

WhiteHorse Finance, Inc.
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from _____ to _____

Commission file number: 814-00967

WHITEHORSE FINANCE, INC.

(Exact Name of Registrant as Specified in its Charter)

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

1450 Brickell Avenue, 31st 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", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of May 9, 2018 the Registrant had 20,531,948 shares of common stock, \$0.001 par value, outstanding.

WHITEHORSE FINANCE, INC.

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

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Investments, at fair value		
Non-controlled/non-affiliate company investments	\$ 423,309	\$ 404,434
Non-controlled affiliate company investments	44,433	36,246
Total investments, at fair value (amortized cost \$470,309 and \$448,522, respectively)	467,742	440,680
Cash and cash equivalents	11,992	35,219
Restricted cash and cash equivalents	6,580	3,717
Interest receivable	5,030	4,947
Receivables from investments sold	463	783
Prepaid expenses and other receivables	838	185
Total assets	\$ 492,645	\$ 485,531
Liabilities		
Debt	\$ 182,317	\$ 182,122
Distributions payable	7,289	7,289
Management fees payable	7,736	7,848
Accounts payable and accrued expenses	1,064	701
Interest payable	562	527
Advances received from unfunded credit facilities	161	92
Total liabilities	199,129	198,579
Commitments and contingencies (See Note 7)		
Net assets		
Common stock, 20,531,948 shares issued and outstanding, par value \$0.001 per share and 100,000,000 authorized	20	20
Paid-in capital in excess of par	302,292	302,292
Accumulated overdistributed net investment income	(5,495) (6,784

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Accumulated net realized losses on investments	(734)	(734)
Accumulated net unrealized depreciation on investments	(2,567)	(7,842)
Total net assets	293,516		286,952	
Total liabilities and total net assets	\$ 492,645		\$ 485,531	
Number of shares outstanding	20,531,948		20,531,948	
Net asset value per share	\$ 14.30		\$ 13.98	

See notes to the consolidated financial statements

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

	Three months ended March 31,	
	2018	2017
Investment income		
From non-controlled/non-affiliate company investments		
Interest income	\$13,763	\$12,018
Fee income	2,192	767
From non-controlled affiliate company investments		
Dividend income	650	790
Total investment income	16,605	13,575
Expenses		
Interest expense	2,565	2,444
Base management fees	2,445	2,262
Performance-based incentive fees	2,144	1,631
Administrative service fees	175	134
General and administrative expenses	698	582
Total expenses	8,027	7,053
Net investment income	8,578	6,522
Realized and unrealized gains (losses) on investments		
Net realized gains		
Non-controlled/non-affiliate company investments	-	23
Net realized gains	-	23
Net change in unrealized appreciation (depreciation)		
Non-controlled/non-affiliate company investments	(2,911	) 3,227
Non-controlled affiliate company investments	8,186	(143
Net change in unrealized appreciation	5,275	3,084
Net realized and unrealized gains on investments	5,275	3,107
Net increase in net assets resulting from operations	\$13,853	\$9,629
Per Common Share Data		
Basic and diluted earnings per common share	\$0.68	\$0.53
Dividends and distributions declared per common share	\$0.36	\$0.36
Basic and diluted weighted average common shares outstanding	20,531,948	18,303,890

See notes to the consolidated financial statements

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

	Common Stock		Paid-in Capital in	Accumulated Overdistributions Net Investment	Accumulated Net Realized Losses on Investments	Accumulated Net Unrealized Depreciation on Investments	Total Net Assets
	Shares	Par amount	Excess of Par	Income			
Balance at December 31, 2016	18,303,890	\$ 18	\$ 272,242	\$ (5,423	) \$ (842	) \$ (16,606	) \$249,389
Net increase in net assets resulting from operations	-	-	-	6,522	23	3,084	9,629
Distributions declared	-	-	-	(6,498	) -	-	(6,498)
Balance at March 31, 2017	18,303,890	\$ 18	\$ 272,242	\$ (5,399	) \$ (819	) \$ (13,522	) \$252,520
Balance at December 31, 2017	20,531,948	\$ 20	\$ 302,292	\$ (6,784	) \$ (734	) \$ (7,842	) \$286,952
Net increase in net assets resulting from operations	-	-	-	8,578	-	5,275	13,853
Distributions declared	-	-	-	(7,289	) -	-	(7,289)
Balance at March 31, 2018	20,531,948	\$ 20	\$ 302,292	\$ (5,495	) \$ (734	) \$ (2,567	) \$293,516

See notes to the consolidated financial statements

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

	Three months	
	ended March 31,	
	2018	2017
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$13,853	\$9,629
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Paid-in-kind income	(142)	(154)
Net realized gains on investments	-	(23)
Net unrealized appreciation on investments	(5,275)	(3,084)
Accretion of discount	(1,598)	(837)
Amortization of deferred financing costs	195	214
Acquisition of investments	(85,883)	(46,046)
Proceeds from principal payments and sales of portfolio investments	65,836	30,193
Net changes in operating assets and liabilities:		
Interest receivable	(83)	(1,770)
Prepaid expenses and other receivables	(653)	(40)
Receivable from investments sold	320	777
Payables for investments purchased	-	(995)
Management fees payable	(112)	85
Accounts payable and accrued expenses	363	165
Interest payable	35	14
Advances received from unfunded credit facilities	69	-
Net cash used in operating activities	(13,075)	(11,872)
Cash flows from financing activities		
Borrowings	33,600	33,395
Repayment of debt	(33,600)	(23,805)
Distributions paid to common stockholders, net of distributions reinvested	(7,289)	(6,498)
Net cash (used in) provided by financing activities	(7,289)	3,092
Net change in cash, cash equivalents and restricted cash	(20,364)	(8,780)
Cash, cash equivalents and restricted cash at beginning of period	38,936	28,894
Cash, cash equivalents and restricted cash at end of period	\$18,572	\$20,114
Supplemental disclosure of cash flow information:		
Interest paid	\$2,335	\$2,216

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

	March 31,	
	2018	2017
Cash and cash equivalents	\$11,992	\$15,577
Restricted cash	6,580	4,537
Total cash, cash equivalents and restricted cash presented in consolidated statements of cash flows	\$18,572	\$20,114

See notes to the consolidated financial statements

WhiteHorse Finance, Inc.**Consolidated Schedule of Investments (Unaudited)****March 31, 2018***(in thousands)*

Investment Type⁽¹⁾	Spread Above Index⁽²⁾	Interest Rate⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value⁽¹⁰⁾	Fair Value As A Percentage of Net Assets
North America Debt Investments Advertising Fluent, LLC First Lien Secured Term Loan	L+ 7.00% (0.50% Floor)	8.87%	03/27/23	12,500	\$ 12,500	\$ 12,500	4.26 %
Outcome Health First Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	11.44% (3.00% PIK)	12/22/21	11,298	10,457	9,716	3.31
				23,798	22,957	22,216	7.57
Application Software Intermedia Holdings, Inc. Second Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	11.27%	02/03/25	18,000	17,691	17,892	6.10
Automotive Retail Team Car Care Holdings, LLC First Lien Secured Term Loan ⁽⁴⁾	L+ 8.00% (1.00% Floor)	9.89%	02/23/23	18,453	18,045	18,078	6.16
First Lien Secured Revolving Loan ⁽⁴⁾⁽⁷⁾	L+ 7.00% (1.00% Floor)	11.75%	02/23/23	-	-	3	-
Broadcasting				18,453	18,045	18,081	6.16

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Multicultural Radio Broadcasting, Inc.							
First Lien Secured Term Loan	L+ 8.00% (1.00% Floor)	9.89%	12/28/22	19,920	19,542	19,580	6.67
Rural Media Group, Inc.							
First Lien Secured Term Loan	L+ 6.75% (1.00% Floor)	9.63%	12/29/22	7,133	6,998	7,008	2.39
First Lien Secured Delayed Draw Loan ⁽⁷⁾	L+ 6.75% (1.00% Floor)	9.63%	12/29/22	-	-	4	-
				27,053	26,540	26,592	9.06
Data Processing & Outsourced Services FPT Operating Company, LLC/ TLabs Operating Company, LLC							
First Lien Secured Term Loan	L+ 8.25% (1.00% Floor)	9.91%	12/23/21	23,156	22,848	22,925	7.81
Department Stores Mills Fleet Farm Group, LLC							
Second Lien Secured Term Loan	L+ 9.75% (1.00% Floor)	11.63%	02/26/23	7,146	7,043	7,146	2.43
Diversified Support Services Account Control Technology Holdings, Inc.							
First Lien Secured Term Loan ⁽⁴⁾	L+ 8.50% (1.00% Floor)	10.27%	04/28/22	11,576	11,303	11,381	3.88
ImageOne Industries, LLC							
First Lien Secured Term Loan	L+ 7.50% (1.00% Floor)	9.39%	01/11/23	7,607	7,461	7,493	2.55
First Lien Secured Revolving Loan ⁽⁷⁾	L+ 6.50% (1.00% Floor)	11.25%	01/11/23	-	-	8	-
Sitel Worldwide Corporation							
Second Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	11.25%	09/18/22	8,670	8,559	8,757	2.98
				27,853	27,323	27,639	9.41

See notes to consolidated financial statements

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WhiteHorse Finance, Inc.**Consolidated Schedule of Investments (Unaudited) - (continued)****March 31, 2018***(in thousands)*

Investment Type⁽¹⁾	Spread Above Index⁽²⁾	Interest Rate⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value⁽¹⁰⁾	Fair Value As A Percentage of Net Assets
Environmental & Facilities Services Montrose Environmental Group, Inc.							
Second Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	11.27%	09/30/20	8,500	\$8,359	\$8,350	2.84 %
Food Retail AG Kings Holdings, Inc.							
First Lien Secured Term Loan	L+ 9.95% (1.00% Floor)	12.25%	08/10/21	13,510	13,117	13,105	4.46
Crews of California, Inc.							
First Lien Secured Term Loan	L+ 11.00% (1.00% Floor)	12.78% (1.00% PIK)	11/20/19	16,681	16,576	16,513	5.63
First Lien Secured Revolving Loan	L+ 11.00% (1.00% Floor)	12.78% (1.00% PIK)	11/20/19	5,132	5,090	5,080	1.73
First Lien Secured Delayed Draw Loan	L+ 11.00% (1.00% Floor)	12.78% (1.00% PIK)	11/20/19	4,834	4,796	4,785	1.63
Health Care Facilities Grupo HIMA San Pablo, Inc.				40,157	39,579	39,483	13.45
First Lien Secured Term Loan	L+ 9.00%	10.50%	01/31/18	14,250	14,250	11,129	3.79

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	(1.50% Floor)						
Second Lien Secured Term Loan ⁽⁸⁾	N/A	15.75%	07/31/18	1,028	1,025	119	0.04
		(2.00% PIK)					
				15,278	15,275	11,248	3.83
Internet Retail Clarus Commerce, LLC							
First Lien Secured Term Loan	L+ 8.62% (1.00% Floor)	10.51%	03/09/23	17,100	16,899	16,895	5.76
Internet Software & Services London Trust Media Incorporated							
First Lien Secured Term Loan	L+ 8.00% (1.00% Floor)	9.77%	02/01/23	11,500	11,334	11,344	3.86
StackPath, LLC & Highwinds Capital, Inc.							
Second Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	11.29%	02/02/24	18,000	17,624	17,640	6.01
				29,500	28,958	28,984	9.87
Investment Banking & Brokerage JVMC Holdings Corp. (f/k/a RJO Holdings Corp)							
First Lien First Out Secured Term Loan	L+ 8.02% (1.00% Floor)	9.90%	05/05/22	12,994	12,754	12,994	4.43
First Lien Last Out Secured Term Loan	L+ 12.00% (1.00% Floor)	13.88%	05/05/22	4,813	4,724	4,813	1.64
				17,807	17,478	17,807	6.07
IT Consulting & Other Services AST-Applications Software Technology LLC							
First Lien Secured Term Loan	L+ 9.00% (1.00% Floor)	10.89% (2.00% PIK)	01/10/23	4,171	4,092	4,004	1.36

See notes to consolidated financial statements

WhiteHorse Finance, Inc.

Consolidated Schedule of Investments (Unaudited) - (continued)

March 31, 2018

(in thousands)

Investment Type ⁽¹⁾	Spread Above Index ⁽²⁾	Interest Rate ⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value ⁽¹⁰⁾	Fair Value As A Percentage of Net Assets	
Leisure Facilities Planet Fit Indy 10 LLC First Lien Incremental Term Loan	L+ 7.25% (1.00% Floor)	9.55%	03/07/22	1,930	\$ 1,912	\$ 1,911	0.65	%
First Lien Initial Delayed Draw Loan ⁽⁷⁾	L+ 7.25% (1.00% Floor)	9.23%	03/07/22	2,658	2,633	2,629	0.90	
First Lien Initial Term Loan	L+ 7.25% (1.00% Floor)	9.28%	03/07/22	131	131	130	0.04	
				4,719	4,676	4,670	1.59	
Oil & Gas Exploration & Production Caelus Energy Alaska O3, LLC Second Lien Secured Term Loan	L+ 7.50% (1.25% Floor)	9.68%	04/15/20	13,000	12,937	11,631	3.96	
Other Diversified Financial Services Sigue Corporation ⁽⁴⁾ Second Lien Secured Term Loan	L+ 11.50% (1.00% Floor)	13.81%	12/27/18	25,000	24,926	23,125	7.88	
The Pay-O-Matic Corp. First Lien Secured Term Loan	L+ 13.00% (1.00% Floor)	14.69%	04/02/18	11,829	11,829	11,889	4.05	
				36,829	36,755	35,014	11.93	
Research & Consulting Services Nelson Worldwide, LLC First Lien Secured Term Loan	L+ 8.00%	9.70%	01/09/23	17,710	17,287	17,312	5.90	

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		(1.00% Floor)					
First Lien Secured Revolving Loan ⁽⁷⁾	L+ 8.00%	9.70%	01/09/23	1,234	1,205	1,208	0.41
		(1.00% Floor)					
				18,944	18,492	18,520	6.31
Security & Alarm Services SecurAmerica, LLC							
First Lien Secured Term Loan	L+ 9.50%	11.48%	11/17/22	11,320	11,058	11,114	3.79
		(1.00% Floor)					
Specialized Consumer Services Pre-Paid Legal Services, Inc.							
Second Lien Secured Term Loan	L+ 9.00%	10.88%	07/01/20	19,000	18,921	18,999	6.47
		(1.25% Floor)					

See notes to consolidated financial statements

WhiteHorse Finance, Inc.**Consolidated Schedule of Investments (Unaudited) - (continued)****March 31, 2018***(in thousands)*

Investment Type⁽¹⁾	Spread Above Index⁽²⁾	Interest Rate⁽³⁾	Maturity Date	Principal/ Share Amount	Amortized Cost	Fair Value⁽¹⁰⁾	
Specialized Finance							
Golden Pear Funding III, LLC ⁽⁵⁾							
Second Lien Secured Term Loan	L+ 11.25% (1.00% Floor)	13.02%	06/25/20	25,000	\$ 24,869	\$ 24,500	8
Second Lien Secured Revolving Loan	L+ 11.25% (1.00% Floor)	13.02%	06/25/20	5,000	4,974	4,900	1
Oasis Legal Finance, LLC ⁽⁵⁾							
Second Lien Secured Term Loan	L+ 10.75% (1.00% Floor)	12.41%	03/09/22	20,000	19,714	20,000	6
				50,000	49,557	49,400	1
Trucking							
Sunteck / TTS Holdings, LLC							
Second Lien Secured Term Loan	L+ 9.00% (1.00% Floor)	11.12%	06/15/22	3,500	3,453	3,500	1
Total Debt Investments				435,284	428,936	422,110	1
Equity Investments							
Advertising							
Cogint, Inc. (f/k/a IDI, Inc.) ⁽⁴⁾⁽⁹⁾	N/A	N/A	12/08/25	187	560	467	0
Food Retail							
Crews of California, Inc. Warrants ⁽⁴⁾	N/A	N/A	12/31/24	-	-	6	0
Nicholas & Associates, LLC Warrants ⁽⁴⁾	N/A	N/A	12/31/24	3	-	131	0
Pinnacle Management Group, LLC Warrants ⁽⁴⁾	N/A	N/A	12/31/24	3	-	131	0
RC3 Enterprises, LLC Warrants ⁽⁴⁾	N/A	N/A	12/31/24	3	-	131	0
				9	-	399	0
Internet Software & Services							
Red Violet, Inc. ⁽⁴⁾⁽⁹⁾	N/A	N/A	N/A	25	-	152	0
Other Diversified Financial Services							

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Aretec Group, Inc. ⁽⁴⁾⁽⁵⁾⁽⁶⁾	N/A	N/A	N/A	536	20,693	25,141	8
RCS Creditor Trust Class B Units ⁽⁴⁾⁽⁶⁾	N/A	N/A	N/A	143	-	543	0
				679	20,693	25,684	8
Specialized Finance							
NMFC Senior Loan Program I LLC Units ⁽⁴⁾⁽⁵⁾⁽⁶⁾	N/A	N/A	06/13/20	20,000	20,120	18,750	6
Trucking							
Fox Rent A Car, Inc. Warrants ⁽⁴⁾	N/A	N/A	N/A	-	-	180	0
Total Equity Investments				20,900	41,373	45,632	1
Total Investments				456,184	\$ 470,309	\$ 467,742	1

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

(2) The investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (“LIBOR” or “L”), which resets monthly, quarterly or semiannually, or the U.S. Prime Rate as published by the Wall Street Journal (“Prime” or “P”). The one, three and six-month LIBOR were 1.9%, 2.0% and 2.3%, respectively, as of March 31, 2018. The Prime was 4.8% as of March 31, 2018.

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

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

(5) Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets. Qualifying assets represented 81% of total assets as of the date of the consolidated schedule of investments.

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

(7) The investment has an unfunded commitment in addition to any amounts presented in the consolidated schedule of investments as of March 31, 2018. See Note 7.

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

(9) The fair value of the investment was determined using observable inputs. See Note 4.

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

See notes to consolidated financial statements

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

Investment Type⁽¹⁾	Spread Above Index⁽²⁾	Interest Rate⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value⁽⁷⁾	Fair Value As A Percentage of Net Assets
North America Debt Investments Advertising Fluent, LLC (f/k/a Fluent Acquisition II, LLC)							
First Lien Secured Term Loan	L+ 11.50% (0.50% Floor)	13.05% (1.00% PIK)	12/08/20	25,650	\$25,352	\$25,651	8.94 %
Outcome Health First Lien Secured Term Loan	L+ 6.50% (1.00% Floor)	8.13%	12/22/21	14,853	13,667	12,372	4.31
				40,503	39,019	38,023	13.25
Application Software Intermedia Holdings, Inc.							
Second Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	10.88%	02/03/25	18,000	17,680	17,892	6.24
Auto Parts & Equipment Crowne Group, LLC							
First Lien Secured Term Loan	L+ 9.25% (1.00% Floor)	10.73%	05/26/21	12,031	11,747	12,031	4.19
Broadcasting Multicultural Radio Broadcasting, Inc.							
First Lien Secured Term Loan	L+ 8.00% (1.00% Floor)	9.56%	12/28/22	20,000	19,601	19,600	6.83
Rural Media Group, Inc.							
First Lien Secured Term Loan	P+ 5.75% (1.00% Floor)	10.25%	12/29/22	7,133	6,991	6,991	2.44
First Lien Secured Delayed Draw Loan ⁽⁸⁾	P+ 5.75% (1.00% Floor)	10.25%	12/29/22	—	—	—	—
				27,133	26,592	26,591	9.27
Data Processing & Outsourced Services							

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

See notes to consolidated financial statements

WhiteHorse Finance, Inc.

Consolidated Schedule of Investments - (continued)

December 31, 2017

(in thousands)

Investment Type ⁽¹⁾	Spread Above Index ⁽²⁾	Interest Rate ⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value ⁽⁷⁾	Fair Value As A Percentage of Net Assets
Food Retail AG Kings Holdings, Inc.							
First Lien Secured Term Loan	L+ 9.95% (1.00% Floor)	11.64%	08/10/21	13,615	\$ 13,190	\$ 13,479	4.70 %
Crews of California, Inc.							
First Lien Secured Term Loan	L+ 11.00% (1.00% Floor)	12.48% (1.00% PIK)	11/20/19	16,853	16,732	16,516	5.76
First Lien Secured Revolving Loan	L+ 11.00% (1.00% Floor)	12.48% (1.00% PIK)	11/20/19	5,119	5,070	5,017	1.75
First Lien Secured Delayed Draw Loan	L+ 11.00% (1.00% Floor)	12.48% (1.00% PIK)	11/20/19	4,884	4,840	4,786	1.67
				40,471	39,832	39,798	13.88
Health Care Facilities Grupo HIMA San Pablo, Inc.							
First Lien Secured Term Loan	L+ 9.00% (1.50% Floor)	10.50%	01/31/18	14,250	14,245	12,430	4.33
Second Lien Secured Term Loan	N/A	15.75% (2.00% PIK)	07/31/18	1,027	1,023	239	0.08
				15,277	15,268	12,669	4.41
Internet Retail Clarus Commerce, LLC							
First Lien Secured Term Loan	L+ 9.77% (1.00% Floor)	11.34%	03/17/21	6,000	5,923	6,000	2.09
Internet Software & Services StackPath, LLC & Highwinds Capital, Inc.							
Second Lien Secured Term Loan		10.88%	02/02/24	18,000	17,608	17,576	6.13

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

See notes to consolidated financial statements

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

Investment Type⁽¹⁾	Spread Above Index⁽²⁾	Interest Rate⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value⁽⁷⁾	Fair Value As A Percentage of Net Assets
Office Services & Supplies Katun Corporation							
Second Lien Secured Term Loan	L+ 11.25% (1.00% Floor)	12.61%	01/25/21	4,422	\$4,402	\$4,466	1.56 %
Oil & Gas Exploration & Production Caelus Energy Alaska O3, LLC							
Second Lien Secured Term Loan	L+ 7.50% (1.25% Floor)	9.10%	04/15/20	13,000	12,929	10,837	3.78
Other Diversified Financial Services Sigue Corporation ⁽⁴⁾							
Second Lien Secured Term Loan	L+ 11.50% (1.00% Floor)	13.19%	12/27/18	25,000	24,901	24,872	8.67
The Pay-O-Matic Corp.							
First Lien Secured Term Loan	L+ 11.00% (1.00% Floor)	12.38%	04/02/18	12,044	12,003	12,044	4.20
				37,044	36,904	36,916	12.87
Research & Consulting Services Project Time & Cost, LLC							
First Lien Secured Term Loan	L+ 12.00% (0.50% Floor)	13.53%	10/09/20	9,104	9,004	8,440	2.94
Security & Alarm Services SecurAmerica, LLC							
First Lien Secured Term Loan	L+ 9.50% (1.00% Floor)	10.92%	11/17/22	11,320	11,044	11,084	3.86
Specialized Consumer Services Pre-Paid Legal Services, Inc.							
Second Lien Secured Term Loan	L+ 9.00% (1.25% Floor)	10.57%	07/01/20	19,000	18,912	19,000	6.62
Specialized Finance Golden Pear Funding III, LLC ⁽⁵⁾							

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

See notes to consolidated financial statements

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

Investment Type⁽¹⁾	Spread Above Index⁽²⁾	Interest Rate⁽³⁾	Maturity Date	Principal/Share Amount	Amortized Cost	Fair Value⁽⁷⁾	Fair Value As A Percent of Net Assets
Pinnacle Management Group, LLC Warrants ⁽⁴⁾	N/A	N/A	12/31/24	3	\$—	\$296	0.10
RC3 Enterprises, LLC Warrants ⁽⁴⁾	N/A	N/A	12/31/24	3	—	296	0.10
				9	—	902	0.30
Other Diversified Financial Services							
Aretec Group, Inc. ⁽⁴⁾⁽⁵⁾⁽⁶⁾	N/A	N/A	N/A	536	20,693	17,314	6.03
RCS Creditor Trust Class B Units ⁽⁴⁾⁽⁶⁾	N/A	N/A	N/A	143	—	428	0.15
				679	20,693	17,742	6.18
Specialized Finance							
NMFC Senior Loan Program I LLC Units ⁽⁴⁾⁽⁵⁾⁽⁶⁾	N/A	N/A	06/13/20	20,000	20,120	18,504	6.45
Trucking							
Fox Rent A Car, Inc. Warrants ⁽⁴⁾	N/A	N/A	N/A	—	—	180	0.06
Total Equity Investments				20,875	41,373	38,149	13.28
Total Investments				434,543	\$448,522	\$440,680	153.5

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

The investments bear interest at a rate that may be determined by reference to LIBOR, which resets monthly, (2) quarterly or semiannually, or Prime. The one, three and six-month LIBOR were 1.6%, 1.7% and 1.8%, respectively, as of December 31, 2017. The Prime was 4.5% as of December 31, 2017.

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

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

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

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

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

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

See notes to consolidated financial statements

WhiteHorse Finance, Inc.

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2018

(in thousands, except share and per share data)

NOTE 1 - ORGANIZATION

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of WhiteHorse Finance, Inc. and its wholly owned subsidiaries, WhiteHorse Finance Credit I, LLC (“WhiteHorse Credit”) and WhiteHorse Finance Warehouse, LLC (“WhiteHorse Warehouse”). The Company meets the definition of an investment company under Accounting Standards Codification (“ASC”) Topic 946, *Financial Services - Investment*

Companies, and therefore applies the accounting and reporting guidance discussed therein to its consolidated financial statements. All significant intercompany balances and transactions have been eliminated.

Additionally, the accompanying consolidated financial statements and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Articles 6, 10 and 12 of Regulation S-X. Accordingly, certain disclosures accompanying the annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. This Form 10-Q should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2017. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2018.

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

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

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

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

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

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

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

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

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

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

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

The Company may invest in loans that contain a PIK interest rate provision. PIK interest is accrued at the contractual rates and added to loan principal on the reset dates to the extent such amounts are expected to be collected.

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

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

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

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

Deferred Financing Costs: Deferred financing costs represent fees and other direct incremental costs incurred in connection with the Company's borrowings. These amounts are amortized and are included in interest expense in the consolidated statements of operations over the estimated life of the borrowings. Deferred financing costs are presented in the consolidated statements of assets and liabilities as a direct reduction from the carrying amount of the related debt liability.

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

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statement is the largest benefit or expense that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Any tax positions not deemed to satisfy the more likely than not threshold are reversed and recorded as tax benefit or tax expense, as appropriate, in the current year. Management has analyzed the Company's tax positions, and the Company has concluded that the Company did not have any unrecognized tax benefits or unrecognized tax liabilities related to uncertain tax positions as of March 31, 2018 and December 31, 2017.

Penalties or interest that may be assessed related to any income taxes would be classified as general and administrative expenses on the consolidated statements of operations. The Company had no amounts accrued for interest or penalties as of March 31, 2018 or December 31, 2017. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. The Company's tax returns are subject to examination by federal, state and local taxing authorities. Because many types of transactions are susceptible to varying interpretations under U.S. federal and state income tax laws and regulations, the amounts reported in the accompanying consolidated financial statements may be subject to change at a later date by the respective taxing authorities. Tax returns for each of the federal tax years since 2014 remain subject to examination by the Internal Revenue Service.

As of March 31, 2018 and December 31, 2017, the cost of investments for federal income tax purposes was \$471,914 and \$448,937, resulting in net unrealized depreciati