---|-----|-----|----------|----------|-----------|-----------|-----------|----------|
| Equity Investments  |     |     |          |          |           |           |           |          |
| Advertising   |     |     |          |          |           |           |           |          |
| Fluent, Inc. (f/k/a Cogint, Inc.) <sup>(4)(9)</sup>       | N/A | N/A | 11/28/17 | 12/08/25 | 187       | 560       | 383       | 0.12     |
| Food Retail   |     |     |          |          |           |           |           |          |
| Crews of California, Inc. Warrants <sup>(4)</sup>         | N/A | N/A | 11/20/14 | 12/31/24 | -         | -         | 6         | -        |
| Nicholas & Associates, LLC Warrants <sup>(4)</sup>        | N/A | N/A | 11/20/14 | 12/31/24 | 2         | -         | 130       | 0.04     |
| Pinnacle Management Group, LLC Warrants <sup>(4)</sup>    | N/A | N/A | 11/20/14 | 12/31/24 | 2         | -         | 130       | 0.04     |
| RC3 Enterprises, LLC Warrants <sup>(4)</sup>              | N/A | N/A | 11/20/14 | 12/31/24 | 2         | -         | 130       | 0.04     |
|   |     |     |          |          | 6         | -         | 396       | 0.12     |
| Health Care Services                                      |     |     |          |          |           |           |           |          |
| PMA Holdco, LLC Warrants <sup>(4)</sup>                   | N/A | N/A | 06/28/18 | N/A      | 8         | -         | 358       | 0.11     |
| Other Diversified Financial Services                      |     |     |          |          |           |           |           |          |
| Aretec Group, Inc. <sup>(4)(5)(6)</sup>                   | N/A | N/A | 03/21/14 | N/A      | 536       | 20,692    | 53,817    | 16.94    |
| RCS Creditor Trust Class B Units <sup>(4)(6)</sup>        | N/A | N/A | 10/01/17 | N/A      | 143       | -         | 535       | 0.17     |
| SFS Global Holding Company Warrants <sup>(4)</sup>        | N/A | N/A | 06/28/18 | N/A      | -         | -         | -         | -        |
| Signe Corporation Warrants <sup>(4)</sup>                 | N/A | N/A | 06/28/18 | N/A      | 6         | 327       | 533       | 0.17     |
|   |     |     |          |          | 685       | 21,019    | 54,885    | 17.28    |
| Specialized Finance                                       |     |     |          |          |           |           |           |          |
| NMFC Senior Loan Program I LLC Units <sup>(4)(5)(6)</sup> | N/A | N/A | 06/13/14 | 06/13/20 | 20,000    | 20,120    | 19,334    | 6.09     |
| Trucking  |     |     |          |          |           |           |           |          |
| Fox Rent A Car, Inc. Warrants <sup>(4)</sup>              | N/A | N/A | 10/26/16 | N/A      | -         | -         | 100       | 0.03     |
| Total Equity Investments                                  |     |     |          |          | 20,886    | 41,699    | 75,456    | 23.75    |
| Total Investments   |     |     |          |          | \$468,298 | \$482,145 | \$509,620 | 160.45 % |

*See notes to consolidated financial statements*

**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments (Unaudited) - (continued)**

**September 30, 2018**

*(in thousands)*

(1) Except as otherwise noted, all investments are non-controlled/non-affiliate investments as defined by the Investment Company Act of 1940, as amended (the "1940 Act"), and provide collateral for the Company's credit facility.

(2) The investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ("LIBOR" or "L"), which resets monthly, quarterly or semiannually, or the U.S. Prime Rate as published by the Wall Street Journal ("Prime" or "P"). The one, three and six-month LIBOR were 2.3%, 2.4% and 2.6%, respectively, as of September 30, 2018. The Prime was 5.25% as of September 30, 2018.

(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) The investment or a portion of the investment does not provide collateral for the Company's credit facility.

(5) Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets. Qualifying assets represented 80%, of total assets as of the date of the consolidated schedule of investments.

(6) Investment is a non-controlled/affiliate investment as defined by the 1940 Act.

(7) The investment has an unfunded commitment in addition to any amounts presented in the consolidated schedule of investments as of September 30, 2018. See Note 7.

(8) The investment is on non-accrual status.

(9) The fair value of the investment was determined using observable inputs. See Note 4. There are no legal restrictions on sales of the investment.

(10) Except as otherwise noted, all of the Company's portfolio company investments, which as of the date of the consolidated schedule of investments represented 160% of the Company's net assets or 94% of the Company's total assets, are subject to legal restrictions on sales.

(11) Except as otherwise noted, the fair value of each investment was determined using significant unobservable inputs. See Note 4.

(12) The investment was comprised of two contracts, which were indexed to different base rates, L and P, respectively. The Spread Above Index and Interest Rate presented represent the weighted average of both contracts.

*See notes to consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments****December 31, 2017***(in thousands)*

| Investment Type <sup>(1)</sup>  | Spread Above<br>Index <sup>(2)</sup> | Interest<br>Rate <sup>(3)</sup> | Maturity<br>Date | Principal/<br>Share<br>Amount | Amortized<br>Cost | Fair<br>Value <sup>(7)</sup> | Fair<br>Value                          |   |
|---|--------------------------------------|---------------------------------|------------------|-------------------------------|-------------------|------------------------------|--|---|
|   |                                      |                                 |                  |                               |                   |                              | As A<br>Percentage<br>of Net<br>Assets |   |
| North America<br>Debt Investments<br>Advertising<br>Fluent, LLC (f/k/a Fluent<br>Acquisition II, LLC) |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan  | L+ 11.50%<br>(0.50% Floor)           | 13.05%<br>(1.00%<br>PIK)        | 12/08/20         | 25,650                        | \$ 25,352         | \$ 25,651                    | 8.94                                   | % |
| Outcome Health  |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan  | L+ 6.50%<br>(1.00% Floor)            | 8.13%                           | 12/22/21         | 14,853                        | 13,667            | 12,372                       | 4.31                                   |   |
|   |                                      |                                 |                  | 40,503                        | 39,019            | 38,023                       | 13.25                                  |   |
| Application Software<br>Intermedia Holdings, Inc.   |                                      |                                 |                  |                               |                   |                              |  |   |
| Second Lien Secured Term<br>Loan  | L+ 9.50%<br>(1.00% Floor)            | 10.88%                          | 02/03/25         | 18,000                        | 17,680            | 17,892                       | 6.24                                   |   |
| Auto Parts & Equipment<br>Crowne Group, LLC   |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan  | L+ 9.25%<br>(1.00% Floor)            | 10.73%                          | 05/26/21         | 12,031                        | 11,747            | 12,031                       | 4.19                                   |   |
| Broadcasting<br>Multicultural Radio<br>Broadcasting, Inc.   |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan  | L+ 8.00%<br>(1.00% Floor)            | 9.56%                           | 12/28/22         | 20,000                        | 19,601            | 19,600                       | 6.83                                   |   |
| Rural Media Group, Inc.   |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan  |                                      | 10.25%                          | 12/29/22         | 7,133                         | 6,991             | 6,991                        | 2.44                                   |   |



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|  |                           |        |          |        |        |        |      |
|--|---------------------------|--------|----------|--------|--------|--------|------|
|  | P+ 5.75%<br>(1.00% Floor) |        |          |        |        |        |      |
| First Lien Secured Delayed Draw Loan <sup>(8)</sup>  | P+ 5.75%<br>(1.00% Floor) | 10.25% | 12/29/22 | -      | -      | -      | -    |
|  |                           |        |          | 27,133 | 26,592 | 26,591 | 9.27 |
| Data Processing & Outsourced Services<br>FPT Operating Company, LLC/<br>TLabs Operating Company, LLC |                           |        |          |        |        |        |      |
| First Lien Secured Term Loan   | L+ 8.25%<br>(1.00% Floor) | 9.61%  | 12/23/21 | 23,305 | 22,975 | 23,188 | 8.08 |
| Department Stores<br>Mills Fleet Farm Group, LLC   |                           |        |          |        |        |        |      |
| Second Lien Secured Term Loan  | L+ 9.75%<br>(1.00% Floor) | 11.32% | 02/26/23 | 7,146  | 7,038  | 7,146  | 2.49 |
| Diversified Support Services<br>Account Control Technology Holdings, Inc.                            |                           |        |          |        |        |        |      |
| First Lien Secured Term Loan <sup>(4)</sup>  | L+ 8.50%<br>(1.00% Floor) | 9.88%  | 04/28/22 | 14,329 | 13,971 | 14,180 | 4.94 |
| Sitel Worldwide Corporation  |                           |        |          |        |        |        |      |
| Second Lien Secured Term Loan  | L+ 9.50%<br>(1.00% Floor) | 10.88% | 09/18/22 | 8,670  | 8,553  | 8,651  | 3.01 |
|  |                           |        |          | 22,999 | 22,524 | 22,831 | 7.95 |
| Environmental & Facilities Services<br>Montrose Environmental Group, Inc.                            |                           |        |          |        |        |        |      |
| Second Lien Secured Term Loan  | L+ 9.50%<br>(1.00% Floor) | 10.88% | 09/30/20 | 8,500  | 8,345  | 8,423  | 2.94 |

*See notes to consolidated financial statements*

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments - (continued)

December 31, 2017

*(in thousands)*

| Investment Type <sup>(1)</sup>                       | Spread Above<br>Index <sup>(2)</sup> | Interest<br>Rate <sup>(3)</sup> | Maturity<br>Date | Principal/<br>Share<br>Amount | Amortized<br>Cost | Fair<br>Value <sup>(7)</sup> | Fair<br>Value                          |   |
|--|--------------------------------------|---------------------------------|------------------|-------------------------------|-------------------|------------------------------|--|---|
|  |                                      |                                 |                  |                               |                   |                              | As A<br>Percentage<br>of Net<br>Assets |   |
| Food Retail<br>AG Kings Holdings, Inc.               |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan                         | L+ 9.95%<br>(1.00% Floor)            | 11.64%                          | 08/10/21         | 13,615                        | \$ 13,190         | \$ 13,479                    | 4.70                                   | % |
| Crews of California, Inc.                            |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan                         | L+ 11.00%<br>(1.00% Floor)           | 12.48%<br>(1.00%<br>PIK)        | 11/20/19         | 16,853                        | 16,732            | 16,516                       | 5.76                                   |   |
| First Lien Secured Revolving<br>Loan                 | L+ 11.00%<br>(1.00% Floor)           | 12.48%<br>(1.00%<br>PIK)        | 11/20/19         | 5,119                         | 5,070             | 5,017                        | 1.75                                   |   |
| First Lien Secured Delayed<br>Draw Loan              | L+ 11.00%<br>(1.00% Floor)           | 12.48%<br>(1.00%<br>PIK)        | 11/20/19         | 4,884                         | 4,840             | 4,786                        | 1.67                                   |   |
|  |                                      |                                 |                  | 40,471                        | 39,832            | 39,798                       | 13.88                                  |   |
| Health Care Facilities<br>Grupo HIMA San Pablo, Inc. |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan                         | L+ 9.00%<br>(1.50% Floor)            | 10.50%                          | 01/31/18         | 14,250                        | 14,245            | 12,430                       | 4.33                                   |   |
| Second Lien Secured Term<br>Loan                     | N/A                                  | 15.75%<br>(2.00%<br>PIK)        | 07/31/18         | 1,027                         | 1,023             | 239                          | 0.08                                   |   |
|  |                                      |                                 |                  | 15,277                        | 15,268            | 12,669                       | 4.41                                   |   |
| Internet Retail<br>Clarus Commerce, LLC              |                                      |                                 |                  |                               |                   |                              |  |   |
| First Lien Secured Term Loan                         | L+ 9.77%<br>(1.00% Floor)            | 11.34%                          | 03/17/21         | 6,000                         | 5,923             | 6,000                        | 2.09                                   |   |

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|   |                            |                       |          |        |        |        |      |
|---|----------------------------|-----------------------|----------|--------|--------|--------|------|
| Internet Software & Services                                |                            |                       |          |        |        |        |      |
| StackPath, LLC & Highwinds                                  |                            |                       |          |        |        |        |      |
| Capital, Inc.   |                            |                       |          |        |        |        |      |
| Second Lien Secured Term Loan                               | L+ 9.50%<br>(1.00% Floor)  | 10.88%                | 02/02/24 | 18,000 | 17,608 | 17,576 | 6.13 |
| Investment Banking & Brokerage                              |                            |                       |          |        |        |        |      |
| JVMC Holdings Corp. (f/k/a RJO Holdings Corp)               |                            |                       |          |        |        |        |      |
| First Lien First Out Secured Term Loan                      | L+ 8.02%<br>(1.00% Floor)  | 9.59%                 | 05/05/22 | 13,163 | 12,905 | 13,042 | 4.55 |
| First Lien Last Out Secured Term Loan                       | L+ 12.00%<br>(1.00% Floor) | 13.57%                | 05/05/22 | 4,875  | 4,780  | 4,830  | 1.68 |
|   |                            |                       |          | 18,038 | 17,685 | 17,872 | 6.23 |
| IT Consulting & Other Services                              |                            |                       |          |        |        |        |      |
| AST-Applications Software Technology LLC                    |                            |                       |          |        |        |        |      |
| First Lien Secured Term Loan                                | L+ 9.00%<br>(1.00% Floor)  | 10.57%<br>(2.00% PIK) | 01/10/23 | 4,150  | 4,067  | 3,901  | 1.36 |
| Leisure Facilities  |                            |                       |          |        |        |        |      |
| Planet Fit Indy 10 LLC                                      |                            |                       |          |        |        |        |      |
| First Lien Initial Secured Term Loan                        | L+ 7.25%<br>(1.00% Floor)  | 8.77%                 | 03/07/22 | 132    | 131    | 131    | 0.05 |
| First Lien Incremental Secured Term Loan                    | L+ 7.25%<br>(1.00% Floor)  | 8.94%                 | 03/07/22 | 1,935  | 1,916  | 1,916  | 0.67 |
| First Lien Initial Secured Delayed Draw Loan <sup>(8)</sup> | L+ 7.25%<br>(1.00% Floor)  | 8.73%                 | 03/07/22 | 2,658  | 2,632  | 2,632  | 0.92 |
|   |                            |                       |          | 4,725  | 4,679  | 4,679  | 1.64 |

*See notes to consolidated financial statements*

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments - (continued)

December 31, 2017

*(in thousands)*

| Investment Type <sup>(1)</sup>  | Spread Above<br>Index <sup>(2)</sup> | Interest<br>Rate <sup>(3)</sup> | Maturity<br>Date | Principal/<br>Share<br>Amount | Amortized<br>Cost | Fair<br>Value <sup>(7)</sup> | Fair<br>Value                          |   |
|---|--------------------------------------|---------------------------------|------------------|-------------------------------|-------------------|------------------------------|--|---|
|   |                                      |                                 |                  |                               |                   |                              | As A<br>Percentage<br>of Net<br>Assets | % |
| Office Services & Supplies<br>Katun Corporation<br>Second Lien Secured Term<br>Loan                             | L+ 11.25%<br>(1.00% Floor)           | 12.61%                          | 01/25/21         | 4,422                         | \$4,402           | \$4,466                      | 1.56                                   | % |
| Oil & Gas Exploration &<br>Production<br>Caelus Energy Alaska O3, LLC<br>Second Lien Secured Term<br>Loan       | L+ 7.50%<br>(1.25% Floor)            | 9.10%                           | 04/15/20         | 13,000                        | 12,929            | 10,837                       | 3.78                                   |   |
| Other Diversified Financial<br>Services<br>Sigue Corporation <sup>(4)</sup><br>Second Lien Secured Term<br>Loan | L+ 11.50%<br>(1.00% Floor)           | 13.19%                          | 12/27/18         | 25,000                        | 24,901            | 24,872                       | 8.67                                   |   |
| The Pay-O-Matic Corp.<br>First Lien Secured Term Loan   | L+ 11.00%<br>(1.00% Floor)           | 12.38%                          | 04/02/18         | 12,044                        | 12,003            | 12,044                       | 4.20                                   |   |
|   |                                      |                                 |                  | 37,044                        | 36,904            | 36,916                       | 12.87                                  |   |
| Research & Consulting<br>Services<br>Project Time & Cost, LLC<br>First Lien Secured Term Loan                   | L+ 12.00%<br>(0.50% Floor)           | 13.53%                          | 10/09/20         | 9,104                         | 9,004             | 8,440                        | 2.94                                   |   |
| Security & Alarm Services<br>SecurAmerica, LLC<br>First Lien Secured Term Loan                                  | L+ 9.50%<br>(1.00% Floor)            | 10.92%                          | 11/17/22         | 11,320                        | 11,044            | 11,084                       | 3.86                                   |   |

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|   |                            |        |          |         |         |         |        |
|---|----------------------------|--------|----------|---------|---------|---------|--------|
| Specialized Consumer Services           |                            |        |          |         |         |         |        |
| Pre-Paid Legal Services, Inc.           |                            |        |          |         |         |         |        |
| Second Lien Secured Term Loan           | L+ 9.00%<br>(1.25% Floor)  | 10.57% | 07/01/20 | 19,000  | 18,912  | 19,000  | 6.62   |
| Specialized Finance                     |                            |        |          |         |         |         |        |
| Golden Pear Funding III, LLC<br>(5)     |                            |        |          |         |         |         |        |
| Second Lien Secured Term Loan           | L+ 10.25%<br>(1.00% Floor) | 11.63% | 06/25/20 | 25,000  | 24,855  | 24,760  | 8.63   |
| Second Lien Secured Revolving Loan      | L+ 10.25%<br>(1.00% Floor) | 11.63% | 06/25/20 | 5,000   | 4,971   | 4,952   | 1.73   |
| Oasis Legal Finance, LLC (5)            |                            |        |          |         |         |         |        |
| Second Lien Secured Term Loan           | L+ 10.75%<br>(1.00% Floor) | 12.11% | 03/09/22 | 20,000  | 19,696  | 20,000  | 6.97   |
|   |                            |        |          | 50,000  | 49,522  | 49,712  | 17.33  |
| Trucking                                |                            |        |          |         |         |         |        |
| Sunteck/TTS Holdings, LLC               |                            |        |          |         |         |         |        |
| Second Lien Secured Term Loan           | L+ 9.00%<br>(1.00% Floor)  | 10.59% | 06/15/22 | 3,500   | 3,450   | 3,456   | 1.20   |
| Total Debt Investments                  |                            |        |          | 413,668 | 407,149 | 402,531 | 140.31 |
| Equity Investments                      |                            |        |          |         |         |         |        |
| Advertising                             |                            |        |          |         |         |         |        |
| Cogint, Inc. (f/k/a IDI, Inc.) (4)      | N/A                        | N/A    | 12/08/25 | 187     | 560     | 821     | 0.29   |
| Food Retail                             |                            |        |          |         |         |         |        |
| Crews of California, Inc. Warrants (4)  | N/A                        | N/A    | 12/31/24 | -       | -       | 14      | 0.00   |
| Nicholas & Associates, LLC Warrants (4) | N/A                        | N/A    | 12/31/24 | 3       | -       | 296     | 0.10   |

See notes to consolidated financial statements

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments - (continued)

December 31, 2017

*(in thousands)*

| Investment Type <sup>(1)</sup>                               | Spread Above<br>Index <sup>(2)</sup> | Interest<br>Rate <sup>(3)</sup> | Maturity<br>Date | Principal/<br>Share<br>Amount | Amortized<br>Cost | Fair<br>Value <sup>(7)</sup> | Fair<br>Value |            |
|--|--------------------------------------|---------------------------------|------------------|-------------------------------|-------------------|------------------------------|---------------|------------|
|  |                                      |                                 |                  |                               |                   |                              | As A          | Percentage |
|  |                                      |                                 |                  |                               |                   |                              | of Net        | Assets     |
| Pinnacle Management Group,<br>LLC Warrants <sup>(4)</sup>    | N/A                                  | N/A                             | 12/31/24         | 3                             | \$ -              | \$296                        | 0.10          | %          |
| RC3 Enterprises, LLC<br>Warrants <sup>(4)</sup>              | N/A                                  | N/A                             | 12/31/24         | 3                             | -                 | 296                          | 0.10          |            |
|  |                                      |                                 |                  | 9                             | -                 | 902                          | 0.30          |            |
| Other Diversified Financial<br>Services                      |                                      |                                 |                  |                               |                   |                              |               |            |
| Aretec Group, Inc. <sup>(4)(5)(6)</sup>                      | N/A                                  | N/A                             | N/A              | 536                           | 20,693            | 17,314                       | 6.03          |            |
| RCS Creditor Trust Class B<br>Units <sup>(4)(6)</sup>        | N/A                                  | N/A                             | N/A              | 143                           | -                 | 428                          | 0.15          |            |
|  |                                      |                                 |                  | 679                           | 20,693            | 17,742                       | 6.18          |            |
| Specialized Finance  |                                      |                                 |                  |                               |                   |                              |               |            |
| NMFC Senior Loan Program I<br>LLC Units <sup>(4)(5)(6)</sup> | N/A                                  | N/A                             | 06/13/20         | 20,000                        | 20,120            | 18,504                       | 6.45          |            |
| Trucking   |                                      |                                 |                  |                               |                   |                              |               |            |
| Fox Rent A Car, Inc. Warrants<br><sup>(4)</sup>              | N/A                                  | N/A                             | N/A              | -                             | -                 | 180                          | 0.06          |            |
| Total Equity Investments                                     |                                      |                                 |                  | 20,875                        | 41,373            | 38,149                       | 13.28         |            |
| Total Investments  |                                      |                                 |                  | 434,543                       | \$448,522         | \$440,680                    | 153.59        | %          |

(1) Except as otherwise noted, all investments are non-controlled/non-affiliate investments as defined by the 1940 Act, and provide collateral for the Company's credit facility.

(2) The investments bear interest at a rate that may be determined by reference to LIBOR, which resets monthly, quarterly or semiannually, or Prime. The one, three and six-month LIBOR were 1.6%, 1.7% and 1.8%,

respectively, as of December 31, 2017. The Prime was 4.5% as of December 31, 2017.

(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) The investment or a portion of the investment does not provide collateral for the Company’s credit facility.

Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any  
(5) non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets. Qualifying assets represented 82% of total assets as of the date of the consolidated schedule of investments.

(6) Investment is a non-controlled/affiliate investment as defined by the 1940 Act.

(7) Except as otherwise noted, the fair value of each investment was determined using significant unobservable inputs.  
See Note 4.

(8) The investment has an unfunded commitment in addition to any amounts presented in the consolidated schedule of investments as of December 31, 2017. See note 7.

*See notes to consolidated financial statements*

**WhiteHorse Finance, Inc.**

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

**September 30, 2018**

*(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 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”). 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 lower middle market companies across a broad range of industries that typically carry a floating interest rate based on the London Interbank Offered Rate (“LIBOR”) and have a term of three to six years. While the Company focuses principally on originating senior secured loans to lower middle market companies, 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 the accounts of WhiteHorse Finance, Inc. and its wholly owned subsidiaries, WhiteHorse Finance Credit I, LLC (“WhiteHorse Credit”), and its subsidiary WhiteHorse Finance (CA), LLC (“WhiteHorse California”), and WhiteHorse Finance Warehouse, LLC (“WhiteHorse Warehouse”). The Company meets the definition of an investment company under Accounting



Standards Codification (“ASC”) Topic 946, *Financial Services - Investment Companies*, and therefore applies the accounting and reporting guidance discussed therein to its consolidated financial statements. All significant intercompany balances and transactions 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 Articles 6, 10 and 12 of Regulation S-X. Accordingly, certain disclosures accompanying the 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, 2017. 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, 2018.

Principles of Consolidation: Under the investment company rules and regulations pursuant to ASC Topic 946, WhiteHorse Finance is precluded from consolidating any entity other than another investment company. As provided under ASC Topic 946, WhiteHorse Finance generally consolidates any investment company when it owns 100% of its partners’ or members’ capital or equity units.

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 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. 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 PIK interest rate provision. PIK interest is accrued at the contractual rates and added to loan principal on the reset dates to the extent such amounts are expected to be collected.

*Non-accrual loans:* 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.

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 revolving 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 generally once a quarter after the payment of operating expenses and amounts due under the Company's revolving credit facility.

Offering Costs: The Company may incur legal, accounting, regulatory, investment banking and other costs in relation to equity offerings. Offering costs are deferred and charged against paid-in capital in excess of par on completion of the related offering.

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 and are included in interest expense in the consolidated statements of operations over the estimated life of the borrowings. Deferred financing costs are presented in the consolidated statements of assets and liabilities as a direct reduction from the carrying amount of the related debt liability.

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 dividends for U.S. federal income tax purposes to its shareholders each taxable year generally of an amount at least equal to 90% of the sum 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 will incur 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, adjusted for certain ordinary losses, for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gain income for preceding years that were not distributed during such years and on which the Company incurred 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 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 or expense that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Any tax positions not deemed to satisfy the more likely than not threshold are reversed and recorded as tax benefit or tax expense, as appropriate, in the current year. Management has analyzed the Company's tax positions, and the Company has concluded that the Company did not have any unrecognized tax benefits or unrecognized tax liabilities related to uncertain tax positions as of September 30, 2018 and December 31, 2017.

Penalties or interest that may be assessed related to any income taxes would be classified as general and administrative expenses on the consolidated statements of operations. The Company had no amounts accrued for interest or penalties as of September 30, 2018 or December 31, 2017. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. 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. Tax returns for each of the federal tax years since 2014 remain subject to examination by the Internal Revenue Service.

As of September 30, 2018 and December 31, 2017, the cost of investments for federal income tax purposes was \$484,163 and \$448,937, resulting in net unrealized appreciation of \$25,457 and net unrealized depreciation of \$8,256,

respectively. This is comprised of gross unrealized appreciation of \$34,362 and \$3,953, and gross unrealized depreciation of \$8,905 and \$12,209, on a tax basis, as of September 30, 2018 and December 31, 2017, respectively.

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” distribution reinvestment plan for common stockholders. As a result, if the Company declares a distribution or other dividend, stockholders’ cash distributions will be automatically reinvested in additional shares of common stock, unless they specifically “opt out” of the distribution 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 the Company’s investments are fairly stated, taking into consideration these risks along with estimated collateral values, payment histories and other market information.

Recent Accounting Pronouncements: In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

During March 2017, the FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, to amend the amortization period for certain purchased callable debt securities held at a premium. Under current guidance, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The new guidance shortened the amortization period for the premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on its consolidated financial statements and related disclosures and does not expect this guidance to have a material impact as the Company does not hold any material purchased callable debt securities at a premium.

During January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance is expected to reduce the number of transactions that need to be further evaluated as businesses. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted this guidance effective January 1, 2018, and the adoption of this standard did not have an impact on the Company’s financial condition, results of operations, or cash flows.

During August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues including, among other things, the classification of debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The guidance only affects the classification of transactions as presented on the consolidated statements of cash flows. The Company adopted this guidance effective January 1, 2018, and the adoption of this standard did not have a material impact on the Company’s cash flows or disclosures.

During January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which, among other things, requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, this ASU changes the disclosure requirements for financial instruments. This guidance is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. The Company adopted this guidance effective January 1, 2018, and the adoption of this guidance did not have a material impact on the Company's consolidated financial statements or related disclosures as the Company does not hold any investments at amortized cost.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this ASU supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)*. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods, including interim periods within those reporting periods, beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*, which clarifies the guidance in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, an update on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which includes amendments for enhanced clarification of the guidance. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Revenue from Contracts with Customers (Topic 606)*. The amendments in this update are of a similar nature to the items typically addressed in the technical corrections and improvements project. Additionally, in February 2017, the FASB issued ASU 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, an update clarifying that a financial asset is within the scope of Subtopic 610-20 if it is deemed an "in-substance non-financial asset." All of the guidance issued in conjunction with ASU 2014-09 have the same effective date as the original standard and should be adopted concurrent with the adoption of ASU 2014-09. The Company adopted the revised provisions to ASC Topic 606 effective January 1, 2018 using the modified retrospective method. The adoption of this guidance did not result in a change to the accounting for any of its revenue streams; as such, no cumulative effect adjustment was recorded.

**NOTE 3 - INVESTMENTS**

Investments consisted of the following:

|                           | September 30, 2018 |            | December 31, 2017 |            |
|---------------------------|--------------------|------------|-------------------|------------|
|                           | Amortized Cost     | Fair Value | Amortized Cost    | Fair Value |
| First lien secured loans  | \$328,035          | \$ 323,439 | \$232,786         | \$ 230,261 |
| Second lien secured loans | 112,411            | 110,725    | 174,363           | 172,270    |
| Equity                    | 41,699             | 75,456     | 41,373            | 38,149     |
| Total                     | \$482,145          | \$ 509,620 | \$448,522         | \$ 440,680 |

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

|                                       | September 30, 2018 |       | December 31, 2017 |       |
|---------------------------------------|--------------------|-------|-------------------|-------|
|                                       |                    | %     |                   | %     |
| Advertising                           | \$ 20,615          | 4.05  | \$ 38,844         | 8.81  |
| Application Software                  | -                  | -     | 17,892            | 4.06  |
| Auto Parts & Equipment                | -                  | -     | 12,031            | 2.73  |
| Automotive Retail                     | 16,989             | 3.33  | -                 | -     |
| Broadcasting                          | 35,994             | 7.06  | 26,591            | 6.03  |
| Cable & Satellite                     | 14,792             | 2.90  | -                 | -     |
| Data Processing & Outsourced Services | 24,858             | 4.88  | 23,188            | 5.26  |
| Department Stores                     | 7,146              | 1.40  | 7,146             | 1.62  |
| Diversified Support Services          | 13,472             | 2.64  | 22,831            | 5.18  |
| Environmental & Facilities Services   | 8,500              | 1.67  | 8,423             | 1.91  |
| Food Retail                           | 31,008             | 6.08  | 40,700            | 9.24  |
| Health Care Facilities                | 11,332             | 2.22  | 12,669            | 2.87  |
| Health Care Services                  | 15,042             | 2.95  | -                 | -     |
| Internet Retail                       | 16,903             | 3.32  | 6,000             | 1.36  |
| Internet Software & Services          | 28,733             | 5.64  | 17,576            | 3.99  |
| Investment Banking & Brokerage        | 17,344             | 3.40  | 17,872            | 4.06  |
| IT Consulting & Other Services        | 4,077              | 0.80  | 3,901             | 0.89  |
| Leisure Facilities                    | 34,276             | 6.73  | 4,679             | 1.06  |
| Office Services & Supplies            | -                  | -     | 4,466             | 1.01  |
| Oil & Gas Exploration & Production    | 11,931             | 2.34  | 10,837            | 2.46  |
| Other Diversified Financial Services  | 79,460             | 15.60 | 54,658            | 12.40 |
| Packaged Foods & Meats                | 13,226             | 2.60  | -                 | -     |
| Research & Consulting Services        | 18,319             | 3.59  | 8,440             | 1.92  |
| Security & Alarm Services             | 11,301             | 2.22  | 11,084            | 2.52  |
| Specialized Consumer Services         | -                  | -     | 19,000            | 4.31  |



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|  |            |          |            |          |
|--|------------|----------|------------|----------|
| Specialized Finance                        | 56,484     | 11.08    | 68,216     | 15.48    |
| Technology Hardware, Storage & Peripherals | 14,218     | 2.79     | -          | -        |
| Trucking                                   | 3,600      | 0.71     | 3,636      | 0.83     |
| Total                                      | \$ 509,620 | 100.00 % | \$ 440,680 | 100.00 % |

The portfolio companies underlying the investments are located in the United States. As of September 30, 2018 and December 31, 2017, the weighted average remaining term of the Company's debt investments was approximately 3.5 years and 3.4 years, respectively.

As of September 30, 2018, the total fair value of non-accrual loans was \$103. As of December 31, 2017, the Company had no non-accrual loans.

The following table presents the schedule of investments in and advances to affiliated persons (as defined by the 1940 Act) as of and for the nine months ended September 30, 2018:

| Affiliated Person <sup>(1)</sup>     | Type of Asset | Amount of dividends and interest included in income | Beginning                       | Purchases   |                      | Net  | Net                              | Ending           |
|--------------------------------------|---------------|---|---------------------------------|-------------|----------------------|--|----------------------------------|------------------|
|                                      |               |   | Fair Value at December 31, 2017 | Sales       | Realized Gain (Loss) | Change in Unrealized Appreciation (Depreciation) | Fair Value at September 30, 2018 |                  |
| Aretec Group, Inc.                   | Equity        | \$ -  | \$ 17,314                       | \$ -        | \$ -                 | \$ -   | \$ 36,503                        | \$ 53,817        |
| NMFC Senior Loan Program I LLC Units | Equity        | 1,851   | 18,504                          | -           | -                    | -  | 830                              | 19,334           |
| RCS Creditor Trust Class B Units     | Equity        | -   | 428                             | -           | -                    | -  | 107                              | 535              |
| <b>Total</b>                         |               | <b>\$ 1,851</b>                                     | <b>\$ 36,246</b>                | <b>\$ -</b> | <b>\$ -</b>          | <b>\$ -</b>                                      | <b>\$ 37,440</b>                 | <b>\$ 73,686</b> |

The following table presents the schedule of investments in and advances to affiliated persons (as defined by the 1940 Act) as of and for the year ended December 31, 2017:

| Affiliated Person <sup>(1)</sup>     | Type of Asset | Amount of dividends and interest included in income | Beginning                       | Purchases |                      | Net  | Net                             | Ending    |
|--------------------------------------|---------------|---|---------------------------------|-----------|----------------------|--|---------------------------------|-----------|
|                                      |               |   | Fair Value at December 31, 2016 | Sales     | Realized Gain (Loss) | Change in Unrealized Appreciation (Depreciation) | Fair Value at December 31, 2017 |           |
| Aretec Group, Inc.                   | Equity        | \$ -  | \$ 7,505                        | \$ -      | \$ -                 | \$ -   | \$ 9,809                        | \$ 17,314 |
| NMFC Senior Loan Program I LLC Units | Equity        | 2,713   | 18,993                          | -         | -                    | -  | (489 )                          | 18,504    |

|                                     |        |          |           |      |      |      |          |           |
|-------------------------------------|--------|----------|-----------|------|------|------|----------|-----------|
| RCS Creditor Trust Class B<br>Units | Equity | -        | -         | -    | -    | 428  | 428      |           |
| Total                               |        | \$ 2,713 | \$ 26,498 | \$ - | \$ - | \$ - | \$ 9,748 | \$ 36,246 |

<sup>(1)</sup> Refer to the consolidated schedule of investments for the principal amount, industry classification and other security detail of each portfolio company.

During the fourth quarter of 2015, the Company placed its second lien investment in RCS Capital Corporation on non-accrual status in anticipation of a voluntary petition for a “pre-packaged” Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the District of Delaware, which was filed on January 31, 2016. On May 23, 2016, the Company’s second lien investment, with a cost basis of \$20,693, converted to 536,042 shares of common stock in Aretec Group, Inc. (previously known as RCS Capital Corporation). As of September 30, 2018 and December 31, 2017, the fair value of the Company’s investment in Aretec Group, Inc. was \$53,817 and \$17,314, respectively. In October 2018, the Company realized its investment in Aretec Group, Inc. and sold all 536,042 shares of common stock.

#### 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 nine months ended September 30, 2018 and 2017, there were no changes in the observability of valuation inputs that would have resulted in a reclassification of assets between any levels.

Fair value for each investment is derived using a combination of valuation methodologies that, in the judgment of the investment committee of WhiteHorse Advisers 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.

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The following table presents investments (as shown on the consolidated schedule of investments) that were measured at fair value as of September 30, 2018:

|                           | Level 1 | Level 2 | Level 3   | Total     |
|---------------------------|---------|---------|-----------|-----------|
| First lien secured loans  | \$ -    | \$ -    | \$323,439 | \$323,439 |
| Second lien secured loans | -       | -       | 110,725   | 110,725   |
| Equity                    | 383     | -       | 75,073    | 75,456    |
| Total investments         | \$ 383  | \$ -    | \$509,237 | \$509,620 |

The following table presents investments (as shown on the consolidated schedule of investments) that were measured at fair value as of December 31, 2017:

|                           | Level 1 | Level 2 | Level 3   | Total     |
|---------------------------|---------|---------|-----------|-----------|
| First lien secured loans  | \$ -    | \$ -    | \$230,261 | \$230,261 |
| Second lien secured loans | -       | -       | 172,270   | 172,270   |
| Equity                    | 821     | -       | 37,328    | 38,149    |
| Total investments         | \$ 821  | \$ -    | \$439,859 | \$440,680 |

The following table presents the changes in investments measured at fair value using Level 3 inputs for the three months ended September 30, 2018:

|   | <b>First Lien<br/>Secured<br/>Loans</b> | <b>Second<br/>Lien<br/>Secured<br/>Loans</b> | <b>Equity</b> | <b>Total<br/>Investments</b> |
|---|---|--|---------------|------------------------------|
| Fair value, beginning of period   | \$ 308,560                              | \$ 144,258                                   | \$58,095      | \$ 510,913                   |
| Acquisition of investments  | 26,857                                  | 18,127                                       | 327           | 45,311                       |
| Paid-in-kind income   | 146                                     | -  | -             | 146                          |
| Accretion of discount   | 474                                     | 632  | -             | 1,106                        |
| Proceeds from principal payments and sales of portfolio investments                                 | (11,327 )                               | (52,670 )                                    | -             | (63,997 )                    |
| Net realized gain   | 17                                      | -  | -             | 17                           |
| Net unrealized appreciation (depreciation)  | (1,288 )                                | 378  | 16,651        | 15,741                       |
| Fair value, end of period   | \$ 323,439                              | \$ 110,725                                   | \$75,073      | \$ 509,237                   |
| Change in unrealized appreciation (depreciation) on investments still held as of September 30, 2018 | \$(1,282 )                              | \$ 810                                       | \$16,651      | \$ 16,179                    |

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The following table presents the changes in investments measured at fair value using Level 3 inputs for the nine months ended September 30, 2018:

|   | <b>First Lien</b> | <b>Second Lien</b> |           | <b>Total</b>       |
|---|-------------------|--------------------|-----------|--------------------|
|   | <b>Secured</b>    | <b>Secured</b>     | Equity    | <b>Investments</b> |
|   | <b>Loans</b>      | <b>Loans</b>       |           |                    |
| Fair value, beginning of period   | \$ 230,261        | \$ 172,270         | \$ 37,328 | \$ 439,859         |
| Acquisition of investments  | 191,313           | 18,150             | 327       | 209,790            |
| Paid-in-kind income   | 461               | -                  | -         | 461                |
| Accretion of discount   | 2,514             | 989                | -         | 3,503              |
| Proceeds from principal payments and sales of portfolio investments                                 | (99,004 )         | (81,092 )          | -         | (180,096 )         |
| Net realized losses   | (35 )             | -                  | -         | (35 )              |
| Net unrealized appreciation (depreciation)  | (2,071 )          | 408                | 37,418    | 35,755             |
| Fair value, end of period   | \$ 323,439        | \$ 110,725         | \$ 75,073 | \$ 509,237         |
| Change in unrealized appreciation (depreciation) on investments still held as of September 30, 2018 | \$(1,934 )        | \$ 755             | \$ 37,418 | \$ 36,239          |

The following table presents the changes in investments measured at fair value using Level 3 inputs for the three months ended September 30, 2017:

|   | <b>First Lien<br/>Secured<br/>Loans</b> | <b>Second<br/>Lien<br/>Secured<br/>Loans</b> | Equity    | <b>Total<br/>Investments</b> |
|---|---|--|-----------|------------------------------|
| Fair value, beginning of period   | \$ 242,659                              | \$ 163,288                                   | \$ 31,946 | \$ 437,893                   |
| Acquisition of investments  | -                                       | 8,330  | -         | 8,330                        |
| Paid-in-kind income   | 186                                     | 28   | -         | 214                          |
| Accretion of discount   | 510                                     | 124  | -         | 634                          |
| Proceeds from principal payments and sales of portfolio investments                                 | (14,854 )                               | -  | -         | (14,854 )                    |
| Net realized gains  | 133                                     | -  | -         | 133                          |
| Net unrealized appreciation (depreciation)  | 1,544                                   | (100 )                                       | 1,529     | 2,973                        |
| Fair value, end of period   | \$ 230,178                              | 171,670                                      | 33,475    | 435,323                      |
| Change in unrealized appreciation (depreciation) on investments still held as of September 30, 2017 | \$ 1,585                                | \$ (100 )                                    | \$ 1,529  | \$ 3,014                     |

The following table presents the changes in investments measured at fair value using Level 3 inputs for the nine months ended September 30, 2017:

|  | <b>First Lien<br/>Secured<br/>Loans</b> | <b>Second Lien<br/>Secured<br/>Loans</b> | Equity    | <b>Total<br/>Investments</b> |
|--|---|--|-----------|------------------------------|
| Fair value, beginning of period  | \$ 245,213                              | \$ 135,895                               | \$ 30,606 | \$ 411,714                   |
| Acquisition of investments   | 51,263                                  | 43,520                                   | -         | 94,783                       |
| Paid-in-kind income  | 512                                     | 28                                       | -         | 540                          |
| Accretion of discount  | 1,964                                   | 359                                      | -         | 2,323                        |
| Proceeds from principal payments and sales of portfolio investments                  | (70,921 )                               | (9,668 )                                 | -         | (80,589 )                    |
| Net realized gains   | 133                                     | 23                                       | -         | 156                          |
| Net unrealized appreciation  | 2,014                                   | 1,513                                    | 2,869     | 6,396                        |
| Fair value, end of period  | \$ 230,178                              | 171,670                                  | 33,475    | 435,323                      |
| Change in unrealized appreciation on investments still held as of September 30, 2017 | \$ 1,448                                | \$ 1,292                                 | \$ 2,869  | \$ 5,609                     |

The significant unobservable inputs used in the fair value measurement of the Company's investments are the discount rate, market quotes and exit multiples. An increase or decrease in the discount rate in isolation may result in significantly lower or higher fair value measurement, respectively. An increase or decrease in the market quote for an investment may in isolation result in significantly higher or lower fair value measurement, respectively. An increase or decrease in the exit multiple may in isolation result in significantly higher or lower fair value measurement, respectively. As the fair value of a debt investment diverges from par, which would generally be the case for non-accrual loans, the fair value measurement of that investment is more susceptible to volatility from changes in exit multiples as a significant unobservable input.



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

| Investment Type           | Fair Value at September 30, 2018 | Valuation Techniques   | Unobservable Inputs                | Range (Weighted Average) |
|---------------------------|----------------------------------|--|------------------------------------|--------------------------|
| First lien secured loans  | \$ 101,466                       | Discounted cash flows  | Discount rate                      | 10.3% – 19.5% (14.2%)    |
|                           | 11,229                           |  | Exit multiple                      | 4.5x – 7.0x (5.9x)       |
|                           | 210,744                          | Market multiples<br>Weighting of discounted cash flows and consensus pricing | Exit multiple                      | 2.3x                     |
|                           |                                  |  | Discount rate                      | 9.9% – 20.9% (11.9%)     |
|                           |                                  |  | Market quotes                      | 84.0 – 100.0 (97.5)      |
|                           | \$ 323,439                       |  | Exit multiple                      | 4.5x – 10.0x (7.0x)      |
| Second lien secured loans | \$ 73,041                        | Discounted cash flows  | Discount rate                      | 11.0% – 21.9% (16.1%)    |
|                           | 103                              |  | Exit multiple                      | 4.1x – 8.0x (6.0x)       |
|                           | 29,081                           | Market multiples<br>Weighting of discounted cash flows and consensus pricing | Exit multiple                      | 2.3x                     |
|                           |                                  |  | Discount rate                      | 14.9% – 18.2% (16.3%)    |
|                           |                                  |  | Market quotes                      | 93.0 – 98.0 (95.9)       |
|                           | 8,500                            | Weighting of discounted cash flows and expected repayment                    | Exit multiple                      | 1.3x                     |
|                           |                                  |  | Discount rate                      | 18.7%                    |
| \$ 110,725                |                                  | Repayment price  | 101.0                              |                          |
| Common Equity             | \$ 19,334                        | Discounted cash flows  | Discount rate                      | 10.2%                    |
|                           | 535                              |  | Discount for lack of marketability | 2.5%                     |
|                           | 53,817                           | Consensus pricing  | Market quotes                      | \$3.8/s                  |
|                           | \$ 73,686                        | Expected sale  | Exit Price                         | \$100.4/s                |
| Warrant                   | \$ 1,287                         | Discounted cash flows and option-pricing method                              | Discount rate                      | 20.0% - 33.0% (24.8%)    |
|                           |                                  |  | Exit multiple                      | 4.0x – 8.0x (5.7x)       |
|                           |                                  |  | Volatility                         | 2.6% - 25.0% (10.2%)     |
|                           | 100                              | Market multiples   | Discount for lack of marketability | 13.0% - 55.0% (25.9%)    |
|                           | Exit multiple                    |  | 5.7x                               |                          |

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Discount for lack of  
marketability 15.0%

\$ 1,387

Total Level 3  
Investments

\$ 509,237

| Investment Type           | Fair Value at     |     | Valuation Techniques  | Unobservable Inputs | Range (Weighted Average) |                 |                    |
|---------------------------|-------------------|-----|---|---------------------|--------------------------|-----------------|--------------------|
|                           | December 31, 2017 |     |   |                     |                          |                 |                    |
| First lien secured loans  | \$ 143,483        |     | Discounted cash flows   | Discount rate       | 10.8% - 79.8% (20.4%)    |                 |                    |
|                           |                   |     |   | Exit multiple       | 2.6x - 7.0x (5.8x)       |                 |                    |
|                           |                   |     | Weighting of discounted cash flows and consensus pricing                  | Discount rate       | 9.7% - 15.2% (12.2%)     |                 |                    |
|                           |                   |     |   | Market quotes       | 81.0 - 99.0 (94.9)       |                 |                    |
|                           | 86,778            |     | Exit multiple   | 5.0x - 8.5x (6.4x)  |                          |                 |                    |
|                           | 230,261           |     |   |                     |                          |                 |                    |
| Second lien secured loans | 96,021            |     | Discounted cash flows   | Discount rate       | 11.7% - 112.2% (14.1%)   |                 |                    |
|                           |                   |     |   | Exit multiple       | 2.6x - 8.0x (7.3x)       |                 |                    |
|                           |                   |     | Weighting of discounted cash flows and consensus pricing                  | Discount rate       | 9.7% - 15.3% (12.5%)     |                 |                    |
|                           |                   |     |   | Market quotes       | 89.0 - 100.3 (96.5)      |                 |                    |
|                           |                   |     |   | 46,911              |                          | Exit multiple   | 5.0x - 8.5x (6.5x) |
|                           |                   |     |   | 4,466               |                          | Repayment price | 101.0              |
|                           |                   |     | Discount rate   | 15.4%               |                          |                 |                    |
|                           | 24,872            |     | Repayment price   | 100.0               |                          |                 |                    |
|                           | 172,270           |     |   |                     |                          |                 |                    |
| Common Equity             | 18,504            | 428 | Discounted cash flows   | Discount rate       | 11.3%                    |                 |                    |
|                           |                   |     | Consensus pricing   | Market quotes       | \$3.0/s                  |                 |                    |
|                           |                   |     | Weighting of discounted cash flows, market multiple and consensus pricing | Discount rate       | 19.0%                    |                 |                    |
|                           |                   |     |   | Exit multiple       | 7.3x                     |                 |                    |
|                           | 17,314            |     | Market quotes   | \$38.0/s            |                          |                 |                    |
|                           | 36,246            |     |   |                     |                          |                 |                    |
| Warrant                   | 902               |     | Discounted cash flows and Option-pricing method                           | Discount rate       | 27.0%                    |                 |                    |
|                           |                   |     |   | Exit multiple       | 4.5x                     |                 |                    |
|                           |                   |     |   | 180                 |                          | Volatility      | 25.0%              |
|                           | 1,082             |     | Market multiple   | 7.5x                |                          |                 |                    |
| Total Level 3 investments | \$ 439,859        |     |   |                     |                          |                 |                    |

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 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 amortized cost and fair value of the Company's borrowings as of September 30, 2018 and December 31, 2017. The amortized cost disclosed below excludes debt issuance costs. The fair value of the Credit Facility (as defined in Note 5) was 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 Company's 6.50% senior notes due 2020 (the "Senior Notes") was estimated using the trailing 10-day volume weighted average quoted price as of the valuation date. The fair value of the Company's 6.0% private notes due 2023 (the "Private Notes") was estimated using recent transaction prices as of the valuation date.

|                 | Fair Value Level | September 30, 2018 |            | December 31, 2017 |            |
|-----------------|------------------|--------------------|------------|-------------------|------------|
|                 |                  | Amortized Cost     | Fair Value | Amortized Cost    | Fair Value |
| Credit Facility | 3                | \$ 168,500         | \$ 171,686 | \$ 155,000        | \$ 157,139 |
| Senior Notes    | 2                | -                  | -          | 30,000            | 30,666     |
| Private Notes   | 3                | 30,000             | 30,000     |                   |            |
|                 |                  | \$ 198,500         | \$ 201,686 | \$ 185,000        | \$ 187,805 |

## NOTE 5 - BORROWINGS

Historically, the 1940 Act has permitted the Company to issue "senior securities," including borrowing money from banks or other financial institutions, only in amounts such that its asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Small Business Credit Availability Act (the "SBCAA") was enacted into law. The SBCAA, among other things, amended the 1940 Act to reduce the asset coverage requirements applicable to business development companies from 200% to 150% so long as the business development company meets certain disclosure requirements and obtains certain approvals. At the Company's annual meeting of stockholders held on August 1, 2018, the Company's stockholders approved the reduced asset coverage ratio from 200% to 150%, such that the Company's maximum debt-to-equity ratio increased from a prior maximum of 1.0x (equivalent of \$1 of debt outstanding for each \$1 of equity) to a maximum of 2.0x (equivalent to \$2 of debt outstanding for each \$1 of equity). As a result, the Company's asset coverage requirements applicable to senior securities decreased from 200% to 150%, effective August 2, 2018. As of September 30, 2018, the Company's asset coverage for borrowed amounts was 260.0%.

Total borrowings outstanding and undrawn as of September 30, 2018, was as follows:

|                              | Maturity | Rate    | Face Amount | Undrawn   |
|------------------------------|----------|---------|-------------|-----------|
| Credit Facility              | 2021     | L+2.75% | \$ 168,500  | \$ 31,500 |
| Private Notes                | 2023     | 6.00 %  | 30,000      | -         |
| Total debt                   |          |         | 198,500     | \$ 31,500 |
| Debt issuance cost           |          |         | (2,792 )    |           |
| Total debt net issuance cost |          |         | \$ 195,708  |           |

Total borrowings outstanding and undrawn as of December 31, 2017, was as follows:

|                              | Maturity | Rate    | Face Amount | Undrawn   |
|------------------------------|----------|---------|-------------|-----------|
| Credit Facility              | 2021     | L+2.75% | \$ 155,000  | \$ 45,000 |
| Senior Notes                 | 2020     | 6.50 %  | 30,000      | -         |
| Total debt                   |          |         | 185,000     | \$ 45,000 |
| Debt issuance cost           |          |         | (2,878 )    |           |
| Total debt net issuance cost |          |         | \$ 182,122  |           |

Credit Facility: On December 23, 2015, WhiteHorse Credit entered into a \$200,000 revolving credit and security agreement with JPMorgan Chase Bank, National Association (“JPMorgan”), as administrative agent and lender (the “Credit Facility”). On June 27, 2016, the Credit Facility was amended and restated to clarify certain terms. On June 29, 2017, WhiteHorse Credit and JPMorgan again amended and restated the terms of the Credit Facility to, among other things, (i) extend the maturity date to December 29, 2021, (ii) increase the amount contained within the accordion feature which allows for the expansion of the borrowing limit from \$220,000 to \$235,000 and (iii) reduce the interest rate spread applicable on outstanding borrowings to 2.75%. On May 15, 2018, the terms of the Credit Facility were again amended and restated to, among other things, permit the financing of certain assets to be held by WhiteHorse California, a wholly owned subsidiary of WhiteHorse Credit.

The Credit Facility bears interest at LIBOR plus 2.75% on outstanding borrowings. The Company is required to pay a non-usage fee which accrues at 1.00% per annum (or 0.60% per annum with respect to any date in which the aggregated amount of outstanding borrowings is greater than 77.5% of the total commitments), on the average daily unused amount of the financing commitments to the extent the aggregate principal amount available under the Credit Facility has not been borrowed. Prior to December 29, 2020, the Company, at its discretion and option, may increase the total borrowing limit under the Credit Facility from \$200,000 to \$235,000 (with the required minimum outstanding borrowings also increasing from \$155,000 to \$175,000) by submitting written notification of such intent and subject to consent from the lender and other terms provided for under the Credit Facility. In connection with the Credit Facility, WhiteHorse Credit pledged securities with a fair value of approximately \$409,589 as of September 30, 2018 as collateral. The Credit Facility has a final maturity date of December 29, 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. As of September 30, 2018, the Company had \$168,500 in outstanding borrowings and \$31,500 undrawn under the Credit Facility. Weighted average outstanding borrowings were \$170,884 and \$166,628 at a weighted average interest rate of 5.07% and 4.79%, respectively, for the three and nine months ended September 30, 2018. At September 30, 2018, the interest rate in effect on outstanding borrowings was 5.07%. 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 September 30, 2018, approximately \$31,500 was 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 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 was paid quarterly on March 31, June 30, September 30 and December 31, at an annual rate of 6.50%. On July 10, 2018, the Company notified the trustee for its Senior Notes of its election to redeem the \$30,000 aggregate principal amount of the Senior Notes outstanding in full in accordance with the terms of the indenture agreement under which the Senior Notes were issued. The redemption was completed on August 9, 2018. Following the redemption, none of the Senior Notes remained outstanding, and they were delisted from the NASDAQ Global Select Market. Prior to August 9, 2018, the Senior Notes were listed under the symbol “WHFBL.”

Private Notes: On July 13, 2018, the Company entered into an agreement (the “Note Purchase Agreement”) to sell in a private offering \$30,000 aggregate principal amount of senior unsecured Private Notes to qualified institutional investors in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended. Interest on the Private Notes is payable semiannually on February 7 and August 7, at a fixed, annual rate of 6.00%. This interest rate is subject to increase (up to 6.50%) in the event that, subject to certain exceptions, the Private Notes cease to have an investment grade rating. The Private Notes mature on August 7, 2023, unless redeemed, purchased or prepaid prior to such date by the Company or its affiliates in accordance with their terms. The Private Notes are general unsecured obligations of the Company that rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by the Company. The closing of the transaction occurred on August 7, 2018. The Company used the net proceeds from this offering, together with cash on hand, to redeem all of its 6.50% Senior Notes due 2020.

## 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. On November 1, 2018, at an in-person meeting, the Company’s board of directors approved an amended and restated investment advisory agreement (the “Investment Advisory Agreement”). The Investment Advisory Agreement was amended and restated to reduce the base management fee on assets financed using leverage over 200% asset coverage (over 1.0x debt to equity) as further discussed below. Subject to the overall supervision of the Company’s board of directors, WhiteHorse Advisers 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*

Prior to November 1, 2018, the base management fee is calculated at an annual rate of 2.0% of the average carrying value of 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. Effective November 1, 2018, the base management fee is calculated at an annual rate of 2.0% of the average carrying value of consolidated gross assets (including cash and cash equivalents and assets purchased with borrowed funds); provided, however, the base management fee shall be calculated at an annual rate of 1.25% of the average carrying value of consolidated gross assets (including cash and cash equivalents and assets purchased with borrowed funds), that exceeds the product of (i) 200% and (ii) the value of the Company's total net assets, at the end of the two most recently completed calendar quarters. Base management fees are payable quarterly in arrears and are appropriately pro-rated for any partial month or quarter.

During the three and nine months ended September 30, 2018, the Company incurred base management fees of \$2,646 and \$7,698, respectively, net of fees waived. During the three and nine months ended September 30, 2017, the Company incurred base management fees of \$2,481 and \$7,133, respectively. WhiteHorse Advisers has 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 September 30, 2018, December 31, 2018 and March 31, 2019; and for the fiscal quarter ended June 30, 2019 only to the extent that the determination of base management fees would otherwise include March 31, 2019 cash and cash equivalents and restricted cash and cash equivalents for the purpose of calculating the average carrying value of consolidated gross assets.

*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 its 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 consisted 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 (the “Income Incentive Fee”), is calculated and payable quarterly in arrears and is determined 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 the investment adviser. This portion of the Company's 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 (the “Capital Gains 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 through the end of each calendar year, computed net of aggregate cumulative realized capital losses and aggregate cumulative unrealized capital depreciation through the end of each year (the “Capital Gains Incentive Fee Base”), 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.

In accordance with GAAP, the Company is also required to include the aggregate unrealized capital appreciation on investments in the calculation and accrue a capital gains incentive fee on a quarterly basis if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Advisory Agreement. If the Capital Gains Incentive Fee Base, adjusted as required by GAAP to include unrealized capital appreciation, is positive at the end of a reporting period, then GAAP requires the Company to accrue a Capital Gains Incentive Fee equal to 20% of such amount, less the aggregate amount of any Capital Gains Incentive Fees previously paid and Capital Gains Incentive Fees accrued under GAAP in all prior periods. If such amount is negative, then there is no accrual for such period. The resulting accrual under GAAP in a given period may result in either additional expense (if such cumulative amount is greater than in the prior period) or a reversal of previously recorded expense (if such cumulative amount is less than in the prior period). There can be no assurance that such unrealized capital appreciation will be realized in the future. For the three and nine months ended September 30, 2018, the Company accrued a Capital Gains Incentive Fee of \$3,137 and \$5,328, respectively, which accruals are included in performance-based incentive fees in the consolidated statements of operations. For the three and nine months ended September 30, 2017, the Company did not accrue a Capital Gains Incentive Fee. As of September 30, 2018 and December 31, 2017, included in management and incentive fees payable on the consolidated statements of assets and liabilities were \$5,328 and \$0, respectively, for cumulative accruals of Capital Gains Incentive Fees under GAAP, including any amounts payable pursuant to the Investment Advisory Agreement as described above.

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 Income Incentive Fee even after incurring a loss in that quarter due to realized and unrealized capital losses.

During the three and nine months ended September 30, 2018, the Company incurred total performance-based incentive fees of \$4,865 and \$10,900, respectively. During the three and nine months ended September 30, 2017, the Company incurred total performance-based incentive fees of \$1,487 and \$4,852, 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. 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 financial officer and chief compliance 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 such third party received reimbursement from the Company.

During the three and nine months ended September 30, 2018, the Company incurred allocated administrative service fees of \$175 and \$525, respectively. During the three and nine months ended September 30, 2017, the Company incurred allocated administrative service fees of \$246 and \$538, respectively.

Co-investments with Related Parties: At September 30, 2018 and December 31, 2017, certain officers or employees affiliated with or employed by WhiteHorse Advisers and its related entities maintained co-investments in the Company's investments of \$191 and \$61, respectively.

At September 30, 2018 and December 31, 2017, certain funds affiliated with WhiteHorse Advisers and its related entities maintained co-investments in the Company's investments with fair value of \$929,572 and \$480,752, respectively.

## **NOTE 7 - COMMITMENTS AND CONTINGENCIES**

**Commitments:** In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statement of assets and liabilities. The Company attempts to limit its credit risk by conducting extensive due diligence and obtaining collateral where appropriate.

The balance of unfunded commitments to extend credit was approximately \$2.0 million and \$6.4 million as of September 30, 2018 and December 31, 2017, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The following table summarizes the Company's unfunded commitments as of September 30, 2018 and December 31, 2017:

|                                | Unfunded<br>Commitment as of |                         |
|--------------------------------|------------------------------|-------------------------|
|                                | September<br>30,<br>2018     | December<br>31,<br>2017 |
| Revolving Loan Commitments:    |                              |                         |
| Lift Brands, Inc.              | \$752                        | \$ -                    |
| Nelson Worldwide, LLC          | 1,284                        | -                       |
|                                | 2,036                        | -                       |
| Delayed Draw Loan Commitments: |                              |                         |
| Planet Fit Indy 10 LLC         | -                            | 3,525                   |
| Rural Media Group, Inc.        | -                            | 2,867                   |
|                                | -                            | 6,392                   |
| Total Unfunded Commitments     | \$2,036                      | \$ 6,392                |

**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>Nine months ended</b> |            |       |   |
|--|--------------------------|------------|-------|---|
|  | <b>September 30,</b>     |            |       |   |
|  | 2018                     | 2017       |       |   |
| <b>Per share data:</b> <sup>(1)</sup>  |                          |            |       |   |
| Net asset value, beginning of period   | \$ 13.98                 | \$ 13.63   |       |   |
| Net investment income  | 0.83                     | 1.02       |       |   |
| Net realized and unrealized gains on investments                             | 1.72                     | 0.34       |       |   |
| Net increase in net assets resulting from operations                         | 2.55                     | 1.36       |       |   |
| Distributions declared from net investment income                            | (1.07                    | )          | (1.07 | ) |
| Net asset value, end of period   | \$ 15.46                 | \$ 13.92   |       |   |
| Total annualized return based on market value <sup>(2)</sup>                 | 4.78                     | %          | 28.34 | % |
| Total annualized return based on net asset value                             | 23.10                    | %          | 13.10 | % |
| Net assets, end of period  | \$ 317,656               | \$ 258,548 |       |   |
| Per share market value at end of period                                      | \$ 13.90                 | \$ 14.75   |       |   |
| Shares outstanding end of period   | 20,546,032               | 20,518,104 |       |   |
| <b>Ratios/Supplemental data:</b> <sup>(3)</sup>                              |                          |            |       |   |
| Ratio of expenses before incentive fees to average net assets <sup>(4)</sup> | 8.25                     | %          | 8.39  | % |
| Ratio of incentive fees to average net assets <sup>(4)</sup>                 | 4.81                     | %          | 2.45  | % |
| Ratio of total expenses to average net assets <sup>(4)</sup>                 | 13.06                    | %          | 10.84 | % |
| Ratio of net investment income to average net assets <sup>(4)</sup>          | 7.48                     | %          | 9.80  | % |

|                          |       |   |       |   |
|--------------------------|-------|---|-------|---|
| Portfolio turnover ratio | 37.36 | % | 18.91 | % |
|--------------------------|-------|---|-------|---|

(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 distribution reinvestment plan.

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

During the nine months ended September 30, 2018, WhiteHorse Advisers irrevocably waived \$115 of base management fees. Excluding these management fee waivers, the ratios to average net assets consisting of the ratio (4) of expenses before incentive fees, ratio of incentive fees, ratio of total expenses and ratio of net investment income would have been 8.30%, 4.80%, 13.10% and 7.44%, respectively. WhiteHorse Advisers did not waive any base management fees during the nine months ended September 30, 2017.

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.



**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</b> |            | <b>Nine months ended</b> |            |
|--|---------------------------|------------|--------------------------|------------|
|  | <b>September 30,</b>      |            | <b>September 30,</b>     |            |
|  | 2018                      | 2017       | 2018                     | 2017       |
| Net increase in net assets resulting from operations                             | \$19,462                  | \$9,056    | \$52,369                 | \$25,690   |
| Weighted average shares outstanding  | 20,545,726                | 20,518,104 | 20,536,591               | 19,062,764 |
| Basic and diluted per share net increase in net assets resulting from operations | \$0.95                    | \$0.45     | \$2.55                   | \$1.36     |

**NOTE 10 - SUBSEQUENT EVENTS**

The Company has evaluated events that have occurred after the balance sheet date but before the consolidated financial statements are issued and has determined that there were no additional subsequent events requiring adjustment or disclosure in the consolidated financial statements.

## 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, as amended, do not apply to 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., or Loan Fund II, 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.

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 H.I.G. WhiteHorse Advisers, LLC, or WhiteHorse Advisers, 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.”

On November 20, 2015, we completed a non-transferable subscription rights offering, or the Rights Offering, to our stockholders of record as of October 23, 2015. The rights entitled record stockholders to subscribe for up to an aggregate of 3,321,033 shares of our common stock at a price equal to \$13.55 per share, the closing price of the Company’s stock as of October 16, 2015. Record stockholders received one right for each share of common stock owned on the record date. The rights entitled the holders to purchase one new share of common stock for every 4.511505 rights held, and record stockholders who fully exercised their rights were entitled to subscribe, subject to certain limitations and allotment, for additional shares that remained unsubscribed as a result of any unexercised rights. The Rights Offering was fully subscribed, and net proceeds, after payment of the dealer manager fees and other offering expenses, was approximately \$44.0 million.

On June 30, 2017, we completed an offering of 2,200,000 shares of our common stock at a public offering price of \$13.97 per share. WhiteHorse Advisers agreed to bear a portion of the underwriting discounts and commissions in connection with the offering, such that the issuance of shares resulted in net proceeds to us of approximately \$30.3 million, which was at or above our net asset value, or NAV, per share at the time of the offering.

Historically, the 1940 Act has permitted us to issue “senior securities,” including borrowing money from banks or other financial institutions, only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Small Business Credit Availability Act, or the SBCAA, was enacted into law. The SBCAA, among other things, amended the 1940 Act to reduce the asset coverage requirements applicable to business development companies from 200% to 150% so long as the business development company meets certain disclosure requirements and obtains certain approvals. At our annual meeting of stockholders held on August 1, 2018, our stockholders approved the reduced asset coverage ratio from 200% to 150%, such that our maximum debt-to-equity ratio increased from a prior maximum of 1.0x (equivalent of \$1 of debt outstanding for each \$1 of equity) to a maximum of 2.0x (equivalent to \$2 of debt outstanding for each \$1 of equity). As a result, our asset coverage requirements applicable to senior securities decreased from 200% to 150%, effective August 2, 2018.

We are a direct lender targeting debt investments in privately held, lower middle market companies located in the United States. We define the lower middle market as those companies with enterprise values between \$50 million and \$350 million. 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 lower middle market companies across a broad range of industries. Such loans typically carry a floating interest rate based on the London Interbank Offered Rate, or LIBOR, plus a spread and typically have a term of three to six years. While we focus principally on originating senior secured loans to lower middle market 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 lower middle 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 WhiteHorse Advisers and are supervised by our board of directors, a majority of whom are independent of us, WhiteHorse Advisers and its affiliates. Under our 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 our 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.

### *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 of three to six years and bear interest at a fixed or floating rate based on a spread 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 becomes 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 fee income when earned. 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) the allocable portion of overhead 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;

the base management fee and any incentive fee;

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

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;

transfer agent and custody fees and expenses;

distributions on our shares;

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 financial officer and chief compliance officer along with their respective staffs.

WhiteHorse Advisers or WhiteHorse Administration may pay for certain expenses that we incur, which are subject to reimbursement by us.



## Recent Developments

WhiteHorse Advisers has 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 September 30, 2018, December 31, 2018 and March 31, 2019; and for the fiscal quarter ended June 30, 2019 only to the extent that the determination of base management fees would otherwise include March 31, 2019 cash and cash equivalents and restricted cash and cash equivalents for the purpose of calculating the average carrying value of consolidated gross assets.

On November 1, 2018, at an in-person meeting, our board of directors approved an amended and restated Investment Advisory Agreement. The Investment Advisory Agreement was amended and restated to reduce the base management fee on assets financed using leverage over 200% asset coverage (over 1.0x debt to equity). Effective November 1, 2018, the base management fee is calculated at an annual rate of 2.0% of the average carrying value of consolidated gross assets (including cash and cash equivalents and assets purchased with borrowed funds); provided, however, the base management fee shall be calculated at an annual rate of 1.25% of the average carrying value of consolidated gross assets (including cash and cash equivalents and assets purchased with borrowed funds), that exceeds the product of (i) 200% and (ii) the value of our total net assets, at the end of the two most recently completed calendar quarters.

We are exploring the formation of a joint venture with an experienced institutional investor to invest in senior secured credit assets consistent with our overall investment strategy. There is no assurance that we will ultimately form such a joint venture, which remains in an early stage of development.

## Consolidated Results of Operations

The consolidated 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 and nine months ended September 30, 2018 totaled \$15.3 million and \$46.6 million, respectively, and was primarily attributable to interest, dividends and fees earned from investments in portfolio companies. This compares to investment income for the three and nine months ended September 30, 2017 of \$13.0 million and \$40.9 million, respectively. Investment income increased primarily as a result of an increase in fee income resulting from prepayments, as well as an increase in interest income due to an increase in the average balance of income-earning investments and higher average interest rates. Included in investment income for the three and nine months ended September 30, 2018 is \$0.7 million and \$3.5 million, respectively, of non-recurring fee income. Non-recurring fee income for the three and nine months ended September 30, 2017 totaled \$0.1 million and \$1.6 million, respectively. We expect to generate some level of non-recurring fee income during most quarters from prepayments, amendments and other sources.

### *Operating Expenses*

Expenses, net of fees waived, totaled \$11.5 million and \$29.6 million for the three and nine months ended September 30, 2018, respectively. This compares to expenses of \$7.1 million and \$21.5 million for the three and nine months ended September 30, 2017, respectively.

Interest expense totaled \$3.3 million and \$8.6 million for the three and nine months ended September 30, 2018, respectively. We incurred interest expense of \$2.4 million and \$7.4 million for the three and nine months ended September 30, 2017, respectively. The increase was due to higher interest rates resulting from an increase in LIBOR over the comparable period during the prior year and includes approximately \$0.3 million of accelerated amortization of deferred financing costs relating to the refinancing of our Senior Notes in August 2018.

Base management fees, net of fees waived, totaled \$2.6 million and \$7.7 million for the three and nine months ended September 30, 2018, respectively, and \$2.5 million and \$7.1 million for the three and nine months ended September 30, 2017, respectively. The increase in base management fees was attributable to an increase in total gross assets as compared to the prior year period. In addition, WhiteHorse Advisers agreed to waive that portion of the base management fees 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 September 30, 2018, December 31, 2018 and March 31, 2019. For the three and nine months ended September 30, 2018, WhiteHorse Advisers waived approximately \$0.1 million and \$0.1 million, respectively, in base management fees. For the three and nine months ended September 30, 2017, there were no base management fees waived.

Performance-based incentive fees totaled \$4.9 million and \$10.9 million for the three and nine months ended September 30, 2018, respectively, and \$1.5 million and \$4.9 million for the three and nine months ended September 30, 2017, respectively. The increase in performance-based incentive fees was attributable to an increase in net investment income, as well as an additional \$5.3 million accrual for the capital gains incentive fee component, which was driven by the increase in unrealized appreciation in Aretec Group, Inc.

Administrative service fees for the three and nine months ended September 30, 2018 totaled \$0.2 million and \$0.5 million, respectively. This compares to administrative service fees of \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2017, respectively.

General and administrative expenses were \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2018, respectively, and \$0.5 million and \$1.6 million during the three and nine months ended September 30, 2017, respectively.

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

For the three and nine months ended September 30, 2018, we incurred a net realized gain of approximately \$17 thousand and \$90 thousand, respectively. For the three and nine months ended September 30, 2017, we incurred a net realized gain of \$0.1 million and a net realized gain of \$0.2 million, respectively.

For the three and nine months ended September 30, 2018, we generated net unrealized appreciation of \$15.7 million and \$35.3 million, respectively. For the three and nine months ended September 30, 2017, we generated net unrealized appreciation of \$3.0 million and \$6.4 million, respectively. Unrealized appreciation and depreciation generally arise from credit-related adjustments and the reversal of unrealized depreciation or appreciation due to repayments or disposals. Net unrealized appreciation during the three months ended September 30, 2018 was primarily attributable to a fair value increase in our investment in Aretec Group, Inc.. Net unrealized appreciation during the nine months ended September 30, 2018 related in part to fair value increases on our investments in Aretec Group, Inc. partially offset by fair value markdowns on our investments in Group HIMA San Pablo, Inc. and our term loan investment in AG Kings Holdings Inc.



## 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, borrowings under the Credit Facility (as defined below), 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. In the future, we may obtain borrowings under other credit facilities and from issuances of senior securities to the extent permitted by the 1940 Act. In March 2018, the SBCAA was enacted into law, which, among other things, amended the 1940 Act to reduce the asset coverage requirements applicable to business development companies from 200% to 150% so long as the business development company meets certain disclosure requirements and obtains certain approvals. At our annual meeting of stockholders held on August 1, 2018, our stockholders approved the reduced asset coverage ratio from 200% to 150%, such that our maximum debt-to-equity ratio increased from a prior maximum of 1.0x (equivalent of \$1 of debt outstanding for each \$1 of equity) to a maximum of 2.0x (equivalent to \$2 of debt outstanding for each \$1 of equity). As a result, our asset coverage requirements applicable to senior securities decreased from 200% to 150%, effective August 2, 2018. See “-Overview.” 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, such as through at-the-market offerings, direct placements or otherwise, 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. 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. On June 30, 2017, we completed an offering of 2,200,000 shares of common stock at a public offering price of \$13.97 per share, which resulted in net proceeds to us of approximately \$30.3 million. Our investment adviser agreed to bear a portion of the underwriting discounts and commissions in connection with the offering of shares, such that the issuance of shares was at or above the net asset value per share at the time of the offering. If we were to issue additional shares of our common stock during the next 12 months, we do not intend to issue shares below the then-current 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 generally once a quarter after the payment of operating expenses and amounts due under the Credit Facility.

Our operating activities used cash and cash equivalents of \$3.3 million during the nine months ended September 30, 2018, primarily from the net acquisition of investments. Our financing activities used cash and cash equivalents of \$9.0 million during the nine months ended September 30, 2018, primarily from net repayments under our revolving credit facility and the payment of distributions to stockholders.

Our operating activities generated cash and cash equivalents of approximately \$3.1 million during the nine months ended September 30, 2017, primarily from cash collected on our net investment income partially offset by net cash deployed for the acquisition of investments. Our financing activities generated cash and cash equivalents of \$10.0 million during the nine months ended September 30, 2017, primarily from the issuance of common stock partially offset by the payment of distributions to stockholders.

As of September 30, 2018, we had cash and cash equivalent resources of \$26.6 million, including \$15.1 million of restricted cash. As of the same date, we had approximately \$31.5 million undrawn and available to be drawn under the Credit Facility based on the collateral and portfolio quality requirements stipulated in the related credit agreement.

As of December 31, 2017, we had cash and cash equivalent resources of \$38.9 million, including \$3.7 million of restricted cash. As of the same date, we had \$45.0 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 December 23, 2015, our wholly owned subsidiary WhiteHorse Finance Credit I, LLC, or WhiteHorse Credit, entered into a \$200 million revolving credit and security agreement, or the Credit Facility, with JPMorgan Chase Bank, National Association, or the Lender. On June 27, 2016, the Credit Facility was amended and restated to clarify certain terms. On June 29, 2017, the Credit Facility was again amended and restated to, among other things, (i) extend the maturity date to December 29, 2021, (ii) increase the amount contained within the accordion feature which allows for the expansion of the borrowing limit from \$220 million to \$235 million and (iii) reduce the interest rate spread applicable on outstanding borrowings to 2.75%. On May 15, 2018, the terms of the Credit Facility were again amended and restated to, among other things, permit the financing of certain assets to be held by WhiteHorse Finance (CA), LLC, or WhiteHorse California, a wholly owned subsidiary of WhiteHorse Credit.

As of September 30, 2018, there were \$168.5 million in outstanding borrowings under the Credit Facility and, based on collateral and portfolio requirements stipulated in the credit agreement, approximately \$31.5 million was available to be drawn on such date. The facility is secured by all of the assets of WhiteHorse Credit, which included loans with a fair value of \$409.6 million as of September 30, 2018.

As of December 31, 2017, there was \$155.0 million in outstanding borrowings under the Credit Facility and, based on collateral and portfolio requirements stipulated in the Credit Facility agreement, approximately \$45.0 million was available to be drawn on such date. The Credit Facility is secured by all of the assets of WhiteHorse Credit, which included loans with a fair value of \$376.1 million as of December 31, 2017.

The Credit Facility provides for borrowings in an aggregate principal amount up to \$200 million with an accordion feature which allows for the expansion of the borrowing limit up to \$235 million, subject to consent from the Lender and other customary conditions. Prior to December 29, 2020, the minimum required outstanding borrowings under the Credit Facility are \$155 million, unless the accordion feature is exercised, at which time the minimum required outstanding borrowings will be \$175 million.

Under the Credit Facility, there are two coverage tests that WhiteHorse Credit must meet on specified compliance dates in order to permit WhiteHorse Credit to make new borrowings and to make distributions in the ordinary course - a borrowing base test and a market value test. The borrowing base test compares, at any given time, the aggregate outstanding amount of all Lender advances under the Credit Facility less the amount of principal proceeds in respect of the collateral on deposit in the accounts to the NAV of the collateral, as set forth in the credit agreement and related documentation. To meet the borrowing base test, this ratio must be less than or equal to 50%, as set forth in the credit agreement and related documentation. To meet the market value test, the value of WhiteHorse Credit's portfolio investments must exceed a minimum of 165% of the aggregate outstanding amount of all Lender advances as set forth in the credit agreement and related documentation.

Advances under the Credit Facility are based on the three-month LIBOR plus an annual spread of 2.75%. Interest is payable quarterly in arrears. WhiteHorse Credit is required to pay a non-usage fee which accrues at 1.00% per annum (or 0.60% per annum with respect to any date in which the aggregated amount of outstanding borrowings is greater than 77.5% of the total commitments), on the average daily unused amount of the financing commitments, to the extent the aggregate principal amount available under the Credit Facility has not been borrowed. WhiteHorse Credit paid an upfront fee and incurred certain other customary costs and expenses in connection with obtaining the Credit Facility. Any amounts borrowed under the Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on December 29, 2021.

The Credit Facility and the related documents require WhiteHorse Finance and WhiteHorse Credit to, among other things, agree to make certain customary representations and to comply with customary affirmative and negative covenants. The Credit Facility also includes customary events of default for credit facilities of this nature, including breaches of representations, warranties or covenants by WhiteHorse Finance or WhiteHorse Credit, the occurrence of a change in control, or failure to maintain certain required ratios.



If we fail to perform our obligations under the credit agreement or the related agreements, an event of default may occur, 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 agreement. Any such developments could have a material adverse effect on our financial condition and results of operations.

If any of our contractual obligations discussed above is 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.

#### *Senior Notes*

On July 23, 2013, we completed a public offering of our Senior Notes, the net proceeds of which were used to reduce outstanding obligations under an unsecured term loan. Interest on the Senior Notes was payable quarterly on March 31, June 30, September 30 and December 31, at an annual rate of 6.50%. On July 10, 2018, we notified American Stock Transfer & Trust Company, LLC, the trustee of our Senior Notes, of our election to redeem the \$30 million aggregate principal amount of the Senior Notes outstanding, and instructed the trustee to provide notice of such redemption to the holders of the Senior Notes in accordance with the terms of the indenture agreement under which the Senior Notes were issued. The redemption was completed on August 9, 2018, and the Senior Notes were delisted from the NASDAQ Global Select Market where they were previously listed under the symbol “WHFBL.”

#### *Private Notes*

On July 13, 2018, we entered into an agreement, or the Note Purchase Agreement, to sell in a private offering \$30 million aggregate principal amount of senior unsecured notes, or the Private Notes, to qualified institutional investors in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended. Interest on the Private Notes is payable semiannually on February 7 and August 7, at a fixed, annual rate of 6.00%. This interest rate is subject to increase (up to 6.50%) in the event that, subject to certain exceptions, the Private Notes cease to have an investment grade rating. The Private Notes mature on August 7, 2023, unless redeemed, purchased or prepaid prior to such date by us or our affiliates in accordance with their terms. The Private Notes are general unsecured obligations that rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness that we may issue. The closing of the transaction occurred on August 7, 2018. We used the net proceeds from this offering, together with cash on hand, to redeem all of the Senior Notes, as discussed above.

#### **Portfolio Investments and Yield**

As of September 30, 2018, our investment portfolio consisted primarily of senior secured loans across 49 positions in 36 companies with an aggregate fair value of \$509.6 million. As of that date, the majority of our portfolio was comprised of senior secured loans to lower middle market borrowers and nearly all of those loans were variable-rate investments (primarily indexed to LIBOR) with the single fixed-rate loan investment representing less than 0.1% based on fair value. As of September 30, 2018, our portfolio had an average investment size of \$10.4 million based on fair value, with investment sizes ranging from less than \$0.1 million to \$53.8 million and a weighted average effective yield of 11.9% on our income-producing investments. The weighted average effective yield on our total portfolio, including equities, was 11.3% as of this date.

As of December 31, 2017, our investment portfolio consisted primarily of senior secured loans across 43 positions in 32 companies with an aggregate fair value of \$440.7 million. As of that date, the majority of our portfolio was comprised of senior secured loans to lower middle market borrowers and approximately 99.9% of those loans were variable-rate investments (primarily indexed to LIBOR) based on fair value. As of December 31, 2017, our portfolio had an average investment size of \$10.2 million based on fair value, with investment sizes ranging from less than \$0.1 million to \$25.7 million and a weighted average effective yield of 11.9% on our income-producing investments. The weighted average effective yield on our total portfolio, including equities, was 11.4% as of this date.

For the nine months ended September 30, 2018, we invested \$209.8 million in new and existing portfolio companies, partially offset by repayments and sales of \$180.2 million. Proceeds from sales totaled \$4.8 million while repayments included \$6.7 million of scheduled repayments and \$168.7 million of unscheduled repayments.

For the nine months ended September 30, 2017, we invested \$94.8 million in new and existing portfolio companies, partially offset by repayments and sales of \$80.6 million. Proceeds from sales totaled \$10.7 million while repayments included \$8.6 million of scheduled repayments and \$61.3 million of unscheduled 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.

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

| Investment Performance | September 30, 2018              |               | December 31, 2017               |               |   |
|------------------------|---------------------------------|---------------|---------------------------------|---------------|---|
|                        | Investments at                  | Percentage of | Investments at                  | Percentage of |   |
| Rating                 | (Dollars in Millions) Portfolio |               | (Dollars in Millions) Portfolio |               |   |
| 1                      | \$ 71.7                         | 14.1          | % \$ -                          | -             | % |
| 2                      | 394.0                           | 77.3          | 369.7                           | 83.9          |   |
| 3                      | 43.8                            | 8.6           | 70.8                            | 16.1          |   |
| 4                      | 0.1                             | 0.0           | 0.2                             | 0.0           |   |
| 5                      | -                               | -             | -                               | -             |   |
| Total Portfolio        | \$ 509.6                        | 100.0         | % \$ 440.7                      | 100.0         | % |

## **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 consolidated statements of assets and liabilities. As of September 30, 2018 and December 31, 2017, we had commitments to fund approximately \$2.0 million and \$6.4 million, respectively, of revolving lines of credit or delayed draw facilities to our portfolio companies. We reasonably believe that we have sufficient assets to adequately cover and allow us to satisfy our outstanding unfunded commitments.

## **Distributions**

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

During the three and nine months ended September 30, 2018, we declared to stockholders distributions of \$0.355 and \$1.065 per share, respectively, for total distributions of \$7.3 million and \$21.9 million, respectively. During the three and nine months ended September 30, 2017, we declared to stockholders distributions of \$0.355 and \$1.065 per share, respectively, for total distributions of \$7.3 million and \$20.3 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 ability to be subject to tax 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 paid 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 nine months ended September 30, 2018, we estimate that distributions to stockholders included approximately \$3.0 million in excess of net investment income, which was primarily due to the capital gains-based incentive fee accrued, but also included \$4.3 million of long-term capital gains, for tax purposes, based on current earnings for the fiscal year ending December 31, 2018. The specific tax characteristics of the distribution will be reported to stockholders on or after the end of the calendar year 2018 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 only ordinary income or gains.

We have adopted an “opt out” distribution 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 distribution 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 distribution 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 September 30, 2018 is as follows:

|                               | Payments Due by Period (Dollars in Millions) |           |             |             |         |
|-------------------------------|--|-----------|-------------|-------------|---------|
|                               | Total  | Less Than |             | More Than   |         |
|                               |  | 1 Year    | 1 - 3 Years | 3 - 5 Years | 5 Years |
| Credit Facility               | \$ 168.5                                     | \$ -      | \$ -        | \$ 168.5    | \$ -    |
| Private Notes                 | 30.0   | -         | -           | 30.0        | -       |
| Total contractual obligations | \$ 198.5                                     | \$ -      | \$ -        | \$ 198.5    | \$ -    |

As of September 30, 2018, we had \$31.5 million of unused borrowing capacity under the Credit Facility.

We entered into the Investment Advisory Agreement with WhiteHorse Advisers in accordance with the 1940 Act on December 4, 2012, which was most recently amended on November 1, 2018. 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 a portfolio manager of WhiteHorse Credit under the Credit Facility. Payments under the Investment Advisory Agreement in future periods will be equal to (1) a management fee equal to 2% of the value of our consolidated gross assets; provided, however, that the management fee on consolidated gross assets financed using leverage over 200% asset coverage (in other words, over 1.0x debt to equity) will be equal to 1.25% 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 resources necessary for us to act as portfolio manager to WhiteHorse Credit 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 will be 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 financial officer and chief compliance 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 our day-to-day operations 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 towards 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.



We depend on the communications and information systems and policies of WhiteHorse Advisers and its affiliates as well as certain third-party service providers to monitor and prevent cybersecurity incidents. Our board of directors and management periodically review and assess the effectiveness of such communications and information systems and policies.

### **Impact of Tax Reform**

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. The Tax Cuts and Jobs Act, among other things, permanently reduces the maximum federal corporate income tax rate, reduces the maximum individual income tax rate (effective for taxable years 2018 through 2025), restricts the deductibility of business interest expense, changes the rules regarding the calculation of net operating loss deductions that may be used to offset taxable income, expands the circumstances in which a foreign corporation will be treated as a “controlled foreign corporation” and, under certain circumstances, requires accrual method taxpayers to recognize income for U.S. federal income tax purposes no later than when the income is taken into account as revenue in an applicable financial statement. Although we currently believe the new tax law will not have a material impact on us, the effects of the various provisions of the Tax Cuts and Jobs Act listed above on the respective tax positions of us, our stockholders and our portfolio companies depend on the factual circumstances of each, 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.

#### *Principles of Consolidation*

Under the investment company financial accounting guidance, as formally codified in Accounting Standards Codification, or ASC, Topic 946, *Financial Services - Investment Companies*, 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 each of WhiteHorse Credit and WhiteHorse Finance Warehouse, LLC, or WhiteHorse Warehouse, which are investment companies for accounting purposes. As such, we have consolidated the accounts of WhiteHorse Credit and WhiteHorse Warehouse into our financial statements. As a result of this consolidation, the amount outstanding

under the Credit Facility is treated as our indebtedness.

### *Valuation of Portfolio Investments*

We value our investments in accordance with 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 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. Our board has retained one or more independent valuation firms to review the valuation of each portfolio investment that does not have a readily available market quotation at least once during each 12-month period. Independent valuation firms retained by our board provide a valuation review on approximately 25% of our investments for which market quotations are not readily available each quarter to ensure that the fair value of each investment for which a market quote is not readily available is reviewed by an independent valuation firm at least once during each 12-month period. However, our board does not intend to have *de minimis* investments of less than 1.5% of our total assets (up to an aggregate of 10% of our total assets) independently reviewed.

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 when 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 in accordance with our valuation procedures.

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, and on a quarterly basis, reviews the bases of the valuations by our investment adviser and the independent valuation firms.

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 of publicly traded instruments is generally based on quoted market prices. Fair value of non-publicly traded instruments, and of publicly traded instruments for which quoted market prices are not readily available, may be determined based on other relevant factors, including without limitation, quotations from unaffiliated market makers or independent third party pricing services, the price activity of equivalent instruments and valuation pricing models. For those investments valued using quotations, the bid price is generally used unless we determine that it is not representative of an exit price.

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.

Investments for which fair value is determined using inputs defined above as Level 3 are fair valued using the income and market approaches, which may include the discounted cash flow method, reference to performance statistics of industry comparables, relative comparable yield analysis and, in certain cases, third party valuations performed by independent valuation firms. The valuation methods can reference various factors and use various inputs such as assumed growth rates, capitalization rates and discount rates, loan-to-value ratios, liquidation value, relative capital structure priority, market comparables, compliance with applicable loan, covenant and interest coverage performance, book value, market derived multiples, reserve valuation, assessment of credit ratings of an underlying borrower, review of ongoing performance, review of financial projections as compared to actual performance, review of interest rate and yield risk. Such factors may be given different weighting depending on our assessment of the underlying investment, and we may analyze apparently comparable investments in different ways.

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 statements 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 discount, as well as any other market purchase discount or premium 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 fee income on the consolidated statements of operations.

#### **Recent Accounting Pronouncements**

See Note 2 to our consolidated financial statements, which discusses recent accounting pronouncements applicable to us.

**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 assets and liabilities as of September 30, 2018 was to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates (dollars in thousands).

| <b>Basis Point Increase</b> | <b>Increase in</b> | <b>Increase in</b> | <b>Net</b>      |
|-----------------------------|--------------------|--------------------|-----------------|
|                             | <b>Interest</b>    | <b>Interest</b>    |                 |
|                             | <b>Income</b>      | <b>Expense</b>     | <b>Increase</b> |
| 100                         | \$ 5,488           | \$ 1,685           | \$ 3,803        |
| 200                         | 9,952              | 3,370              | 6,582           |
| 300                         | 14,416             | 5,055              | 9,361           |
| 400                         | 18,879             | 6,740              | 12,139          |
| 500                         | 23,343             | 8,425              | 14,918          |

As of September 30, 2018, nearly all of the performing 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 the below risk factor and 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, 2017 and in our quarterly report on Form 10-Q for the quarterly period ended September 30, 2018, 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.

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

The use of leverage, including through the issuance of senior securities, magnifies the potential for gain or loss on amounts invested, and, if we incur additional leverage as permitted by the SBCAA, this potential will be further magnified. We have incurred leverage in the past and currently incur leverage through the Credit Facility and the Senior Notes and, from time to time, intend to incur additional leverage to the extent permitted under the 1940 Act. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. In the future, we may borrow from, and issue senior securities, to banks, insurance companies and other lenders. Holders of these senior securities will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such holders to seek recovery against our assets in the event of a default.

WhiteHorse Credit has pledged, and expects to continue to pledge, all or substantially all of its assets. WhiteHorse Credit has granted, and may in the future grant, a security interest in all or a portion of its assets under the Credit Facility. In addition, under the terms of the Credit Facility, we must use the net proceeds of any investments that we sell to repay amounts then due with respect to our debt and certain other amounts owing under the Credit Facility

before applying such net proceeds to other uses, such as distributing them to our stockholders.

We may pledge up to 100% of our assets and may grant a security interest in all of our assets under the terms of any debt instruments into which we may enter. In addition, under the terms of any credit facility or other debt instrument we enter into, we are likely to be required by its terms to use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses.

If the value of our assets decreases, leverage would cause our NAV to decline more sharply than it otherwise would have had we not leveraged, thereby magnifying losses or eliminating our equity stake in a leveraged investment. Similarly, any decrease in our revenue or income will cause our net income to decline more sharply than it would have had we not borrowed. Such a decline would also negatively affect our ability to make distributions on our common stock or preferred stock. Our ability to service our debt will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the management fee payable to WhiteHorse Advisers.

As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 150%, subject to certain disclosure requirements, as is specified in the 1940 Act. If this ratio declines below 150%, we cannot incur additional debt and could be required to sell a portion of our investments to repay some debt when it is disadvantageous to do so. This could have a material adverse effect on our operations, and we may not be able to make distributions to our stockholders. As of September 30, 2018, our total outstanding indebtedness was \$198.5 million and our asset coverage was 260.0%.

The amount of leverage that we employ will depend on WhiteHorse Advisers's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to maintain our borrowings under the Credit Facility and the Private Notes or obtain other credit at all or on terms acceptable to us.

In addition, the terms governing the Credit Facility and the Private Notes and any indebtedness that we incur in the future could impose financial and operating covenants that restrict our business activities, including limitations that may hinder our ability to finance additional loans and investments or make the distributions required to maintain our ability to be subject to tax as a RIC.

The Note Purchase Agreement governing the Private Notes contains additional terms and conditions for senior unsecured notes issued in a private placement, including minimum shareholders' equity, minimum asset coverage ratio, maximum debt to equity ratio and prohibitions on certain fundamental changes of the Company or any subsidiary guarantor. The Note Purchase Agreement also contains customary events of default with customary cure and notice periods, including, without limitation, nonpayment, incorrect representation in any material respect, breach of covenant, cross-default under other indebtedness of the Company or certain significant subsidiaries, certain judgements and orders, and certain events of bankruptcy.

The breach of any of the covenants or restrictions, unless cured within the applicable grace period, would result in a default under the applicable indebtedness arrangement that would permit the lenders thereunder to declare all amounts outstanding to be due and payable. In such an event, we may not have sufficient assets to repay such indebtedness. As a result, any default could have serious consequences to our financial condition. An event of default or an acceleration under these arrangements could also cause a cross-default or cross-acceleration of another debt instrument or contractual obligation, which would adversely impact our liquidity. We may not be granted waivers or amendments to these arrangements if for any reason we are unable to comply with it, and we may not be able to refinance such arrangements on terms acceptable to us, or at all.

At the Company's annual meeting of stockholders held on August 1, 2018, the Company's stockholders approved the reduced asset coverage requirements applicable to senior securities from 200% to 150%, effective on August 2, 2018, such that the Company's maximum debt-to-equity ratio increased from a prior maximum of 1.0x (equivalent of \$1 of debt outstanding for each \$1 of equity) to a maximum of 2.0x (equivalent to \$2 of debt outstanding for each \$1 of equity).

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming that we employ leverage such that our asset coverage equals (1) our actual asset coverage as of September 30, 2018 and (2) 150%, each at various annual returns, net of expenses and as of September 30, 2018. The purpose of this table is to assist investors in understanding the effects of leverage. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

| <b>Assumed Return on Our Portfolio (Net of Expenses)</b> |            |           |           |            |
|--|------------|-----------|-----------|------------|
| <b>-10%</b>  | <b>-5%</b> | <b>0%</b> | <b>5%</b> | <b>10%</b> |

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|   |          |          |          |       |        |
|---|----------|----------|----------|-------|--------|
| Corresponding return to common stockholder assuming actual asset coverage as of September 30, 2018 <sup>(1)</sup> | (19.6 )% | (11.6 )% | (3.6 )%  | 4.5 % | 12.5 % |
| Corresponding return to common stockholder assuming 150% asset coverage <sup>(2)</sup>                            | (40.3 )% | (25.4 )% | (10.5 )% | 4.4 % | 19.3 % |

Assumes \$541.8 million in total assets, \$198.5 million in debt outstanding and \$317.7 million in net assets as of (1) September 30, 2018, and an average cost of funds of 5.2%, which is our weighted average borrowing cost as of September 30, 2018.

Assumes \$978.5 million in total assets, \$635.1 million in debt outstanding and \$317.7 million in net assets as of (2) September 30, 2018, and an average cost of funds of 5.1%, which would be our weighted average borrowing cost assuming 150% asset coverage as of September 30, 2018.

Based on our outstanding indebtedness of \$198.5 million as of September 30, 2018 and an average cost of funds of 5.1% and 6.0%, which were the effective annualized interest rates of the Credit Facility and Private Notes, respectively, as of that date, our investment portfolio must experience an annual return of at least 2.0% to cover annual interest payments on our outstanding indebtedness.

Based on our outstanding indebtedness of \$635.1 million on an assumed 150% asset coverage ratio and an average cost of funds of 5.1% and 6.0%, which were the effective annualized interest rates of the Credit Facility and Private Notes, respectively, as of that date, our investment portfolio must experience an annual return of at least 3.4% to cover annual interest payments on our outstanding indebtedness.

**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**

|              |  |
|--------------|--|
| <u>31.1*</u> | <u>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*</u> |
| <u>31.2*</u> | <u>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*</u> |
| <u>32.1*</u> |  |

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: November 7, 2018 By/s/ Stuart Aronson  
Stuart Aronson  
Chief Executive Officer  
(Principal Executive Officer)

Dated: November 7, 2018 By/s/ Edward J. Giordano  
Edward J. Giordano  
Interim Chief Financial Officer  
(Principal Accounting and Financial Officer)