

WhiteHorse Finance, Inc.  
Form 10-Q  
November 07, 2016

**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, 2016**

**or**

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

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

**Commission file number: 814-00967**

**WHITEHORSE FINANCE, INC.**

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

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

**1450 Brickell Avenue, 31<sup>st</sup> Floor** **33131**  
**Miami, Florida**  
**(Address of Principal Executive Offices) (Zip Code)**

**(305) 381-6999**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of November 7, 2016 the Registrant had 18,303,890 shares of common stock, \$0.001 par value, outstanding.

**WHITEHORSE FINANCE, INC.**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Part I. <u>Financial Information</u></b>	3
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Statements of Assets and Liabilities as of September 30, 2016 (Unaudited) and December 31, 2015</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2016 (Unaudited) and 2015 (Unaudited)</u>	4
<u>Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2016 (Unaudited) and 2015 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 (Unaudited) and 2015 (Unaudited)</u>	6
<u>Consolidated Schedules of Investments as of September 30, 2016 (Unaudited) and December 31, 2015</u>	7
<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	13
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	49
<b>Part II. <u>Other Information</u></b>	50
Item 1. <u>Legal Proceedings</u>	50
Item 1A. <u>Risk Factors</u>	50
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 3. <u>Defaults Upon Senior Securities</u>	50
Item 4. <u>Mine Safety Disclosures</u>	50
Item 5. <u>Other Information</u>	50
Item 6. <u>Exhibits</u>	51

**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)*

	<b>September 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Investments, at fair value		
Non-controlled/non-affiliate company investments	\$ 383,876	\$ 395,143
Non-controlled affiliate company investments	19,010	20,200
Total investments, at fair value (amortized cost \$421,376 and \$436,109, respectively)	402,886	415,343
Cash and cash equivalents	17,796	22,769
Restricted cash and cash equivalents	5,913	—
Receivables from investments sold	—	—
Interest receivable	3,966	3,407
Prepaid expenses and other receivables	385	192
Total assets	\$ 430,946	\$ 441,711
<b>Liabilities</b>		
Debt	\$ 170,379	\$ 183,482
Distributions payable	6,498	6,498
Management fees payable	5,876	3,813
Payables for investments purchased	—	2,865
Accounts payable and accrued expenses	993	1,001
Interest payable	385	—
Total liabilities	\$ 184,131	\$ 197,659
<b>Commitments and contingencies (See Note 7)</b>		
<b>Net assets</b>		
Common stock, 18,303,890 shares issued and outstanding, par value \$0.001 per share and 100,000,000 authorized	18	18
Paid-in capital in excess of par	271,679	271,679

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Accumulated overdistributed net investment income	(6,454	)	(7,419	)
Accumulated realized gains on investments	698		1,176	
Accumulated unrealized depreciation on investments	(19,126	)	(21,402	)
Total net assets	\$ 246,815		\$ 244,052	
<b>Total liabilities and total net assets</b>	<b>\$ 430,946</b>		<b>\$ 441,711</b>	
Number of shares outstanding	18,303,890		18,303,890	
Net asset value per share	\$ 13.48		\$ 13.33	

*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,	
	2016	2015	2016	2015
Investment income				
From non-controlled/non-affiliate company investments				
Interest income	\$ 12,507	\$ 10,338	\$ 36,633	\$ 31,545
Fee income	683	681	1,615	1,505
From non-controlled affiliate company investments				
Dividend income	840	688	2,243	2,090
Total investment income	14,030	11,707	40,491	35,140
Expenses				
Interest expense	2,050	1,654	5,917	5,028
Base management fees	2,250	2,125	6,749	6,377
Performance-based incentive fees	1,817	1,415	5,116	4,220
Administrative service fees	134	255	550	898
General and administrative expenses	511	596	1,700	1,736
Total expenses	6,762	6,045	20,032	18,259
Net investment income	7,268	5,662	20,459	16,881
Realized and unrealized gains (losses) on investments				
Net realized gains/(losses)				
Non-controlled/non-affiliate company investments	660	—	(478 )	(379 )
Net realized gains/(losses)	660	—	(478 )	(379 )
Net change in unrealized appreciation (depreciation)				
Non-controlled/non-affiliate company investments	1,856	(4,234 )	3,466	(4,751 )
Non-controlled affiliate company investments	(1,190 )	—	(1,190 )	200
Net change in unrealized appreciation (depreciation)	666	(4,234 )	2,276	(4,551 )
Net realized and unrealized gains/(losses) on investments	1,326	(4,234 )	1,798	(4,930 )
Net increase in net assets resulting from operations	\$ 8,594	\$ 1,428	\$ 22,257	\$ 11,951
Per Common Share Data				
Basic and diluted earnings per common share	\$ 0.47	\$ 0.10	\$ 1.22	\$ 0.80
Dividends and distributions declared per common share	\$ 0.36	\$ 0.36	\$ 1.07	\$ 1.07
	18,303,890	14,982,857	18,303,890	14,982,857

Basic and diluted weighted average common shares  
outstanding

*See notes to the consolidated financial statements*

4

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

	<b>Common Stock</b>		<b>Paid-in Capital in</b>	<b>Accumulated Overdistributed Net</b>	<b>Accumulated Realized</b>	<b>Accumulated Unrealized</b>	<b>Total</b>
	<b>Shares</b>	<b>Par amount</b>	<b>Excess of Par</b>	<b>Investment Income</b>	<b>on Investments</b>	<b>on Investments</b>	<b>Net Assets</b>
Balance at December 31, 2014	14,982,857	\$ 15	\$ 228,731	\$ (5,918	) \$ 728	\$ 1,802	\$ 225,358
Net increase in net assets resulting from operations	—	—	—	16,881	(379	) (4,551	) 11,951
Distributions declared	—	—	—	(15,957	) —	—	(15,957)
Balance at September 30, 2015	14,982,857	\$ 15	\$ 228,731	\$ (4,994	) \$ 349	\$ (2,749	) \$ 221,352
Balance at December 31, 2015	18,303,890	\$ 18	\$ 271,679	\$ (7,419	) \$ 1,176	\$ (21,402	) \$ 244,052
Net increase in net assets resulting from operations	—	—	—	20,459	(478	) 2,276	22,257
Distributions declared	—	—	—	(19,494	) —	—	(19,494)
Balance at September 30, 2016	18,303,890	\$ 18	\$ 271,679	\$ (6,454	) \$ 698	\$ (19,126	) \$ 246,815

*See notes to the consolidated financial statements*



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

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$22,257	\$11,951
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Paid in kind income	(834 )	(935 )
Net realized losses on investments	478	379
Net unrealized (appreciation) depreciation on investments	(2,276 )	4,551
Accretion of discount	(2,284 )	(1,211 )
Amortization of deferred financing costs	642	613
Acquisition of investments	(69,610 )	(103,990)
Proceeds from principal payments and sales of portfolio investments	86,983	128,618
Net changes in operating assets and liabilities:		
Restricted cash and cash equivalents	(5,913 )	(4,674 )
Interest receivable	(559 )	26
Prepaid expenses and other receivables	(193 )	278
Payables for investments purchased	(2,865 )	2,865
Management fees payable	2,063	481
Accounts payable and accrued expenses	(8 )	(82 )
Interest payable	385	—
Net cash provided by operating activities	28,266	38,870
Cash flows from financing activities		
Proceeds from borrowings under credit facility	101,505	74,500
Repayment of borrowings under credit facility	(115,250)	(91,500 )
Deferred financing costs	—	(829 )
Distributions paid to common stockholders, net of distributions reinvested	(19,494 )	(15,957 )
Net cash used in financing activities	(33,239 )	(33,786 )
Net change in cash and cash equivalents	(4,973 )	5,084
Cash and cash equivalents at beginning of period	22,769	11,647
Cash and cash equivalents at end of period	\$17,796	\$16,731
Supplemental disclosure of cash flow information:		
Interest paid	\$4,890	\$4,403

*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Unaudited)****September 30, 2016***(in thousands)*

<b>Investment Type<sup>(1)</sup></b>	<b>Spread Above Index<sup>(2)</sup></b>	<b>Interest Rate<sup>(3)</sup></b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value As A Percentage Of Net Assets</b>
North America							
Debt Investments							
Advertising							
Fluent Acquisition II, LLC							
First Lien Secured Term Loan	L+11.50% (0.50% Floor)	12.00% (1.00% PIK)	12/8/20	\$27,165	\$26,713	\$27,029	10.82 %
Intersection Acquisition, LLC							
First Lien Secured Term Loan	L+10.00% (1.00% Floor)	11.00%	9/15/20	16,149	16,021	16,149	6.49
				43,314	42,734	43,178	17.31
Auto Parts & Equipment							
Crowne Group, LLC							
First Lien Secured Term Loan	L+9.25% (1.00% Floor)	10.25%	5/26/21	12,500	12,096	12,375	4.90
Broadcasting							
Multicultural Radio							
Broadcasting, Inc.							
First Lien Secured Term Loan	L+10.50% (1.00% Floor)	11.50%	6/27/19	14,850	14,850	14,757	6.02
Consumer Finance							
Golden Pear Funding III, LLC <sup>(7)</sup>							
Second Lien Secured Term Loan	L+10.25% (1.00% Floor)	11.25%	6/25/20	25,000	24,782	24,770	10.04
Second Lien Secured Revolving Loan	L+10.25% (1.00% Floor)	11.25%	6/25/20	5,000	4,956	4,954	2.01
Oasis Legal Finance, LLC <sup>(7)</sup>							
Second Lien Secured Term Loan	L+10.75% (1.00% Floor)	11.75%	3/1/22	20,000	19,605	19,800	7.94

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Sigue Corporation <sup>(6)</sup>							
Second Lien Secured Term Loan	L+11.00%	12.00%	12/27/18	25,000	24,776	24,375	10.04
	(1.00% Floor)			75,000	74,119	73,899	30.03
Data Processing & Outsourced Services							
Future Payment Technologies, L.P.							
Second Lien Secured Term Loan	L+12.00%	13.00%	12/31/18	36,726	36,096	34,155	14.62
	(1.00% Floor) (1.00% PIK)						
Department Stores							
Mills Fleet Farm Group, LLC							
Second Lien Secured Term Loan	L+9.75%	10.75%	2/26/23	7,146	7,012	7,146	2.84
	(1.00% Floor)						
Distributors							
360 Holdings III Corp.							
First Lien Secured Term Loan	L+9.00%	10.00%	10/1/21	9,900	9,556	9,900	3.87
	(1.00% Floor)						
Diversified Support Services							
Sitel Worldwide Corporation							
Second Lien Secured Term Loan	L+9.50%	10.50%	9/18/22	8,670	8,522	8,476	3.45
	(1.00% Floor)						
Electronic Equipment & Instruments							
AP Gaming I, LLC							
First Lien Secured Term Loan	L+8.25%	9.25%	12/20/20	9,725	9,547	9,384	3.87
	(1.00% Floor)						

## WhiteHorse Finance, Inc.

## Consolidated Schedule of Investments (Unaudited) (Continued)

September 30, 2016

(in thousands)

Investment Type <sup>(1)</sup>	Spread Above Index <sup>(2)</sup>	Interest Rate <sup>(3)</sup>	Maturity Date	Principal Amount	Amortized Cost	Fair Value	Fair Value As A Percentage Of Net Assets
<u>Food Retail</u>							
AG Kings Holdings Inc. First Lien Secured Term Loan	L+9.95% (1.00% Floor)	10.95%	8/10/21	\$ 14,000	\$ 13,412	\$ 13,685	5.43%
Crews of California, Inc. First Lien Secured Term Loan	L+11.00% (1.00% Floor)	12.00% (1.00% PIK)	11/20/19	17,493	17,282	17,404	7.00
First Lien Secured Revolving Loan	L+11.00% (1.00% Floor)	12.00% (1.00% PIK)	11/20/19	5,055	4,972	5,029	2.01
First Lien Secured Delayed Draw Loan	L+11.00% (1.00% Floor)	12.00% (1.00% PIK)	11/20/19	5,070	4,993	5,045	2.02
				41,618	40,659	41,163	16.46
<u>Health Care Facilities</u>							
Coastal Sober Living, LLC <sup>(6)</sup> First Lien Secured Term Loan	L+10.25% (1.00% Floor)	11.25%	6/30/19	23,529	23,284	23,529	9.43
Grupo HIMA San Pablo, Inc. First Lien Secured Term Loan	L+9.00% (1.50% Floor)	10.50%	1/31/18	14,475	14,398	13,158	5.83
Second Lien Secured Term Loan	N/A <sup>(5)</sup>	15.75%	7/31/18	1,000	983	641	0.40
				39,004	38,665	37,328	15.66
<u>Integrated Telecommunication Services</u>							
Securus Technologies Holdings, Inc.	L+7.75%	9.00%	4/30/21	9,090	9,066	8,793	3.67

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Second Lien Secured Term  
Loan

(1.25% Floor)

Internet Retail

Clarus Commerce, LLC

First Lien Secured Term Loan	L+11.21%	12.21%	3/17/21	6,000	5,893	5,895	2.39
------------------------------	----------	--------	---------	-------	-------	-------	------

(1.00% Floor)

Office Services & Supplies

Katun Corporation

Second Lien Secured Term Loan	L+11.25%	12.25%	1/25/21	5,000	4,968	4,975	2.01
----------------------------------	----------	--------	---------	-------	-------	-------	------

(1.00% Floor)

Oil & Gas Drilling

ProPetro Services, Inc.<sup>(6)</sup>

First Lien Secured Term Loan	L+6.25%	7.25%	9/30/19	8,440	8,397	7,130	3.40
------------------------------	---------	-------	---------	-------	-------	-------	------

(1.00% Floor)

Oil & Gas Exploration &

Production

Caelus Energy Alaska O3, LLC

Second Lien Secured Term Loan	L+7.50%	8.75%	4/15/20	13,000	12,890	9,162	5.22
----------------------------------	---------	-------	---------	--------	--------	-------	------

(1.25% Floor)

Other Diversified Financial

Services

The Pay-O-Matic Corp

First Lien Secured Term Loan	L+11.00%	12.00%	4/2/18	9,059	8,969	9,004	3.63
------------------------------	----------	--------	--------	-------	-------	-------	------

(1.00% Floor)

**WhiteHorse Finance, Inc.****Consolidated Schedule of Investments (Unaudited) (Continued)****September 30, 2016***(in thousands)*

<b>Investment Type<sup>(1)</sup></b>	<b>Spread Above Index<sup>(2)</sup></b>	<b>Interest Rate<sup>(3)</sup></b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value As A Percentage Of Net Assets</b>
<u>Research &amp; Consulting Services</u>							
Project Time & Cost, LLC							
First Lien Secured Term Loan	L+12.00% (0.50% Floor)	12.50%	10/9/20	\$ 10,405	\$ 10,238	\$ 10,145	4.15 %
<u>Specialized Consumer Services</u>							
Pre-Paid Legal Services, Inc.							
Second Lien Secured Term Loan	L+9.00% (1.25% Floor)	10.25%	7/1/20	18,000	17,873	17,937	7.24
<u>Specialized Finance</u>							
GMT Holdings 1, Ltd. & GMT Holdings 12, Ltd. <sup>(4) (7)</sup>							
First Lien Secured Term Loan	N/A <sup>(5)</sup>	10.00%	6/30/17	965	959	965	0.39
<u>Trucking</u>							
Fox Rent A Car, Inc.							
Second Lien Secured Term Loan	L+15.00%	15.50%	10/31/19	7,500	7,454	7,393	3.02
Total Debt Investments				385,912	380,563	373,160	154.15
Equity Investments							
<u>Advertising</u>							
IDI, Inc. Warrants <sup>(6)</sup>	N/A	N/A	12/8/25	—	—	—	—
<u>Food Retail</u>							
Crews of California, Inc. Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	1,933	0.00
Nicholas & Associates, LLC Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	373	0.00
Pinnacle Management Group, LLC Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	700	0.00
	N/A	N/A	12/31/24	—	—	206	0.00

RC3 Enterprises, LLC Warrants <sup>(6)</sup>				—	—	3,212	0.00	
<u>Other Diversified Financial Services</u>								
Aretec Group, Inc. <sup>(6)(7)</sup>	N/A	N/A	N/A	—	20,693	7,504	8.38	
<u>Specialized Finance</u>								
NMFC Senior Loan Program I LLC Units <sup>(1)(6)(7)</sup>	N/A	N/A	6/10/19	—	20,120	19,010	8.15	
Total Equity Investments				—	40,813	29,726	16.53	
<b>Total Investments</b>				<b>\$385,912</b>	<b>\$421,376</b>	<b>\$402,886</b>	<b>170.68</b>	<b>%</b>

Except as otherwise noted, all investments are in companies that are not affiliated persons of, or controlled by, the Company, as defined by the Investment Company Act of 1940, as amended (the “1940 Act”), and provide collateral for the Company’s credit facility.

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

<sup>(3)</sup> 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.

<sup>(4)</sup> The Company’s investments in GMT Holdings 1, Ltd. and GMT Holdings 12, Ltd. are held through its subsidiary Bayside Financing S.A.R.L.

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

<sup>(6)</sup> The investment or a portion of the investment does not provide collateral for the Company’s revolving credit facility.

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 represent 85% of total assets.

*See notes to the consolidated financial statements*



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

<b>Investment Type<sup>(1)</sup></b>	<b>Spread Above Index<sup>(2)</sup></b>	<b>Interest Rate<sup>(3)</sup></b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value As A Percentage Of Net Assets</b>
North America Debt Investments Advertising Fluent Acquisition II, LLC First Lien Secured Term Loan	L+11.50% (0.50% Floor)	12.00% (1.00% PIK)	12/8/20	\$28,017	\$27,462	\$27,765	11.38 %
Intersection Acquisition, LLC First Lien Secured Term Loan	L+10.00% (1.00% Floor)	11.00%	9/15/20	16,462	16,302	16,429	6.73
				44,479	43,764	44,194	18.11
Broadcasting Multicultural Radio Broadcasting, Inc. <sup>(6)</sup> First Lien Secured Term Loan	L+10.50% (1.00% Floor)	11.50%	6/27/19	14,850	14,850	14,806	6.07
Consumer Finance Golden Pear Funding III, LLC <sup>(7)</sup> Second Lien Secured Term Loan	L+10.25% (1.00% Floor)	11.25%	6/25/20	25,000	24,731	24,650	10.10
Second Lien Secured Revolving Loan	L+10.25% (1.00% Floor)	11.25%	6/25/20	—	(52 )	—	—
Oasis Legal Finance, LLC <sup>(7)</sup> Second Lien Secured Term Loan	N/A <sup>(5)</sup>	10.50%	9/30/18	9,000	8,881	8,973	3.68
Sigue Corporation <sup>(6)</sup> Second Lien Secured Term Loan	L+10.50% (1.00% Floor)	11.50%	12/27/18	25,000	24,669	24,875	10.19
				59,000	58,229	58,498	23.97

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Data Processing & Outsourced Services							
Future Payment Technologies, L.P.							
Second Lien Secured Term Loan	L+12.00%	13.00%	12/31/18	36,447	35,510	36,447	14.92
	(1.00% Floor) (1.00% PIK)						
Distributors							
360 Holdings III Corp. <sup>(6)</sup>							
First Lien Secured Term Loan	P+8.00%	11.50%	10/1/21	9,975	9,575	9,775	4.01
	(3.50% Floor)						
Diversified Support Services							
Expert Global Solutions, Inc.							
Second Lien Secured Term Loan	L+11.00%	12.50%	10/3/18	20,000	19,831	19,820	8.12
	(1.50% Floor)						
Orion Healthcorp, Inc.							
First Lien Secured Term Loan	L+9.00%	11.00%	9/30/17	6,991	6,830	6,998	2.87
	(2.00% Floor)						
Sitel Worldwide Corporation							
Second Lien Secured Term Loan	L+9.50%	10.50%	9/18/22	8,670	8,501	8,540	3.50
	(1.00% Floor)						
Smile Brands Group Inc.							
First Lien Secured Term Loan	L+7.75%	9.00%	8/16/19	11,745	11,585	9,983	4.09
	(1.25% Floor) (1.50% PIK)			47,406	46,747	45,341	18.58
Electronic Equipment & Instruments							
AP Gaming I, LLC <sup>(6)</sup>							
First Lien Secured Term Loan	L+8.25%	9.25%	12/20/20	9,800	9,566	9,663	3.96
	(1.00% Floor)						

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

<b>Investment Type<sup>(1)</sup></b>	<b>Spread Above Index<sup>(2)</sup></b>	<b>Interest Rate<sup>(3)</sup></b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value As A Percentage Of Net Assets</b>
<b>Food Retail</b>							
Crews of California, Inc.							
First Lien Secured Term Loan	L+11.00% (1.00% Floor)	12.00% (1.00% PIK)	11/20/19	\$ 15,170	\$ 14,889	\$ 14,639	6.00 %
First Lien Secured Revolving Loan	L+11.00% (1.00% Floor)	12.00% (1.00% PIK)	11/20/19	5,019	4,931	4,843	1.98
First Lien Secured Delayed Draw Loan	L+11.00% (1.00% Floor)	12.00% (1.00% PIK)	11/20/19	5,034	4,946	4,858	1.99
				25,223	24,766	24,340	9.97
<b>Health Care Distributors</b>							
P2 Newco Acquisition, Inc. <sup>(6)</sup>							
Second Lien Secured Term Loan	L+8.50% (1.00% Floor)	9.50%	10/22/21	6,000	5,952	5,982	2.45
<b>Health Care Facilities</b>							
Coastal Sober Living, LLC <sup>(6)</sup>							
First Lien Secured Term Loan	L+9.25% (1.00% Floor)	10.25%	6/30/19	41,030	40,436	40,251	16.48
<b>Grupo HIMA San Pablo, Inc.</b>							
First Lien Secured Term Loan	L+7.00% (1.50% Floor)	8.50%	1/31/18	14,588	14,441	14,588	5.98
Second Lien Secured Term Loan	N/A <sup>(5)</sup>	13.75%	7/31/18	1,000	971	992	0.41
				56,618	55,848	55,831	22.88
<b>Health Care Technology</b>							
Client Network Services, Inc.							
First Lien Secured Term Loan	L+13.00% (0.50% Floor)	13.50%	4/24/19	9,185	8,954	9,350	3.83
First Lien Secured Revolving Loan	P+12.00% (3.50% Floor)	15.50%	4/24/19	1,000	1,000	1,018	0.42

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

				10,185	9,954	10,368	4.25
Integrated Telecommunication Services							
Securus Technologies Holdings, Inc.							
Second Lien Secured Term Loan	L+7.75%	9.00%	4/30/21	9,090	9,059	5,936	2.43
	(1.25% Floor)						
Oil & Gas Drilling							
ProPetro Services, Inc. <sup>(6)</sup>							
First Lien Secured Term Loan	L+6.25%	7.25%	9/30/19	8,875	8,809	6,417	2.63
	(1.00% Floor)						
Oil & Gas Exploration & Production							
Caelus Energy Alaska O3, LLC							
Second Lien Secured Term Loan	L+7.50%	8.75%	4/15/20	13,000	12,856	9,269	3.80
	(1.25% Floor)						
Larchmont Resources, LLC							
First Lien Secured Term Loan	L+8.75%	9.75%	8/7/19	1,745	1,777	1,238	0.51
	(1.00% Floor)						
				14,745	14,633	10,507	4.31
Other Diversified Financial Services							
RCS Capital Corporation <sup>(6)</sup> <sup>(7)</sup>							
<sup>(9)</sup> Second Lien Secured Term Loan	L+10.50%	11.50%	4/29/21	20,750	20,687	7,262	2.98
	(1.00% Floor)						
The Pay-O-Matic Corp							
First Lien Secured Term Loan	L+11.00%	12.00%	3/31/18	9,750	9,594	9,740	3.99
	(1.00% Floor)						
				30,500	30,281	17,002	6.97
Research & Consulting Services							
Project Time & Cost, LLC <sup>(6)</sup>							
First Lien Secured Term Loan	L+11.00%	11.50%	10/9/20	11,700	11,468	11,571	4.74
	(0.50% Floor)						
Specialized Consumer Services							
Pre-Paid Legal Services, Inc. <sup>(6)</sup>							
Second Lien Secured Term Loan	L+9.00%	10.25%	7/1/20	18,000	17,830	18,054	7.40
	(1.25% Floor)						

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

<b>Investment Type<sup>(1)</sup></b>	<b>Spread Above Index<sup>(2)</sup></b>	<b>Interest Rate<sup>(3)</sup></b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value As A Percentage Of Net Assets</b>	
Specialized Finance GMT Holdings 1, Ltd. & GMT Holdings 12, Ltd. <sup>(4) (7)</sup> First Lien Secured Term Loan	N/A <sup>(5)</sup>	10.00%	6/30/17	\$ 1,710	\$ 1,710	\$ 1,710	0.70	%
Trucking Fox Rent A Car, Inc. Second Lien Secured Term Loan	L+12.00%	12.43%	10/31/19	7,500	7,438	7,395	3.03	
<b>Total Debt Investments</b>				<b>422,103</b>	<b>415,989</b>	<b>393,837</b>	<b>161.37</b>	
Equity Investments Advertising IDI, Inc. Warrants <sup>(6)</sup>	N/A	N/A	12/8/25	—	—	—	—	
Diversified Support Services Constellation Health, LLC Warrants <sup>(6)</sup>	N/A	N/A	9/30/18	—	—	989	0.41	
Food Retail Crews of California, Inc. Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	191	0.08	
Nicholas & Associates, LLC Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	37	0.01	
Pinnacle Management Group, LLC Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	69	0.03	
RC3 Enterprises, LLC Warrants <sup>(6)</sup>	N/A	N/A	12/31/24	—	—	20	0.01	
				—	—	317	0.14	
Specialized Finance NMFC Senior Loan Program I LLC Units <sup>(6)(7)(8)</sup>	N/A	N/A	6/10/19	—	20,120	20,200	8.28	
<b>Total Equity Investments</b>				<b>—</b>	<b>20,120</b>	<b>21,506</b>	<b>8.82</b>	

Total Investments	\$422,103	\$436,109	\$415,343	170.19	%
-------------------	-----------	-----------	-----------	--------	---

Except as otherwise noted, all investments are in companies that are not affiliated person of, or controlled by, the (1) Company, 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 LIBOR or Prime, which resets monthly, quarterly or semiannually.

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

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

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

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

Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any (7) non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets. Qualifying assets represent 86% of total assets.

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

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

*See notes to the consolidated financial statements*

**WhiteHorse Finance, Inc.**

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

**September 30, 2016**

*(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 has qualified, elected and continues to qualify to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

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

The Company’s investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing small-cap companies across a broad range of industries that typically carry a floating interest rate based on the London Interbank Offered Rate (“LIBOR”) and have a term of three to six years. While the Company focuses principally on originating senior secured loans to small-cap 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 WhiteHorse Finance, Inc., its wholly owned subsidiaries, WhiteHorse Finance Warehouse, LLC (“WhiteHorse Warehouse”) and WhiteHorse Finance Credit I, 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 Articles 6 and 10 of Regulation under the Securities Act. 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, 2015. 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, 2016.

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



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

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

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

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

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

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

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

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

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

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

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

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 facilities. Restricted cash is held by the trustee for the payment of interest expense and principal on the outstanding borrowings or reinvestment into new assets. Restricted cash that represents interest or fee income is transferred to unrestricted cash accounts by the trustee once a quarter after the payment of operating expenses and other amounts due.

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. 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 has qualified, elected and continues to qualify to be treated as a RIC under Subchapter M of the Code. In order to maintain its ability to be subject to tax as a RIC, among other requirements, the Company is required to distribute dividends each taxable year of an amount generally at least equal to 90% of the sum of its 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 addition, the Company is generally subject to a nondeductible excise tax in respect of any calendar year equal to 4% of the amount by which the sum of (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, or capital gain net income, for the one-year period ending on October 31 of the calendar year (adjusted for certain ordinary losses) and (3) any ordinary income and capital net gain income 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 such calendar year. The Company accrues estimated excise tax on the amount, if any, that estimated taxable income is expected to exceed the level of stockholder distributions described above.

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

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

Penalties or interest that may be assessed related to any income taxes would be classified as general administrative expenses on the consolidated statements of operations. The Company had no amounts accrued for interest or penalties on September 30, 2016 or December 31, 2015. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. Tax returns for each of the federal tax years since 2013 remain subject to examination by the Internal Revenue Service.

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

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

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

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

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

Recent Accounting Pronouncements: In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-07, *Equity Method and Joint Ventures (Topic 323)*, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. For public companies, ASU 2016-07 would be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-07 would have on its consolidated financial statements and disclosures.

During May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 will remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This guidance is effective retrospectively for annual and interim periods beginning on or after December 15, 2016, and for interim periods within those fiscal years, with early adoption permitted. The Company does not expect ASU 2015-07 to have a material impact on its consolidated financial statements and related disclosures.

During April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as clarified by ASU 2015-15, *Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, containing guidance that requires debt issuance costs related to a recognized debt liability of a reporting entity to be presented in the statement of assets and liabilities as a direct reduction from the carrying amount of such debt liability, instead of being recorded as a separate asset. ASU 2015-15 allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize these deferred costs over the term of the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03 and ASU 2015-15. This guidance is effective for annual and interim periods beginning on or after December 15, 2015. The Company adopted ASU 2015-03, as clarified by ASU 2015-15, which did not have a material impact on the Company's consolidated financial statements other than corresponding reductions to total assets and total liabilities on the consolidated statements of assets and liabilities. Prior to adoption, the Company recorded deferred debt issuance costs as deferred financing costs as an asset on the consolidated statements of assets and liabilities. Upon adoption, the Company reclassified these costs as unamortized debt issuance costs that reduce debt in the liabilities on the consolidated statements of assets and liabilities and retrospectively reclassified the \$3,518 of deferred debt issuance costs that were previously presented as deferred financing costs as an asset as of December 31, 2015. There was no effect on the consolidated statements of operations as a result of the adoption of ASU 2015-03, as clarified by ASU 2015-15.

**NOTE 3 — INVESTMENTS**

Investments consisted of the following:

	<b>September 30, 2016</b>		<b>December 31, 2015</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
First lien secured loans	\$201,580	\$ 200,582	\$219,126	\$ 215,641
Second lien secured loans	178,982	172,577	196,863	178,196
Equity	40,814	29,727	20,120	21,506
Total	\$421,376	\$ 402,886	\$436,109	\$ 415,343

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

	<b>September 30, 2016</b>		<b>December 31, 2015</b>	
Advertising	\$43,178	10.72 %	\$44,194	10.64 %
Auto Parts & Equipment	12,375	3.07	—	—
Broadcasting	14,757	3.66	14,806	3.56
Consumer Finance	73,899	18.34	58,498	14.08
Data Processing & Outsourced Services	34,155	8.48	36,447	8.78
Department Stores	7,146	1.77	—	—
Distributors	9,900	2.46	9,775	2.35
Diversified Support Services	8,476	2.10	46,330	11.15
Electronic Equipment & Instruments	9,384	2.33	9,663	2.33
Food Retail	44,374	11.01	24,657	5.94
Health Care Distributors	—	—	5,982	1.44
Health Care Facilities	37,327	9.27	55,831	13.44
Health Care Technology	—	—	10,368	2.50
Integrated Telecommunication Services	8,793	2.18	5,936	1.43
Internet Retail	5,895	1.46	—	—
Office Services & Supplies	4,975	1.24	—	—
Oil & Gas Drilling	7,130	1.77	6,417	1.54
Oil & Gas Exploration & Production	9,162	2.27	10,507	2.53
Other Diversified Financial Services	16,510	4.10	17,002	4.09
Research & Consulting Services	10,145	2.52	11,571	2.79
Specialized Consumer Services	17,937	4.45	18,054	4.35
Specialized Finance	19,975	4.96	21,910	5.28
Trucking	7,393	1.84	7,395	1.78



Total	\$402,886	100.00%	\$415,343	100.00%
-------	-----------	---------	-----------	---------

The portfolio companies underlying the investments are located in the United States. As of September 30, 2016 and December 31, 2015, the weighted average remaining term of the Company's debt investments was approximately 3.6 years and 3.9 years, respectively.

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 converted to 536,042 shares of common stock in Aretec Group, Inc. (previously known as RCS Capital Corporation). As of September 30, 2016, the fair value of the Company's investment in Aretec Group, Inc. was \$7,505. As of December 31, 2015, prior to the conversion, the amortized cost and fair value of the Company's second lien investment in RCS Capital Corporation was \$20,687 and \$7,262, respectively.

As of September 30, 2016 and December 31, 2015, the total fair value of non-accrual loans was \$0 and \$7,262, respectively.

#### NOTE 4 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. During the nine months ended September 30, 2016 and 2015, 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.

The following table presents investments (as shown on the consolidated schedule of investments) that were measured at fair value as of September 30, 2016:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
First lien secured loans	\$ —	\$ —	\$200,582	\$200,582
Second lien secured loans	—	—	172,577	172,577
Equity	—	—	29,727	29,727
Total investments	\$ —	\$ —	\$402,886	\$402,886

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
First lien secured loans	\$ —	\$ —	\$215,641	\$215,641
Second lien secured loans	—	—	178,196	178,196
Equity	—	—	21,506	21,506
Total investments	\$ —	\$ —	\$415,343	\$415,343

The following table presents the changes in investments measured at fair value using Level 3 inputs for the nine months ended September 30, 2016:

	<b>First Lien Secured Loans</b>	<b>Second Lien Secured Loans</b>	<b>Equity</b>	<b>Total Investments</b>
Fair value, beginning of period	\$215,641	\$178,196	\$21,506	\$415,343
Funding of investments	32,540	37,070	—	69,610
Non-cash interest income	556	278	—	834
Accretion of discount	1,323	1,002	(41 )	2,284

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Proceeds from pay downs and sales	(50,808 )	(35,518 )	(657 )	(86,983 )
Conversion from debt to equity	—	(7,263 )	7,263	—
Net realized gains/(losses)	(1,135 )	—	657	(478 )
Net unrealized appreciation (depreciation)	2,465	(1,188 )	999	2,276
Fair value, end of period	\$ 200,582	\$ 172,577	\$ 29,727	\$ 402,886

The following table presents the changes in investments measured at fair value using Level 3 inputs for the nine months ended September 30, 2015:

	First Lien Secured Loans	Second Lien Secured Loans	Equity	Total Investments
Fair value, beginning of period	\$220,038	\$ 162,252	\$21,210	\$ 403,500
Funding of investments	58,053	45,937	—	103,990
Non-cash interest income	390	545	—	935
Accretion of discount	782	429	—	1,211
Proceeds from pay downs and sales	(103,969)	(24,649)	) —	(128,618 )
Net unrealized depreciation	(202 )	(177 )	) —	(379 )
Transfers out of Level 3	(2,982 )	(1,671 )	) 102	(4,551 )
Fair value, end of period	\$172,110	\$ 182,666	\$21,312	\$ 376,088

The significant unobservable inputs used in the fair value measurement of the Company's investments are the discount rate, market quotes and exit multiples. A significant increase or decrease in the discount rate in isolation would result in significantly lower or higher fair value measurement, respectively. A significant increase or decrease in the market quote for an investment would in isolation result in significantly higher or lower fair value measurement, respectively. A significant increase or decrease in the exit multiple would 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 significant 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, 2016	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
First lien secured loans	\$ 170,382	Discounted cash flows	Discount rate	9.3% – 19.9% (13.0%)
			Exit multiple	5.0x – 8.0x (6.4x)
	30,200	Weighting of discounted cash flows and consensus pricing	Discount rate	10.1% – 17.7% (12.2%)
			Market quotes	88.1 – 97.5 (94.2)
\$ 200,582		Exit multiple	3.5x – 6.0x (5.0x)	
Second lien secured loans	\$ 108,409	Discounted cash flows	Discount rate	11.4% – 50.5% (16.2%)
			Exit multiple	2.8x – 6.5x (5.4x)
			Discount rate	10.8% – 20.5% (13.6%)
55,375				

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

		Weighting of discounted cash flows and consensus pricing	Market quotes	67.5 – 99.1 (91.6)
			Exit multiple	5.0x – 7.0x (5.7x)
	8,793	Consensus pricing	Market quotes	96.7
	\$ 172,577			
Equity	\$ 29,727	Discounted cash flows and Black-Scholes model	Discount rate	13.8% – 25.0% (15.3%)
			Exit multiple	6.0x – 8.0x (6.7x)
			Volatility	25.0%
	\$ 29,727			
Total Level 3 investments	\$ 402,886			

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Investment Type	Fair Value at December 31, 2015	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
First lien secured loans	\$ 145,646	Discounted cash flows	Discount rate	10.3% – 20.7% (13.6%)
			Exit multiple	4.5x – 8.0x (5.5x)
	69,995	Weighting of discounted cash flows and consensus pricing	Discount rate	10.5% – 23.6% (13.3%)
			Market quotes	67.0 – 98.0 (92.5)
		Exit multiple	3.5x – 9.0x (6.8x)	
	\$ 215,641			
Second lien secured loans	\$ 110,595	Discounted cash flows	Discount rate	11.1% – 20.0% (14.4%)
			Exit multiple	4.5x – 7.0x (6.0x)
	67,601	Weighting of discounted cash flows and consensus pricing	Discount rate	10.6% – 20.3% (13.1%)
			Market quotes	57.5 – 99.6 (87.4)
		Exit multiple	5.0x – 8.5x (5.3x)	
	\$ 178,196			
Equity	\$ 20,200	Discounted cash flows	Discount rate	11.0%
	1,306	Black-Scholes model	Volatility	25.0%
	\$ 21,506			
Total Level 3 investments	\$ 415,343			

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 carrying values and fair values of the Company's borrowings as of September 30, 2016 and December 31, 2015. The fair values of the credit facility and unsecured term loan were estimated by discounting remaining payments using applicable market rates or market quotes for similar instruments at the measurement date, if available. The fair value of the Company's 6.50% senior notes due 2020 (the "Senior Notes"), was estimated using the unadjusted quoted price as of the valuation date.

		September 30, 2016		December 31, 2015	
	Fair Value Level	<b>Carrying</b>	Fair Value	<b>Carrying</b>	Fair Value
		<b>Value</b>		<b>Value</b>	
JPM Credit Facility	3	\$ 141,046	\$ 139,241	\$ 99,277	\$ 103,686
Senior Notes	2	29,333	30,275	29,205	29,680
Unsecured term loan	3	—	—	55,000	54,682
		\$ 170,379	\$ 169,516	\$ 183,482	\$ 188,048



**NOTE 5 – BORROWINGS**

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after giving effect to such borrowing. As of September 30, 2016, the Company's asset coverage for borrowed amounts was 242.5%. The Company's outstanding debt as of September 30, 2016 and December 31, 2015 was as follows:

	September 30, 2016		December 31, 2015	
	Principal Amount Outstanding	Carrying Value	Principal Amount Outstanding	Carrying Value
JPM Credit Facility	\$ 143,255	\$ 141,046	\$ 102,000	\$ 99,277
Senior Notes	30,000	29,333	30,000	29,205
Unsecured term loan	—	—	55,000	55,000
	\$ 173,255	\$ 170,379	\$ 187,000	\$ 183,482

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 "Natixis Credit Facility"). On December 23, 2015, the Company entered into a \$200,000 revolving credit and security agreement with JPMorgan Chase Bank, National Association, as administrative agent and lender (the "JPM Credit Facility"). On December 27, 2015, the Company drew \$102,000 on the JPM Credit Facility and used the proceeds to repay the Natixis Credit Facility in full. On June 27, 2016, the JPM Credit Facility was amended and restated to clarify certain terms.

The JPM Credit Facility bears interest at LIBOR plus 2.90% on outstanding borrowings. The Company is required to pay a non-usage fee which accrued at 0.50% per annum through September 22, 2016, and at 1.00% per annum thereafter, on the average daily unused amount of the financing commitments to the extent the aggregate principal amount available under the JPM Credit Facility has not been borrowed. The commitment fee was waived through September 22, 2016 while borrowings under the JPM Credit Facility exceeded \$100,000. In connection with the JPM Credit Facility, WhiteHorse Credit pledged securities with a fair value of \$349,304 as of September 30, 2016 as collateral. The JPM Credit Facility has a final maturity date of December 23, 2019. Under the JPM 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, 2016, the Company had \$143,255 in outstanding borrowings and \$56,745 undrawn under the JPM Credit Facility. Weighted average outstanding borrowings were \$144,937 and \$120,769 at weighted average interest rates of 3.62% and 3.52% for the three and nine months ended September 30, 2016. The Company's ability to draw down undrawn funds under the JPM Credit Facility is determined by collateral and portfolio quality requirements stipulated in the credit and security agreement. At September 30, 2016, \$20,942 was available to be drawn by the Company based on these requirements.

Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

The Natixis Credit Facility bore interest at the daily commercial paper rate plus 2.25% on outstanding borrowings. The Company also incurred a commitment fee of 0.75% per annum on any undrawn balance. Weighted average outstanding borrowings were \$84,408 and \$95,672 at weighted average interest rates of 2.59% and 257% for the three and nine months ended September 30, 2015, respectively.

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 is paid quarterly on March 31, June 30, September 30 and December 31, at an annual rate of 6.50%. The Senior Notes mature on July 31, 2020. The Senior Notes are the Company's direct senior unsecured obligations, rank senior to the Company's unsecured term loan and are structurally subordinate to borrowings under the JPM Credit Facility. The Senior Notes are listed on the NASDAQ Global Select Market under the symbol "WHFBL".

Unsecured Term Loan: On November 8, 2012, the Company entered into a \$90,000 unsecured term loan agreement with Citibank, N.A., as the sole lead arranger, and H.I.G. Bayside Loan Opportunity Fund II, L.P. ("Loan Fund II"), an affiliate of the Company, as guarantor. On July 9, 2013, the Company amended the terms of its unsecured term loan to subordinate the unsecured term loan to the Senior Notes (as defined below). On July 19, 2013, the Company further amended the terms of its unsecured term loan to lower the annual interest rate from LIBOR plus 2.75% to LIBOR plus 2.20%. The amendment also extended the maturity date by one year to July 3, 2015. On July 24, 2013, the Company repaid \$35,000 of its original borrowings. On December 22, 2014, the Company further amended the unsecured term loan agreement to (i) reduce the annual interest rate by 55 basis points, from LIBOR plus 2.2% to LIBOR plus 1.65% and (ii) extend the maturity date by to July 3, 2016. The amendment was effective as of January 6, 2015. On June 30, 2016, the Company repaid in full the outstanding balance of \$55,000 due under the unsecured term loan.

## NOTE 6 – RELATED PARTY TRANSACTIONS

Investment Advisory Agreement: WhiteHorse Advisers serves as the Company's investment adviser in accordance with the terms of an investment advisory agreement (the "Investment Advisory Agreement"). Subject to the overall supervision of the Company's board of directors, 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*

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, at the end of the two most recently completed calendar quarters, and is payable quarterly in arrears. Base management fees for any partial month or quarter is appropriately pro-rated.

During the three and nine months ended September 30, 2016, the Company incurred base management fees of \$2,250 and \$6,749, respectively. During the three and nine months ended September 30, 2015, the Company incurred base management fees of \$2,125 and \$6,377, respectively.

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

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

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

100% of Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the Hurdle Rate but is less than 2.1875% in any calendar quarter (8.75% annualized) is payable to 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, which is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), commenced on January 1, 2013, and equals 20% of cumulative aggregate realized capital gains from January 1, 2013 through the end of the calendar year, computed net of aggregate cumulative realized capital losses and aggregate cumulative unrealized capital depreciation through the end of each year, less the aggregate amount of any previously paid capital gains incentive fees and subject to the Incentive Fee Cap and Deferral Mechanism. If such amount is negative, then no capital gains incentive fee will be payable for the year. Additionally, if the Investment Advisory Agreement is terminated as of a date that is not a calendar year end, the termination date will be treated as though it were a calendar year end for purposes of calculating and paying the capital gains incentive fee. The capital gains component of the incentive fee is not subject to any minimum return to stockholders.

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

During the three and nine months ended September 30, 2016, the Company incurred performance-based incentive fees of \$1,817 and \$5,116, respectively. During the three and nine months ended September 30, 2015, the Company



incurred performance-based incentive fees of \$1,415 and \$4,220, 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, 2016, the Company incurred allocated administrative service fees of \$134 and \$550, respectively. During the three and nine months ended September 30, 2015, the Company incurred allocated administrative service fees of \$255 and \$898, respectively.

Co-investments with Related Parties: At September 30, 2016 and December 31, 2015, certain officers or employees affiliated with or employed by WhiteHorse Advisers and its related entities maintained co-investments in the Company's investments of \$60 and \$50, respectively.

At September 30, 2016 and December 31, 2015, certain funds affiliated with WhiteHorse Advisers and its related entities maintained co-investments in the Company's investments of \$171,405 and \$52,257, 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 \$0 and \$14,000 as of September 30, 2016 and December 31, 2015, 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.

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 September 30,</b>			
	<b>2016</b>		<b>2015</b>	
<u>Per share data:</u> <sup>(1)</sup>				
Net asset value, beginning of period	\$ 13.33		\$ 15.04	
Net investment income	1.12		1.13	
Net realized and unrealized gains (losses) on investments	0.10		(0.33	)
Net increase in net assets resulting from operations	1.22		0.80	
Distributions declared	(1.07	)	(1.07	)
Net asset value, end of period	\$ 13.48		\$ 14.77	
Total annualized return based on market value <sup>(2)</sup>	(6.40	)%	1.04	%
Total annualized return based on net asset value	12.04	%	7.05	%
Net assets, end of period	\$ 246,815		\$ 221,352	
Per share market value at end of period	\$ 10.93		\$ 11.64	
Shares outstanding end of period	18,303,890		14,982,857	
<u>Ratios/Supplemental Data:</u> <sup>(3)</sup>				
Ratio of expenses before incentive fees to average net assets	8.07	%	8.29	%
Ratio of incentive fees to average net assets	2.77	%	2.49	%
Ratio of total expenses to average net assets	10.84	%	10.78	%
Ratio of net investment income to average net assets	11.07	%	9.97	%
Portfolio turnover ratio	17.01	%	26.68	%

(1) Calculated using the average shares outstanding method.

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

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

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

**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 September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net increase in net assets resulting from operations	\$8,594	\$1,428	\$22,257	\$11,951
Weighted average shares outstanding	18,303,890	14,982,857	18,303,890	14,982,857
Basic and diluted per share net increase in net assets resulting from operations	\$0.47	\$0.10	\$1.22	\$0.80

## 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 may file in the future 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. In this quarterly report on Form 10-Q, we refer to this conversion as the “BDC Conversion” and, where applicable, “shares” refer to our units prior to the BDC Conversion and to shares of common stock in our corporation after the BDC Conversion. As part of the BDC Conversion, all outstanding units in WhiteHorse Finance, LLC were converted to 7,826,284 shares of common stock of WhiteHorse Finance, Inc.

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

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.

We are a direct lender targeting debt investments in privately held, small-cap companies located in the United States. We define the small-cap 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 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, and have a term of three to six years. While we focus principally on originating senior secured loans to small-cap companies, we may also opportunistically make investments at other levels of a company's capital structure, including mezzanine loans or equity interests, and in companies outside of the small-cap market, to the extent we believe the investment presents an opportunity to achieve an attractive risk-adjusted return. We also may receive warrants to purchase common stock in connection with our debt investments. We expect to generate current income through the receipt of interest payments, as well as origination and other fees, capital appreciation and dividends.

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

As of September 30, 2016, our investment portfolio consisted primarily of senior secured loans across 34 positions in 28 companies, with an aggregate fair value of \$402.9 million. As of December 31, 2015, our investment portfolio consisted primarily of senior secured loans across 35 positions in 29 companies, with an aggregate fair value of approximately \$415.3 million. At both dates, the majority of our portfolio comprised senior secured loans to small-cap borrowers.

### *Revenues*

We generate revenue in the form of interest payable on the debt securities that we hold and capital gains and distributions, if any, on the portfolio company investments that we originate or acquire. Our debt investments, whether in the form of senior secured loans or mezzanine loans, typically have terms ranging from three to six years and bear interest at a fixed or floating rate based on a premium over LIBOR. Interest on debt securities is generally payable monthly or quarterly, with the amortization of principal generally being deferred for several years from the date of the initial investment. In some cases, we may also defer payments of interest for the first few years after our investment. The principal amount of the debt securities and any accrued but unpaid interest generally 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 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;
- calculating our net asset value and net asset value per share (including the costs and expenses of independent valuation firms);
- fees and expenses, including travel expenses, incurred by WhiteHorse Advisers or payable to third parties in performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;
- the costs of all future offerings of common shares and other securities, and other incurrences of debt;
- the base management fee and any incentive fee;
- distributions on our shares;

transfer agent and custody fees and expenses;  
amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments;  
brokerage fees and commissions;  
registration fees;  
listing fees;  
taxes;  
independent directors' fees and expenses;  
costs associated with our reporting and compliance obligations under the 1940 Act and applicable U.S. federal and state securities laws;  
the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;  
costs of holding stockholder meetings;  
our fidelity bond;  
directors and officers/errors and omissions liability insurance and any other insurance premiums;  
litigation, indemnification and other non-recurring or extraordinary expenses;  
direct costs and expenses of administration and operation, including audit and legal costs;  
fees and expenses associated with marketing efforts, including deal sourcing and marketing to financial sponsors;  
dues, fees and charges of any trade association of which we are a member; and  
all other expenses reasonably incurred by us or WhiteHorse Administration in connection with administering our business, including rent and our allocable portion of the costs and expenses of our chief financial officer and chief compliance officer along with their respective staffs.

## 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, 2016 totaled \$14.0 million and \$40.5 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, 2015 of \$11.7 million and \$35.1 million, respectively. Investment income increased primarily as a result of an increase in the average balance of earning investments. Included in investment income for the three and nine months ended September 30, 2016 is \$0.4 million and \$1.1 million, respectively, of non-recurring fee income. Non-recurring fee income for the three and nine months ended September 30, 2015 totaled \$0.6 million and \$1.3 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 totaled \$6.8 million and \$20.0 million for the three and nine months ended September 30, 2016, respectively. This compares to expenses of \$6.0 million and \$18.3 million for the three and nine months ended September 30, 2015, respectively.

Interest expense totaled \$2.1 million and \$5.9 million for the three and nine months ended September 30, 2016, respectively. We incurred interest expense of \$1.7 million and \$5.0 million for the three and nine months ended September 30, 2015, respectively. The increase was due to higher interest rates and the higher spread on our revolving credit facility over the comparable periods during the prior year.

Base management fees totaled \$2.3 million and \$6.7 million for the three and nine months ended September 30, 2016, and \$2.1 million and \$6.4 million for the three and nine months ended September 30, 2015, respectively. Performance-based incentive fees totaled \$1.8 million and \$5.1 million for the three and nine months ended September 30, 2016, and \$1.4 million and \$4.2 million for the three and nine months ended September 30, 2015, respectively. The increases in base management fees and performance-based incentive fees are attributable to increases in total assets and net investment income, respectively.

Administrative fees for the three and nine months ended September 30, 2016 totaled \$0.1 million and \$0.6 million, respectively. This compares to administrative fees of \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2015, respectively.

General and administrative expenses were \$0.5 million and \$1.7 million for the three and nine months ended September 30, 2016, respectively, and \$0.6 million and \$1.7 million during the three and nine months ended September 30, 2015, respectively.

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

For the three and nine months ended September 30, 2016 we incurred a net realized gain of \$0.7 million and a net realized loss of \$0.5 million, respectively. No realized gains or losses were incurred during the three months ended September 30, 2015. For the nine months ended September 30, 2015, net realized losses of \$0.4 million were incurred. Realized gains/losses are related to the opportunistic sales of investments.

For the three and nine months ended September 30, 2016, we incurred net unrealized appreciation of \$0.7 million and \$2.3 million, respectively. For the three and nine months ended September 30, 2015, we incurred net unrealized depreciation of \$4.2 million and \$4.6 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. Unrealized appreciation during the three and nine months ended September 30, 2016, related in part to positive credit developments on our investments in Crews of California, Inc. and Securus Technologies 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, our revolving credit facility and cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to fund a portion of our investments through future borrowings. In the future, we may obtain borrowings under other credit facilities and from issuances of senior securities. We may also borrow funds to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities, if the market for debt financing presents attractively priced debt financing opportunities or if our board of directors determines that leveraging our portfolio would be in our best interest and the best interests of our stockholders.

Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. Any decision to sell shares below the then-current net asset value per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. On August 2, 2016, our stockholders approved a proposal authorizing us, with the approval of our board of directors, to sell shares of our common stock during the next 12 months at a price below the then-current net asset value per share, subject to certain limitations as described in the proxy statement for our annual meeting of stockholders. Any sale or other issuance of shares of our common stock at a price below net asset value per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our net asset value per share.

Restricted cash and cash equivalents include amounts that are collected and held by the trustee appointed as custodian of the assets securing our 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 once a quarter after the payment of operating expenses and amounts due under our revolving credit facility.

Our operating activities generated cash and cash equivalents of \$28.3 million during the nine months ended September 30, 2016, primarily from the net divestiture of investments. Our financing activities used cash and cash equivalents of \$33.2 million during the nine months ended September 30, 2016, primarily for the payment of distributions to stockholders and net repayment of borrowings under our revolving credit facility.

Our operating activities generated cash and cash equivalents of \$38.9 million during the nine months ended September 30, 2015, primarily from the net divestiture of investments. Our financing activities used cash and cash equivalents of \$33.8 million during the nine months ended September 30, 2015, primarily for the net repayment of borrowings under our revolving credit facility and the payment of distributions to stockholders.

As of September 30, 2016, we had cash and cash equivalents resources of \$23.7 million, including \$5.9 million of restricted cash. As of the same date, we had approximately \$20.9 million undrawn and available to be drawn under our revolving credit facility based on the collateral and portfolio quality requirements stipulated in the related credit agreement.

As of December 31, 2015, we had cash and cash equivalents resources of \$22.8 million. As of the same date, we had \$98.0 million undrawn and available to be drawn under our revolving credit facility based on the collateral and portfolio quality requirements stipulated in the related credit agreement.

*Credit Facility*

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

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 JPMorgan Credit Facility, with JPMorgan Chase Bank, National Association, or the Lender. We drew \$102 million on the facility and used the proceeds to repay the Natixis Credit Facility in full at the expiry of its reinvestment period. On June 27, 2016, the JPM Credit Facility was amended and restated to clarify certain terms.

As of September 30, 2016, there was \$143.3 million in outstanding borrowings under the JPMorgan Credit Facility and, based on collateral and portfolio requirements stipulated in the credit agreement, approximately \$20.9 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 \$349.3 million as of September 30, 2016.

As of December 31, 2015, there was \$102 million in outstanding borrowings under the JPMorgan Credit Facility and, based on collateral and portfolio requirements stipulated in the credit agreement, approximately \$36 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 \$282 million as of December 31, 2015.

The JPMorgan 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 \$220 million, subject to consent from the lender and other customary conditions.

Under the JPMorgan 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 JPMorgan Credit Facility less the amount of principal proceeds in respect of the collateral on deposit in the accounts to the net asset value 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 JPMorgan Credit Facility are based on the one month LIBOR plus an annual spread of 2.90%. Interest is payable monthly in arrears. WhiteHorse Credit is required to pay a non-usage fee which accrued at 0.50% per annum through September 22, 2016, and at 1.00% per annum thereafter, on the average daily unused amount of the financing commitments to the extent the aggregate principal amount available under the JPMorgan Credit Facility has not been borrowed. The non-usage fee was waived through September 22, 2016 while borrowings under the JPMorgan Credit Facility exceeded \$100 million. WhiteHorse Credit paid an upfront fee and incurred certain other customary costs and expenses in connection with obtaining the JPMorgan Credit Facility. Any amounts borrowed under the JPMorgan Credit Facility will mature, and all accrued and unpaid interest thereunder will be due and payable, on December 23, 2019.

The JPMorgan 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 JPMorgan 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 JPMorgan Credit Facility or to exercise other remedies under the credit agreement. Any such developments could have a material adverse effect on our financial conditions and results of operations.

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

### *Unsecured Term Loan*

On November 8, 2012, we entered into a \$90 million unsecured term loan agreement with Citibank, N.A., as the sole lead arranger, and Loan Fund II, as guarantor. On July 9, 2013, we amended the terms of the unsecured term loan to subordinate the unsecured term loan to the Senior Notes. On July 19, 2013, we further amended the terms of the unsecured term loan to lower the annual interest rate from LIBOR plus 2.75% to LIBOR plus 2.20%. The amendment also extended the maturity date by one year to July 3, 2015. On December 22, 2014, we further amended the unsecured term loan agreement to (i) reduce the annual interest rate by 55 basis points, from LIBOR plus 2.2% to LIBOR plus 1.65% and (ii) extend the maturity date by one year to July 3, 2016. The amendment was effective as of January 6, 2015. On June 30, 2016, we repaid in full the balance outstanding of \$55.0 million due under the unsecured term loan. As of December 31, 2015, we had \$55.0 million in outstanding borrowings under our unsecured term loan.

### **Portfolio Investments and Yield**

As of September 30, 2016, our investment portfolio consisted primarily of senior secured loans across 34 positions in 28 companies with an aggregate fair value of \$402.9 million. As of that date, the majority of our portfolio was comprised of senior secured loans to small-cap borrowers and approximately 99.6% of those loans were variable-rate investments (primarily indexed to LIBOR). As of September 30, 2016, our portfolio had an average investment size of \$11.9 million, with investment sizes ranging from less than \$0.2 million to \$34.2 million and a weighted average effective yield of 12.1%.

As of December 31, 2015, our investment portfolio consisted primarily of senior secured loans across 35 positions in 29 companies with an aggregate fair value of \$415.3 million. As of that date, the majority of our portfolio was comprised of senior secured loans to small-cap borrowers and approximately 97.1% of those loans were variable-rate investments (primarily indexed to LIBOR). As of December 31, 2015, our portfolio had an average investment size of \$12.3 million, with investment sizes ranging from less than \$0.1 million to \$41.0 million and a weighted average effective yield of 11.8%.

For the nine months ended September 30, 2016, we invested \$69.6 million in new and existing portfolio companies, offset by repayments and sales of \$87.0 million. Repayments included \$57.6 million of scheduled repayments and \$29.4 million of unscheduled repayments.

For the nine months ended September 30, 2015, we invested \$104.0 million in new and existing portfolio companies, offset by repayments and sales of \$128.6 million. Repayments included \$90.3 million of scheduled repayments and \$38.3 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.

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

Investment	September 30, 2016	December 31, 2015
------------	--------------------	-------------------



Edgar Filing: WhiteHorse Finance, Inc. - Form 10-Q

Performance Rating	Investments at Fair Value of (Dollars in Millions)	Percentage of Total Portfolio	Investments at Fair Value of (Dollars in Millions)	Percentage of Total Portfolio	
1	\$ —	—	% \$ —	—	%
2	322.4	80.0	375.2	90.3	
3	73.0	18.1	32.8	7.9	
4	—	—	—	—	
5	7.5	1.9	7.3	1.8	
Total Portfolio	\$ 402.9	100.0	% \$ 415.3	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 statements of assets and liabilities. As of September 30, 2016 and December 31, 2015, respectively, we had commitments to fund approximately \$0 million and \$14.0 million of revolving lines of credit or delayed draw facilities. During each of the three and nine months ended September 30, 2016, we funded \$7.5 million and \$4.0 million, respectively, of the commitments outstanding as of December 31, 2015.

## **Distributions**

In order to maintain our status as a RIC and to avoid 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 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 paid no U.S. federal income tax.

During the three and nine months ended September 30, 2016, we declared to stockholders distributions of \$0.355 and \$1.065 per share, for total distributions of \$6.5 million and \$19.5 million, respectively. During the three and nine months ended September 30, 2015, we declared to stockholders distributions of \$0.355 and \$1.065 per share, for total distributions of \$5.3 million and \$16.0 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 for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. During the three and nine months ended September 30, 2016, we estimate that distributions to stockholders did not include any return of capital for tax purposes, based on current earnings for the fiscal year ending December 31, 2016. The specific tax characteristics of the distribution will be reported to stockholders on after the end of the calendar year 2016 and in our periodic reports with the SEC. Stockholders should read any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

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

## Contractual Obligations

A summary of our significant contractual payment obligations as of September 30, 2016 is as follows:

	Payments Due by Period (Dollars in Millions)				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
JPM Credit Facility	\$ 143.3	\$ —	\$ —	\$ 143.3	\$ —
Senior Notes	30.0	—	—	30.0	—
Total contractual obligations	\$ 173.3	\$ —	\$ —	\$ 173.3	\$ —

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

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

### **Critical Accounting Policies**

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

#### *Basis for Consolidation*

Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, 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 WhiteHorse Credit and WhiteHorse Warehouse, which are investment companies for accounting purposes. As such, we have consolidated the accounts of WhiteHorse Credit and WhiteHorse Warehouse and its subsidiary, Bayside Financial Financing S.A.R.L., into our financial statements. As a result of this consolidation, the amount outstanding under our revolving credit facilities 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 and solely responsible for determining the fair value of the portfolio investments that are not publicly traded, whose market prices are not readily available on a quarterly basis in good faith or any other situation where portfolio investments require a fair value determination.

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

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

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

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

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

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

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

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



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

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

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

*Investment Transactions and Related Investment Income and Expense*

We record our investment transactions on a trade date basis, which is the date when we have determined that all material terms have been defined for the transactions. These transactions could possibly settle on a subsequent date depending on the transaction type. All related revenue and expenses attributable to these transactions are reflected on our consolidated 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 discounts, as well as any other purchase discounts or premiums on debt investments, are accreted or amortized to interest income or expense, respectively, over the maturity periods of the investments. Dividend income is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

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

*Loan Origination, Facility, Commitment and Amendment Fees*

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

## Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board, or FASB, issued ASU, 2016-07, *Equity Method and Joint Ventures (Topic 323)*, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. For public companies, ASU 2016-07 would be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact that ASU 2016-07 would have on our consolidated financial statements and disclosures.

During May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 will remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This guidance is effective retrospectively for annual and interim periods beginning on or after December 15, 2016, and for interim periods within those fiscal years, with early adoption permitted. We do not expect ASU 2015-07 to have a material impact on our consolidated financial statements and related disclosures.

During April 2015, FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as clarified by ASU 2015-015, *Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, containing guidance that will require debt issuance costs related to a recognized debt liability of a reporting entity to be presented in the statement of assets and liabilities as a direct reduction from the carrying amount of such debt liability, instead of being recorded as a separate asset. ASU 2015-15 allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize these deferred costs over the term of the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03 and ASU 2015-15. This guidance is effective for annual and interim periods beginning on or after December 15, 2015. We adopted ASU 2015-03, as clarified by ASU 2015-15, which did not have a material impact on our consolidated financial statements other than corresponding reductions to total assets and total liabilities on the consolidated statements of assets and liabilities. Prior to adoption, we recorded deferred debt issuance costs as deferred financing costs as an asset on the consolidated statements of assets and liabilities. Upon adoption, we reclassified these costs as unamortized debt issuance costs that reduce debt in the liabilities on the consolidated statements of assets and liabilities and retrospectively reclassified the \$3,518 of deferred debt issuance costs that were previously presented as deferred financing costs as an asset as of December 31, 2015. There was no effect on the consolidated statements of operations as a result of the adoption of ASU 2015-03.

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

We are subject to financial market risks, including changes in interest rates. During the period covered by our financial statements, many of the loans in our portfolio had floating interest rates, and we expect that many of our loans to portfolio companies in the future will also have floating interest rates. These loans are usually based on a floating rate based on LIBOR that resets quarterly to the applicable LIBOR. Interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. Since we plan to use debt to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

Assuming that the consolidated statement of financial condition as of September 30, 2016 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates (dollars in millions).

<b>Basis Point Increase</b>	<b>Increase in Interest Income</b>	<b>Increase in Interest Expense</b>	<b>Net Increase</b>
100	\$ 3.2	\$ 1.5	\$ 1.7
200	7.1	2.9	4.2
300	10.9	4.3	6.6
400	14.8	5.8	9.0
500	18.6	7.2	11.4

As of September 30, 2016, 98.0% 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 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, 2015 which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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

None.

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

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

50



**Item 6. Exhibits**

**EXHIBIT INDEX**

**Number Description**

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

\* Filed herewith

**SIGNATURES**

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

**WhiteHorse Finance, Inc.**

Dated: November 7, 2016 By/s/ Stuart Aronson  
Stuart Aronson  
Chief Executive Officer  
(Principal Executive Officer)

Dated: November 7, 2016 By/s/ Edward J. Giordano  
Edward J. Giordano  
Chief Financial Officer  
(Principal Accounting and Financial Officer)