

WhiteHorse Finance, Inc.  
Form 10-Q  
May 15, 2013

**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 March 31, 2013**

**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) 379-2322

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of May 14, 2013 the Registrant had 14,965,624 shares of common stock, \$0.001 par value, outstanding.



**WHITEHORSE FINANCE, INC.**

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	(Unaudited)	
<b>Assets</b>		
Investments, at fair value (cost \$233,547 and \$180,377, respectively)	\$ 233,157	\$ 180,488
Cash and cash equivalents	136,642	156,123
Restricted cash and cash equivalents	1,100	31,646
Interest receivable	4,107	1,474
Deferred financing costs	3,066	3,184
Due from related party	70	-
Prepaid expenses and other receivables	253	367
Total assets	\$ 378,395	\$ 373,282
<b>Liabilities</b>		
Credit facility	\$ 51,250	\$ 51,250
Unsecured term loan	90,000	90,000
Distributions payable	5,313	1,616
Management fees payable	2,030	306
Payable for investments purchased	1,930	-
Accounts payable and accrued expenses	628	1,061
Total liabilities	\$ 151,151	\$ 144,233
<b>Net assets</b>		
Common stock, par value \$0.001 per share, 14,965,624 shares issued and outstanding, 100,000,000 authorized	\$ 15	\$ 15
Paid-in capital in excess of par	228,466	228,466
Capital distributions in excess of net income	(140)	)
Undistributed net investment income	-	1,164
Net realized loss on investments	(71)	) (71)
Net unrealized depreciation on investments	(1,026)	) (525)
Total net assets	\$ 227,244	\$ 229,049

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Total liabilities and total net assets	\$ 378,395	\$ 373,282
Number of shares outstanding	14,965,624	14,965,624
Net asset value per share	\$ 15.18	\$ 15.30

*See notes to the consolidated financial statements*

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

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Investment income		
Interest income	\$ 8,382	\$ 9,149
Total investment income	8,382	9,149
Expenses		
Interest expense	\$ 1,362	\$ -
Organization costs	-	96
Base management fees	1,077	-
Performance-based incentive fees	952	-
Administrative service fees	389	-
General and administrative expenses	593	243
Total expenses	\$ 4,373	\$ 339
Net investment income	\$ 4,009	\$ 8,810
Realized and unrealized (loss) gain on investments		
Net realized loss on investments	\$ -	\$ -
Net change in unrealized (depreciation) appreciation on investments	(501	) 200
Net realized and unrealized (loss) gain on investments	\$ (501	) \$ 200
Net increase in net assets resulting from operations	\$ 3,508	\$ 9,010
Per Common Share Data		
Basic and diluted earnings per common share <sup>(1)</sup>	\$ 0.23	N/A
Dividends and distributions declared per common share <sup>(1)</sup>	\$ 0.36	N/A
Basic and diluted weighted average common shares outstanding <sup>(1)</sup>	14,965,624	N/A

(1) For the three months ended March 31, 2012, the Company did not have common shares outstanding and therefore weighted average shares outstanding information and per share data for this period are not provided.

*See notes to the consolidated financial statements*

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

	Members' Equity	Common Stock Shares	Common Stock Par amount	Paid-in Capital in Excess of Par	Net Investment Income	Net Realized Loss on Investments	Net Unrealized Depreciation on Investments	Total Net Assets
Balance at January 1, 2012	\$—	—	\$ —	\$—	\$—	\$ —	\$ —	\$—
Contributions of members' equity	245,336	—	—	—	—	—	—	—
Distributions of members' equity	(5,586 )	—	—	—	—	—	—	—
Net increase in net assets resulting from operations	9,010	—	—	—	—	—	—	—
Balance at March 31, 2012	\$248,760	—	\$ —	\$—	\$—	\$ —	\$ —	\$—
Balance at January 1, 2013	\$—	14,965,624	\$ 15	\$ 228,466	\$ 1,164	\$ (71 )	\$ (525 )	\$ 229,049
Net increase in net assets resulting from operations	—	—	—	—	4,009	—	(501 )	3,508
Distributions declared	—	—	—	—	(5,313 )	—	—	(5,313 )
Balance at March 31, 2013	\$—	14,965,624	\$ 15	\$ 228,466	\$ (140 )	\$ (71 )	\$ (1,026 )	\$ 227,244

*See notes to the consolidated financial statements*



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

	Three months ended March 31,	
	2013	2012
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 3,508	\$ 9,010
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Paid in kind income	(123 )	(1,348 )
Net unrealized (appreciation) depreciation on investments	501	(200 )
Amortization of discount	(263 )	(667 )
Amortization of deferred financing costs	119	-
Origination of investments	(33,402 )	-
Purchase of investments	(19,549 )	-
Proceeds from principal payments and sales of portfolio investments	167	5,900
Net changes in operating assets and liabilities:		
Interest receivable	(2,633 )	(1,633 )
Due from related party	(70 )	(1,528 )
Prepaid expenses and other receivables	113	-
Payable for securities purchased	1,930	-
Management fees payable	1,724	-
Accounts payable and accrued expenses	(433 )	274
Restricted cash and cash equivalents	30,546	-
Net cash (used in) provided by operating activities	\$ (17,865 )	\$ 9,808
Cash flows from financing activities		
Proceeds from members' equity contributions	\$ -	\$ 65
Payment of members' equity distributions	-	(5,586 )
Distributions paid to common stockholders	(1,616 )	-
Net cash used in financing activities	\$ (1,616 )	\$ (5,521 )
Net change in cash and cash equivalents	\$ (19,481 )	\$ 4,287
Cash and cash equivalents at beginning of period	156,123	-
Cash and cash equivalents at end of period	\$ 136,642	\$ 4,287
Supplemental disclosure of cash flow information:		
Contribution of investments	\$ -	\$ 257,089
Interest paid	\$ 1,253	\$ -

*See notes to the consolidated financial statements*



**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Unaudited)****March 31, 2013***(in thousands, except share and per share data)*

Investment Type	Spread Above Index(1)	Interest Rate(2)	Maturity Date	Principal Amount	Amortized Cost	Fair Value	Fair Value As A Percentage Of Net Assets
North America							
Building Products							
TCO Funding Corp.							
Senior Secured Term Loan	L+7.50% (2.00% Floor)	9.50%	4/27/14	\$ 17,626	\$ 17,359	\$ 17,767	7.82 %
Pharmaceuticals							
Acella Pharmaceuticals, LLC							
Senior Secured Term Loan	L+15.00% (1.00% Floor)	16.00%	12/30/15	60,886	60,886	60,886	26.79
Homebuilding							
Orleans Homebuilders, Inc.							
Senior Secured Term Loan	L+10.50% (2.00% Floor)	12.50%	2/14/16	16,472	16,556	16,636	7.32
Integrated Telecommunication Services							
Securus Technologies, Inc.							
Senior Secured Second Lien Term Loan	L+9.00% (1.75% Floor)	10.75%	5/31/18	1,000	1,020	1,020	0.45
Diversified Support Services							
Smile Brands Group Inc.							
Senior Secured Term Loan	L+5.25% (1.75% Floor)	7.00%	12/31/17	1,995	1,930	1,931	0.85
Specialized Finance							
GMT Holdings 1, Ltd. & GMT Holdings 12, Ltd.(3)							
Senior Secured Term Loan	N/A(4)	25.00%	6/30/13	36,434	36,414	36,361	16.00

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Health Care Distributors  
Comprehensive Decubitus  
Therapy, Inc.

Senior Secured Term Loan	L+10.50% (1.50% Floor)	13.50% (1.50% PIK)	3/15/18	15,020	14,730	14,720	6.48
Senior Secured Revolving Loan	L+10.50% (1.50% Floor)	13.50% (1.50% PIK)	3/15/18	2,003	1,964	1,963	0.86
				17,023	16,694	16,683	7.34

Health Care Facilities

Genoa Healthcare, LLC

Senior Secured Term Loan	L+9.50% (3.00% Floor)	14.00% (1.50% PIK)	2/10/15	27,161	27,161	27,269	12.00
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Investment Type	Spread Above Index(1)	Interest Rate(2)	Maturity Date	Principal Amount	Amortized Cost	Fair Value	Fair Value As A Percentage Of Net Assets	
Grupo HIMA San Pablo, Inc. Senior Secured First Lien Term Loan	L+7.00% (1.50% Floor)	8.50%	1/31/18	\$ 15,000	\$ 14,706	\$ 14,700	6.47	%
Senior Secured Second Lien Term Loan	N/A (4)	13.75%	7/31/18	1,000	951	950	0.42	
				43,161	42,818	42,919	18.89	
Specialized Consumer Services Pre-Paid Legal Services, Inc. Senior Secured First Lien Term Loan	L+6.00% (1.50% Floor)	7.50%	12/31/16	1,357	1,278	1,356	0.60	
Senior Secured Second Lien Term Loan	L+9.50% (1.50% Floor)	11.00%	12/31/16	7,929	7,900	7,849	3.45	
				9,286	9,178	9,205	4.05	
Electronic Equipment & Instruments AGS, LLC Senior Secured Term Loan	L+10.00% (1.50% Floor)	11.50%	8/15/16	17,309	16,696	15,665	6.89	
Initial Delayed Draw	L+10.00% (1.50% Floor)	11.50%	8/15/16	1,129	1,088	1,022	0.45	
Secondary Delayed Draw	L+10.00% (1.50% Floor)	11.50%	8/15/16	1,129	1,085	1,022	0.45	
				19,567	18,869	17,709	7.79	
Apparel, Accessories & Luxury Goods St. John Knits International, Inc. Senior Secured Term Loan	N/A(4)	13.00%	3/3/15	11,769	11,823	12,040	5.30	
Total Investments(5)				\$235,219	\$ 233,547	\$ 233,157	102.60	%

(1) The investments bear interest at a rate that may be determined by reference to LIBOR "L" which resets monthly, quarterly or semiannually.

(2)

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

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

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

(5) Except for GMT Holdings 1, Ltd. and GMT Holdings 12, Ltd., the investments provide collateral for the Credit Facility.

*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments****December 31, 2012***(in thousands, except share and per share data)*

Investment Type	Spread Above Index(1)	Interest Rate(2)	Maturity Date	Principal Amount	Amortized Cost	Fair Value	Fair Value As A Percentage Of Net Assets
North America							
Building Products							
TCO Funding Corp.							
Senior Secured Term Loan	L+7.50% (2.00% Floor)	9.50%	4/27/14	\$17,671	\$17,352	\$17,671	7.71 %
Pharmaceuticals							
Acella Pharmaceuticals, LLC							
Senior Secured Term Loan	L+10.00% (1.00% Floor)	14.00% (3.00% PIK)	12/30/15	60,886	60,886	60,886	26.58
Specialized Finance							
GMT Holdings 1, Ltd. & GMT Holdings 12, Ltd.(3)							
Senior Secured Term Loan	N/A(4)	25.00%	6/30/13	36,434	36,242	36,434	15.91
Health Care Facilities							
Genoa Healthcare, LLC							
Senior Secured Term Loan	L+9.50% (3.00% Floor)	14.00% (1.50% PIK)	2/10/15	27,060	27,060	27,060	11.81
Specialized Consumer Services							
Pre-Paid Legal Services, Inc.							
Senior Secured Term Loan A	L+6.00% (1.50% Floor)	7.50%	12/31/16	1,437	1,363	1,447	0.63
Senior Secured Term Loan B	L+9.50% (1.50% Floor)	11.00%	12/31/16	7,929	7,898	7,802	3.41

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				9,366	9,261	9,249	4.04	
Electronic Equipment & Instruments								
AGS, LLC								
Senior Secured Term Loan	L+10.00% (1.50% Floor)	11.50%	8/15/16	17,309	16,662	16,098	7.03	
Initial Delayed Draw	L+10.00% (1.50% Floor)	11.50%	8/15/16	1,129	1,087	1,050	0.46	
Secondary Delayed Draw	L+10.00% (1.50% Floor)	N/A(5)	8/15/16	—	—	—	—	
				18,438	17,749	17,148	7.49	
Apparel, Accessories & Luxury Goods								
St. John Knits International, Inc.								
Senior Secured Term Loan	N/A(4)	13.00%	3/3/15	11,769	11,827	12,040	5.26	
Total Investments(6)				\$181,624	\$180,377	\$180,488	78.80	%

- (1) The investments bear interest at a rate that may be determined by reference to LIBOR “L” which resets monthly, quarterly or semiannually.
- (2) The interest rate is the “all-in-rate” including the current index and spread, the fixed rate, and the payment-in-kind, or “PIK”, interest rate, as the case may be.
- (3) WhiteHorse Finance, Inc.’s investments in GMT Holdings 1, Ltd. and GMT Holdings 12, Ltd. are held through its subsidiary Bayside Financing S.A.R.L.
- (4) Interest rate is fixed and accordingly the spread above the index is not applicable.
- (5) The entire commitment was unfunded at December 31, 2012. The Company earns a commitment fee of 5.00% on the unfunded amount.
- (6) Except for GMT Holdings 1, Ltd. and GMT Holdings 12, Ltd., the investments provide collateral for the Credit Facility.

*See notes to the consolidated financial statements*



**WhiteHorse Finance, Inc.**

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

**March 31, 2013**

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

**NOTE 1 – ORGANIZATION**

WhiteHorse Finance, Inc. (“WhiteHorse Finance” and, together with its subsidiaries, the “Company”) is an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the “1940 Act”). In addition, for tax purposes, WhiteHorse Finance intends 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, LLC was organized as a limited liability company under the laws of Delaware on December 28, 2011 and commenced operations effective January 1, 2012. At the commencement of operations and up to the completion of its initial public offering (the “IPO”), H.I.G. Bayside Debt & LBO Fund II, L.P. (“Bayside II”) and H.I.G. Bayside Loan Opportunity Fund II, L.P. (“Loan Fund II” and, together with Bayside II, the “Bayside Loan Funds”) owned 55.1% and 44.9% of the Company, respectively. On December 4, 2012, WhiteHorse Finance, LLC converted from a Delaware limited liability company to a Delaware corporation, leaving WhiteHorse Finance, Inc. as the surviving entity (the “BDC Conversion”). As a result of the BDC Conversion, the Bayside Loan Funds received 7,826,284 shares of common stock in WhiteHorse Finance, Inc.

On December 4, 2012, WhiteHorse Finance priced its IPO, selling 6,666,667 shares at a public offering price of \$15.00 per share. Concurrent with the IPO, the Company’s directors, officers, the managers of its investment adviser and their immediate family members or entities owned by, or family trusts for the benefit of, such persons, purchased an additional 472,673 shares through a private placement transaction exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), at \$15.00 per share.

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

WhiteHorse Finance's investment activities are managed by H.I.G. WhiteHorse Advisers, LLC ("WhiteHorse Advisers"), an affiliate of the Bayside Loan Funds. Prior to December 4, 2012, Bayside Capital, Inc., also an affiliate of the Bayside Loan Funds, served as the investment adviser through an interim advisory agreement. H.I.G. WhiteHorse Administration, LLC ("WhiteHorse Administration"), an affiliate of the Bayside Loan Funds, provides administrative services necessary for the Company to operate.

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

Basis of Presentation: The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include WhiteHorse Finance, Inc., its wholly owned subsidiary, WhiteHorse Finance Warehouse, LLC, and its subsidiary, Bayside Financing S.A.R.L. All significant intercompany balances and transactions and have been eliminated. Additionally, the accompanying consolidated financial statements and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. This Form 10-Q should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2012. 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, 2013.

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

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

Investments are measured at fair value as determined in good faith by the Company’s investment committee, generally on a quarterly basis, 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 an independent external valuation firm to periodically review material investments. This external review is used by the investment committee 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 statement 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.

*Interest 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. Closing fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans using the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan closing fees are recorded as part of interest income. Commitment fees are based upon the undrawn portion committed by the Company and are recorded as interest income on an accrual basis. Prepayment, amendment and other fees are recognized when earned, generally when such fees are receivable. Any such fees are included in interest income on the statement of operations. The Company may invest in loans that contain a payment-in-kind (“PIK”) interest rate provision. PIK interest is accrued at the contractual rates and added to loan principal on the reset dates.

*Non-accrual:* Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. The Company may conclude that non-accrual status is not required if the loan has sufficient collateral value and is in the process of collection. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current.

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

**Restricted Cash and Cash Equivalents:** Restricted cash and cash equivalents include amounts that are collected and held by the trustee appointed as custodian of the assets securing the Company's credit facility. Restricted cash is held by the trustee for the payment of interest expense and principal on the outstanding borrowings or reinvestment into new assets. Restricted cash that is not principal in nature is transferred to unrestricted cash accounts by the trustee once a quarter after the payment of operating expenses and amounts due under the Credit Facility (as defined below).

**Organizational and Offering Costs:** The Company incurred legal, accounting, regulatory, investment banking and other costs during its initial start up phase and associated with its IPO. Organizational costs are expensed as incurred. Offering costs were deferred and charged against paid-in capital in excess of par on completion of the IPO.

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

**Income Taxes:** Prior to the BDC Conversion on December 4, 2012, the Company was treated as a partnership for U.S. federal and state income tax purposes and did not incur income taxes. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as each member is individually responsible for reporting income or loss, to the extent required by U.S. federal income tax laws and regulations, based upon its respective share of the Company's revenues and expenses as reported for income tax purposes.

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

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

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

Penalties or interest that may be assessed related to any income taxes would be classified as other operating expenses in the financial statement. The Company had no amounts accrued for interest or penalties on March 31, 2013. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

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

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

Earnings per Share: The Company calculates earnings per share as earnings available to stockholders divided by the weighted average number of shares outstanding during the period. Prior to December 4, 2012, the Company did not have common stock outstanding and therefore earnings per share and weighted average shares outstanding information for periods that include financial results prior to December 4, 2012 are not meaningful.

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

collateral values, payment histories and other market information.

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

### **NOTE 3 – 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.

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

The following table presents investments (as shown on the schedule of investments) that have been measured at fair value as of March 31, 2013:

	Quoted Prices in Active Markets for Identifiable Assets (Level 1) (\$ in thousands)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured Loans	—	—	\$ 233,157	\$233,157

The following table presents investments (as shown on the schedule of investments) that have been measured at fair value as of December 31, 2012:

	Quoted Prices in Active Markets for Identifiable Assets (Level 1) (\$ in thousands)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Senior Secured Loans	—	—	\$ 180,488	\$180,488



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The portfolio companies underlying the investments are located in the United States. The weighted average remaining term of the Company's debt investments was approximately 2.5 years as of March 31, 2013 and December 31, 2012.

The following table presents the changes in investments measures at fair value using Level 3 inputs for the three months ended March 31, 2013:

	<b>Senior Secured Loans</b>	<b>Senior Unsecured Note</b>	<b>Total Investments</b>
Balance at January 1, 2013	\$ 180,488	\$ —	\$ 180,488
Originations	33,402	—	33,402
Purchases	19,549	—	19,549
Non-cash interest income	123	—	123
Amortization of discount	263	—	263
Proceeds from pay downs	(167 )	—	(167 )
Net unrealized appreciation (depreciation)	(501 )	—	(501 )
Balance at March 31, 2013	\$ 233,157	\$ —	\$ 233,157

The following table presents the changes in investments measures at fair value using Level 3 inputs for the three months ended March 31, 2012:

	<b>Senior Secured Loans</b>	<b>Senior Unsecured Note</b>	<b>Total Investments</b>
Balance at January 1, 2012	\$ —	\$ —	\$ —
Contributed investments	236,691	8,580	245,271
Non-cash interest income	1,348	—	1,348
Amortization of discount	604	63	667
Proceeds from pay downs	(5,900 )	—	(5,900 )
Net unrealized appreciation (depreciation)	656	(456 )	200
Balance at March 31, 2012	\$ 233,399	\$ 8,187	\$ 241,586

The significant unobservable inputs used in the fair value measurement of the Company's investments are the discount rate, market quotes and arms' length transaction price. Significant increase in the discount rate for an investment would result in a significantly lower fair value measurement. Significant increase in the market quotes price would result in a significant increase in the fair value measurement.

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

Investment Type	Fair Value at March 31, 2013	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Senior Secured Loans	\$ 233,157	Discounted Cash Flow Consensus Pricing	Discount Rate Market Quotes	7.3% - 29.2% (15.4)% 98.8% - 102.3% (100.7)%

Investment Type	Fair Value at December 31, 2012	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Senior Secured Loans	\$ 180,488	Discounted Cash Flow Consensus Pricing	Discount Rate Market Quotes	7.6% - 27.7% (16.0)% 100.9% - 102.3% (101.9)%

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. At March 31, 2013 and December 31, 2012, eleven and four Level 3 investments, respectively, were valued using a discounted cash flow technique and the remaining four and four, respectively, were valued by applying a weighted approach across several techniques.

The valuation methods selected for a particular investment are based on the circumstances and on the level of sufficient 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 more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3.

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

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

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

#### **NOTE 4 – BORROWINGS**

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. As of March 31, 2013, the Company's asset coverage for borrowed amounts was 260.9%.

Credit Facility: On September 27, 2012, the Company entered into a \$150,000 revolving credit and security agreement with Natixis, New York Branch, acting as facility agent (the "Credit Facility") and on the same date drew \$51,250. In connection with this agreement, WhiteHorse Finance Warehouse, LLC pledged securities with a fair value of \$196,743 and \$144,054, respectively, as of March 31, 2013 and December 31, 2012, as collateral for the Credit Facility. The Credit Facility bears interest at the daily commercial paper rate plus 2.25% on outstanding borrowings. The Company also incurs a commitment fee of 1.00% per annum on any undrawn balance. The Credit Facility has a final maturity date of September 27, 2020. Under the Credit Facility, the Company has made certain customary representations and warranties, and is required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The Credit Facility includes usual and customary events of default for credit facilities of this nature. At March 31, 2013 and December 31, 2012, the Company had \$51,250 outstanding borrowings and \$98,750 undrawn under the Credit Facility. The Company's ability to draw down undrawn funds under the Credit Facility is determined by collateral and portfolio quality requirements stipulated in the credit and security agreement. At March 31, 2013 and December 31, 2012, \$13,661 and \$4,538, respectively, was available to be drawn by the Company based on these requirements.

Unsecured Term Loan: On November 8, 2012, the Company entered into a \$90,000 unsecured term loan agreement with Citibank, N.A., as the sole lead arranger, and Loan Fund II, as guarantor. The unsecured term loan has a stated maturity date of July 3, 2014. Under the terms of the unsecured term loan, with respect to which the Company pledged no collateral to the lenders, the Company is required to pay interest monthly at an annual rate of LIBOR plus

2.75% per year, except at its option and under certain other circumstances at one of several other interest rates. The unsecured term loan is subject to customary covenants and events of default, such as failure to pay the principal of, or interest on, the unsecured term loan, certain events of bankruptcy, insolvency or reorganization occur or a payment default under certain of our other debt obligations. The unsecured term loan includes customary restrictions that limit the Company's ability to pay dividends under certain circumstances, to merge with another entity unless it is the surviving entity following the merger and to amend its organizational documents. Loan Fund II has guaranteed the Company's obligation to make payments under the unsecured term loan. Loan Fund II, as the guarantor of the unsecured term loan, has the right to require the lenders to assign the loan to it under certain circumstances. The Company is permitted to prepay amounts outstanding under the unsecured term loan in whole or in part without penalty.

#### **NOTE 5 – RELATED PARTY TRANSACTIONS**

Interim Investment Advisory Agreement: Prior to the BDC Conversion, Bayside Capital, LLC, an affiliate of the Bayside Loan Funds, served as the interim investment adviser for the Company through an interim advisory agreement (the "Interim Investment Advisory Agreement"). Under the Interim Investment Advisory Agreement, the interim investment adviser provided investment management services to the Company prior to the completion of its IPO. The Interim Investment Advisory Agreement waived all fees payable by the Company and, as a result, no fees were paid or are due to Bayside Capital, LLC. The Interim Investment Advisory Agreement was terminated effective December 4, 2012, and replaced by the investment advisory agreement described below.

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

- determines the composition of the investment portfolio, the nature and timing of the changes to the portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and
- closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

#### *Base Management Fee*

The base management fee is calculated at an annual rate of 2.0% of consolidated gross assets, including cash and cash equivalents and assets purchased with borrowed funds, and is payable quarterly in arrears. The base management fee is calculated based on the average carrying value of the Company's consolidated gross assets, including cash and cash equivalents and assets purchased with borrowed funds, at the end of the two most recently completed calendar quarters, appropriately adjusted for any share issuances or repurchases during the quarter. The management fees for any partial month or quarter is appropriately pro rated. The investment adviser has agreed to exclude cash and cash equivalents from the calculation of the base management fee for the calendar quarter ended December 31, 2012, and for the calendar quarters ending March 31, 2013, June 30, 2013 and September 30, 2013.

#### *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.”

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

The 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.

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

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

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

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

no incentive fee is payable to the Company’s investment adviser in any calendar quarter in which Pre-Incentive Fee Net Investment Income does not exceed the “Hurdle Rate” of 1.75% (7.00% annualized); 100% of Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the Hurdle Rate but is less than 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser. This portion of our Pre-Incentive Fee Net Investment Income (which exceeds the Hurdle Rate but is less than 2.1875%) is referred to as the “catch-up.” The effect of the catch-up is that, if such Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, the investment adviser will receive 20% of such Pre-Incentive Fee Net Investment Income as if the Hurdle Rate did not apply; and 20% of the amount of such Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser (once the Hurdle Rate is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Net Investment Income).



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

There is no accumulation of amounts on the Hurdle Rate from quarter to quarter and, accordingly, there is no clawback of amounts previously paid if subsequent quarters are below the quarterly Hurdle Rate and there is no delay of payment if prior quarters are below the quarterly Hurdle Rate. Since the Hurdle Rate is fixed, as interest rates rise, it will be easier for the investment adviser to surpass the Hurdle Rate and receive an incentive fee based on Pre-Incentive Fee Net Investment Income.

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

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

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

The Company incurred base management fees of \$1,077 and performance-based incentive fees of \$952 during the three months ended March 31, 2013. No management fees were incurred during the three months ended March 31, 2012 under the Interim Investment Advisory Agreement.

Administration Agreement: Pursuant to the Administration Agreement, WhiteHorse Administration furnishes the Company with office facilities, equipment and clerical, bookkeeping and record keeping services to enable the Company to operate. WhiteHorse Administration also provides the Company with access to the resources necessary for it to perform its obligations as collateral manager of WhiteHorse Warehouse under the Credit Facility. Under the Administration Agreement, WhiteHorse Administration performs, or oversees the performance of, the Company's required administrative services, which include being responsible for the financial records which the Company is required to maintain and preparing reports to its stockholders and reports filed with the Securities and Exchange Commission (the "SEC"). In addition, WhiteHorse Administration assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Payments under the Administration Agreement equal an amount based upon the Company's allocable portion of WhiteHorse Administration's overhead in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of the cost of its chief compliance officer, chief operating officer and chief financial officer along with their respective staffs. Under the Administration Agreement, WhiteHorse Administration also provides on the Company's behalf managerial

assistance to those portfolio companies to which the Company is required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that WhiteHorse Administration outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without any profit to WhiteHorse Administration.

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

The Company incurred allocated administrative expenses of \$389 during the three months ended March 31, 2013. No administrative expenses were incurred during the three months ended March 31, 2012.

Due From Related Parties: At March 31, 2013, the Company was due \$70 from related parties in connection with the reimbursement of operating expenses paid by the Company. At December 31, 2012, the Company owed interest and principal proceeds of \$1 to related parties, and included this amount in accounts payable and accrued expenses in the consolidated statements of assets and liabilities.

Co-investments with Related Parties: At March 31, 2013 and December 31, 2012, certain officers or employees affiliated with or employed by the Bayside Loan Funds and their related entities maintained co-investments in the Company's investments of \$2,750 and \$2,681, respectively.

## NOTE 6 – COMMITMENT AND CONTINGENCIES

Commitments: The Company had no outstanding commitments to fund investments as of March 31, 2013. The Company had outstanding commitments to fund investments totaling \$1,128 as of December 31, 2012.

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 7 – FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights:

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<u>Per share data:</u> <sup>(1)</sup>		
Net asset value, beginning of period	\$ 15.30	N/A
Issuance of common stock	—	N/A
Offering costs	—	N/A
Net investment income	0.27	N/A
Net realized and unrealized loss on investments	(0.03	) N/A
Net increase in net assets resulting from operations	0.24	N/A
Distributions declared	(0.36	) N/A
Net asset value, end of period	\$ 15.18	N/A

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Total return based on market value <sup>(2)</sup>	27.93	%	N/A	
Total return based on net asset value	6.18	%	16.03	%
Net assets, end of period	\$ 227,244		\$ 229,049	
Per share market value at end of period	\$ 15.83		N/A	
Shares outstanding end of period	14,965,624		N/A	
Ratios/Supplemental Data:				
Expenses without incentive fees	6.03	%	0.60	%
Incentive fees	1.67	%	N/A	
Total expenses	7.70	%	0.60	%
Net investment income	7.06	%	15.67	%
Portfolio turnover ratio	0.08	%	4.89	%

(1) Calculated using the average shares outstanding method.

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

For the three months ended March 31, 2012, the Company did not have common shares outstanding and therefore weighted average shares outstanding information and per share data for this period are not provided.

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. For the three months ended March 31, 2012, the Company incurred \$96 of organization costs, which were deemed to be non-recurring.

**NOTE 8 – EARNINGS PER SHARE**

The following information sets forth the computation of the net increase in net assets per share resulting from operations for the three months ended March 31, 2013:

Earnings available to stockholders	\$3,508
Weighted average shares outstanding	14,965,624
Earnings per share	\$0.23

For the three months ended March 31, 2012, the Company did not have common shares outstanding and therefore weighted average shares outstanding information and per share data for this period are not provided.

**NOTE 9 – SUBSEQUENT EVENTS**

On April 8, 2013, the Company filed a Form N-2 with the SEC for a potential offering of senior notes, the net proceeds of which would be used to reduce outstanding obligations under the Company's unsecured term loan, as well as for other general corporate or strategic purposes.

## 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;
- 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;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- the impact of increased competition;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our prospective portfolio companies to achieve their objectives;
- the relative and absolute performance of our investment adviser;
- our expected financings and investments;
- 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,

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



## Overview

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

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

On December 4, 2012, we priced our initial public offering, or the IPO, selling 6,666,667 million shares at a public offering price of \$15.00 per share. Concurrent with the IPO, certain of our directors and officers, the managers of our investment adviser and their immediate family members or entities owned by, or family trusts for the benefit of, such persons, purchased an additional 472,673 shares through a private placement, or the Concurrent Private Placement, at \$15.00 per share. Our shares are listed on the NASDAQ Global Select Market under the symbol “WHF”.

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

Our investment activities are managed by H.I.G. WhiteHorse Advisers, LLC, or WhiteHorse Advisers, and supervised by our board of directors, a majority of whom are independent of us, WhiteHorse Advisers and its affiliates. Under an

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

As of March 31, 2013, our investment portfolio consisted of senior secured loans across 14 positions with an aggregate fair value of approximately \$233.2 million and a principal balance outstanding of approximately \$235.2 million. As of December 31, 2012, our investment portfolio consisted of senior secured loans across eight positions with an aggregate fair value of approximately \$180.5 million and a principal balance outstanding of approximately \$181.6 million. At both dates, the majority of our portfolio comprised senior secured loans to small-cap borrowers.

*Revenues*

We generate revenue in the form of interest payable on the debt securities that we hold and capital gains and distributions, if any, on the portfolio company investments that we originated 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 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 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 interest income when we receive such amounts.

*Expenses*

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

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

- our organization;
- calculating our net asset value and net asset value per share (including the costs and expenses of independent valuation firms);
- fees and expenses, including travel expenses, incurred by WhiteHorse Advisers or payable to third parties in performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;
- the costs of all future offerings of common shares and other securities, and other incurrences of debt;
  - the base management fee and any incentive fee;
  - distributions on our shares;
  - transfer agent and custody fees and expenses;
- amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments;
  - brokerage fees and commissions;
  - registration fees;
  - listing fees;

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- taxes;
- independent directors' fees and expenses;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable U.S. federal and state securities laws;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
  - costs of holding stockholder meetings;
  - our fidelity bond;
- directors and officers/errors and omissions liability insurance and any other insurance premiums;
  - litigation, indemnification and other non-recurring or extraordinary expenses;
- direct costs and expenses of administration and operation, including audit and legal costs;

- fees and expenses associated with marketing efforts, including deal sourcing and marketing to financial sponsors;
- dues, fees and charges of any trade association of which we are a member; and

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

## **Recent Developments**

On April 8, 2013, we filed a Form N-2 with the SEC for a potential offering of senior notes, the net proceeds of which would be used to reduce outstanding obligations under our Unsecured Term Loan (as defined below) and effectively extend the maturity of our capital structure, as well as for other general corporate or strategic purposes.

## **Consolidated Results of Operations**

The consolidated results of operations for the three months ended March 31, 2013 are not directly comparable to the same period ended March 31, 2012, since such period reflects a portfolio prior to the BDC Conversion and prior to the execution of our Investment Advisory Agreement, Administration Agreement and debt agreements.

### *Investment Income*

Investment income totaled approximately \$8.4 million and approximately \$9.1 million, respectively, for the three months ended March 31, 2013 and 2012, primarily attributable to interest and fees earned from investments in portfolio companies. Total investments at fair value and their amortized cost were approximately \$233.2 million and approximately \$233.5 million, respectively, at March 31, 2013, compared to approximately \$241.6 million and approximately \$241.4 million, respectively, at March 31, 2012. During the three months ended March 31, 2013, we experienced some downward pressure on interest rates in connection with our new originations, and we expect this spread compression to persist in subsequent quarters due to an active lending market and improved financial results for prospective borrowers.

### *Operating Expenses*

Expenses for the three months ended March 31, 2013 and 2012 were approximately \$4.4 million and approximately \$0.3 million, respectively. Interest expense on our Credit Facility (as defined below) and Unsecured Term Loan (as

defined below) for the three months ended March 31, 2013 totaled approximately \$1.4 million. Base management fees and performance-based incentive fees for the same period totaled approximately \$1.1 million and approximately \$1.0 million, respectively. In accordance with the Investment Advisory Agreement, cash and cash equivalents were excluded from the calculation of base management fees. Administrative fees for the three months ended March 31, 2013 totaled approximately \$0.4 million. Absent refinancing, we expect our interest rate expenses to remain relatively stable in future periods.

We did not incur any interest expense, investment advisory fees or administrative fees during the three months ended March 31, 2012, because the Investment Advisory Agreement, Administration Agreement and debt agreements were not in effect during that period.

We incurred no organization costs for the three months ended March 31, 2013, while organization costs related to our initial start up totaled approximately \$0.1 million for three months ended March 31, 2012. Remaining expenses of approximately \$0