

WhiteHorse Finance, Inc.  
Form 497  
November 13, 2018

**Filed pursuant to Rule 497  
Registration No. 333-217093**

**PROSPECTUS SUPPLEMENT  
(To prospectus dated October 23, 2018)**

**WhiteHorse Finance, Inc.**

**\$33,000,000**

**6.50% Notes due 2025**

We are an externally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended. H.I.G. WhiteHorse Advisers, LLC serves as our investment adviser. H.I.G. WhiteHorse Administration, LLC serves as our administrator. These entities are affiliates of H.I.G. Capital, L.L.C., an alternative asset manager founded in 1993 and focused on the lower middle market. H.I.G. Capital, L.L.C. had approximately \$21 billion of capital under management as of September 30, 2018 (based on the regulatory assets under management as reported on Form ADV).

Our investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing lower middle market companies across a broad range of industries. Such loans typically carry a floating interest rate based on the London Interbank Offered Rate, and have a term of three to six years. We invest primarily in securities that are rated below investment grade by rating agencies or that may be rated below investment grade if they were so rated. Below investment grade securities, which are often referred to as "junk" bonds, are viewed as speculative investments because of concerns with respect to the issuer's capacity to pay interest and repay principal.

We are offering for sale \$33,000,000 in aggregate principal amount of 6.50% notes due 2025, which we refer to as the Notes. The Notes will mature on November 30, 2025. We will pay interest on the Notes on February 28, May 31, August 31 and November 30 of each year, beginning on February 28, 2019. We may redeem the Notes in whole or in part at any time or from time to time on or after November 30, 2021, at the redemption price discussed under the caption "Specific Terms of the Notes and the Offering - Optional Redemption" in this prospectus. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

The Notes will be our direct senior unsecured obligations and rank equally in right of payment with existing and future unsecured, unsubordinated indebtedness issued by WhiteHorse Finance, Inc.

We intend to apply to list the Notes on The NASDAQ Global Select Market, and, subject to official notice of issuance, we expect trading in the Notes on the NASDAQ Global Select Market to begin within 30 days of the original issue date, under the symbol "WHFBZ". The Notes are expected to trade "flat". This means that purchasers will

not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not included in the trading price. Currently, there is no public market for the Notes.

**Investing in our securities, including the Notes, involves a high degree of risk, including credit risk and the risk of use of leverage. Before buying any of our Notes, you should read the discussion of the risks of investing in us, including the risk of leverage, that are described in the Supplementary Risk Factors section beginning on page S-13 of this prospectus supplement and the Risk Factors section beginning on page 13 of the accompanying prospectus.**

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in the Notes. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. We maintain a website at [www.whitehorsefinance.com](http://www.whitehorsefinance.com) and make all of our annual, quarterly and current reports, proxy statements and other information available, free of charge, on or through our website. This information will also be available, free of charge, by contacting us at 1450 Brickell Avenue, 31<sup>st</sup> Floor, Miami, Florida 33131, Attention: Investor Relations, or by calling us collect at (305) 381-6999. This contact information may also be used to make stockholder inquiries. The SEC also maintains a website at <http://www.sec.gov> that contains this information.

**Neither the SEC nor any state securities commission or other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

|   | Per Note   | Total        |
|---|------------|--------------|
| Public offering price                           | \$25.00    | \$33,000,000 |
| Underwriting discount and commission            | \$0.78125  | \$1,031,250  |
| Proceeds, before expenses, to us <sup>(1)</sup> | \$24.21875 | \$31,968,750 |

We estimate that we will incur approximately \$0.2 million (or approximately \$0.16 per Note) in expenses in (1)connection with this offering, including the fees and expenses incident to securing any required review by the Financial Industry Regulatory Authority, Inc. See Underwriting for additional information.

Ladenburg Thalmann & Co. Inc., or Ladenburg, as representative of the underwriters, may also exercise an option to purchase up to an additional \$4,950,000 aggregate principal amount of Notes from us at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement to cover over-allotments, if any. If the underwriters exercise this option in full, the total underwriting discount will be \$1,185,938, and total proceeds, before expenses, will be \$36,764,063.

**THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

Delivery of the Notes in book-entry form through The Depository Trust Company, or DTC, will be made on or about November 13, 2018.

*Joint Book-Running Managers*

**Ladenburg Thalmann**

**BB&T Capital Markets**  
*Lead Managers*

**Janney Montgomery Scott**

B. Riley FBR

Incapital

The date of this prospectus supplement is November 8, 2018.

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**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front of this prospectus supplement or the accompanying prospectus, as applicable. Our business, financial condition and prospects may have changed since that date. To the extent required by applicable law, we will update this prospectus supplement and the accompanying prospectus during the offering period to reflect material changes to the disclosure in this prospectus supplement and the accompanying prospectus.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading **Additional Information** before investing in the Notes.

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## PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights some of the information in this prospectus supplement. It is not complete and may not contain all of the information that you may want to consider. For a more complete understanding of this offering, we encourage you to read this entire prospectus supplement and the accompanying prospectus and the documents that are referenced in this prospectus supplement and the accompanying prospectus, together with any other accompanying supplements. You should read carefully the more detailed information set forth under *Supplementary Risk Factors* in this prospectus supplement and *Risk Factors* in the accompanying prospectus.*

*Except where the context suggests otherwise, the terms:*

*we, us, our and WhiteHorse Finance refer (unless the context otherwise requires) to WhiteHorse Finance, Inc., a Delaware corporation, and its consolidated subsidiaries, WhiteHorse Credit (as defined below), WhiteHorse California (as defined below) and WhiteHorse Finance Warehouse, LLC;*

*H.I.G. Capital refers (unless the context otherwise requires), collectively, to H.I.G. Capital, L.L.C., a Delaware limited liability company, and its affiliates. H.I.G. Capital employs all of WhiteHorse Finance's investment professionals, as well as those of WhiteHorse Advisers (as defined below), WhiteHorse Administration (as defined below) and their respective affiliates;*

*WhiteHorse Credit refers to WhiteHorse Finance Credit I, LLC, a special purpose Delaware limited liability company and a wholly owned subsidiary of WhiteHorse Finance;*

*WhiteHorse California refers to WhiteHorse Finance (CA), LLC, a special purpose Delaware limited liability company and a wholly owned subsidiary of WhiteHorse Credit;*

*WhiteHorse Advisers and the Investment Adviser refer to H.I.G. WhiteHorse Advisers, LLC, a Delaware limited liability company and an affiliate of H.I.G. Capital;*

*WhiteHorse Administration and the Administrator refer to H.I.G. WhiteHorse Administration, LLC, a Delaware limited liability company and an affiliate of H.I.G. Capital;*

*Private Notes refer to the \$30 million senior unsecured notes privately issued on August 7, 2018 to qualified institutional investors in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended; and*

*Credit Facility refers to the \$200 million secured revolving credit facility between WhiteHorse Credit, as borrower, and the Lender, which refers, collectively, to JPMorgan Chase Bank, N.A., together with any additional lenders that have or may join the Credit Facility in the future.*

## WhiteHorse Finance

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, and intend to qualify annually for such treatment.

We are a direct lender targeting debt investments in privately held, lower middle market companies located in the United States. We define the lower middle market as those companies with enterprise values between \$50 million and \$350 million. Our investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing lower middle market companies across a broad range of industries. Such loans typically carry a floating interest rate based on the London Interbank Offered Rate, or LIBOR, and have a term of three to six years. While we focus principally on originating senior secured loans to lower middle market companies, we may also make opportunistic investments at other levels of a company's capital structure, including mezzanine loans or equity interests. We also may receive warrants to



purchase common stock in connection with our debt investments. We generate current income through the receipt of interest payments, as well as origination and other fees, capital appreciation and dividends.

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We invest primarily in securities that are rated below investment grade by rating agencies or that may be rated below investment grade if they were so rated. Below investment grade securities, which are often referred to as junk bonds, are viewed as speculative investments because of concerns with respect to the issuer's capacity to pay interest and repay principal.

As of September 30, 2018, our investment portfolio consisted primarily of senior secured loans across 49 positions in 36 companies with an aggregate fair value of approximately \$509.6 million. As of December 31, 2017, our investment portfolio consisted primarily of senior secured loans across 43 positions in 32 companies with an aggregate fair value of approximately \$440.7 million. At these dates, the majority of our portfolio comprised senior secured loans to lower middle market borrowers.

## Organizational Structure

The following shows an organizational chart reflecting our relationship with our Investment Adviser and Administrator and our direct and indirect ownership interests in certain of our subsidiaries as of the date of this prospectus supplement:

## Market Opportunity

We pursue an investment strategy focused on originating senior secured loans to lower middle market companies, including first lien and second lien investments. We may also make investments at other levels of a company's capital structure, including mezzanine loans or equity interests, and receive warrants to purchase common stock in connection with our debt investments. We believe that market inefficiencies and an imbalance between the supply of, and demand for, capital in the lower middle market credit market create attractive investment opportunities for the origination of primary loans for the following reasons:

***Specialized Lending Requirements.*** In our experience, lending to lower middle market companies requires more rigorous due diligence and underwriting processes than lending to larger companies. Lower middle market companies typically have fewer management resources to dedicate to the borrowing process, and often receive little or no assistance from financial advisors. Because of these and other specialized lending requirements, only a limited segment of the lending community has historically served lower middle market borrowers.

***Decrease in Commercial Bank Lending Activity.*** In recent years, regulatory changes and ongoing consolidation of smaller commercial banks have curtailed U.S. bank lending capacity. In response, we believe that many remaining commercial banks have deemphasized their service and product offerings to lower middle market companies in favor of lending to larger customers. We believe that the relative decline in the number of commercial banks and a shift in emphasis by remaining banks has driven a higher volume of lower middle market deal flow to us.

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***Lower Middle Market Environment.*** We believe that as the economic recovery continues following the credit crisis, there has been increased competition for lower middle market investments due to new hedge funds and non-bank lenders that have entered the market and due to improving financial performance of lower middle market companies.

However, we believe that our strong lower middle market position will continue to allow us to find investment opportunities with attractive risk-adjusted returns.

***Significant Demand for Credit.*** We believe that demand for debt financing from lower middle market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives and to finance acquisitions. We believe the strong demand by lower middle market companies should increase lending opportunities for us.

***Inefficient Market.*** We believe there are a number of inefficiencies in the lower middle market credit market which allow us to achieve superior risk-adjusted returns relative to other types of loans. Unlike larger companies, lower middle market borrowers may not have a financial advisor and, as a result, may not receive as many financing offers, leading to more favorable financing terms for us, and may be less sophisticated in negotiating the terms of their financing. Moreover, the simpler capital structures frequently found in lower middle market companies often enhance protections and reduce or eliminate inter-creditor issues. In addition, lower middle market lenders face less competition than lenders to larger companies. As a result, lower middle market lenders frequently have greater flexibility in structuring favorable transactions.

We believe these factors, taken together, should increase lending opportunities for us and enable us to generate attractive risk-adjusted returns.

## **Competitive Strengths**

***Leading Lower Middle Market Position.*** H.I.G. Capital is one of the leading global alternative asset managers focused on the lower middle market. With more than 20 years of investment experience focused primarily on lower middle market companies, H.I.G. Capital believes it has a specialized knowledge of the lower middle market and expertise in evaluating the issues and opportunities facing lower middle market companies throughout economic cycles. We believe that the quality of these resources provides a significant advantage and contributes to the strength of our business.

***Large and Experienced Management Team with Substantial Resources.*** Our Investment Adviser has access through a staffing agreement, or the Staffing Agreement, with an affiliate of H.I.G. Capital under which the affiliate has agreed to make experienced investment professionals available to our Investment Advisor and to provide access to senior investment personnel to enable our Investment Adviser to perform its obligations under our Investment Advisory Agreement. The Staffing Agreement allows our Investment Adviser to utilize the resources and expertise of H.I.G. Capital's more than 650 employees in 19 offices across the United States, Europe and South America as of September 30, 2018. As of such date, H.I.G. Capital had approximately 375 experienced investment professionals, including approximately 125 professionals dedicated to debt investing. We believe that the quality of these resources provides a significant advantage and contributes to the strength of our business.

***Extensive Deal Sourcing Infrastructure.*** Given the inefficiencies of the lower middle market, finding smaller companies that represent attractive debt investment opportunities requires a different sourcing network than that for larger companies. For more than 20 years, H.I.G. Capital has built an extensive and proprietary network of deal sources in the lower middle market consisting of accountants, attorneys and other advisors who have access to these companies. Each of H.I.G. Capital's investment professionals is involved in deal sourcing, and our in-house business

development group of approximately 25 dedicated deal sourcing professionals as of September 30, 2018 further enhanced our sourcing network. We believe H.I.G. Capital's extensive deal sourcing infrastructure provides us with access to investment opportunities that may not be available to many of our competitors.

***Deep Credit Expertise.*** As of September 30, 2018, H.I.G. Capital's credit platform managed over \$12 billion of assets across multiple investment funds supported by its dedicated credit investment professionals. These investment professionals bring a depth of experience and skills across a broad range of transaction types, including primary loan originations, secondary debt purchases and special situations and distressed debt investments. We believe this experience and expertise in credit documentation, loan structuring

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and restructuring negotiations helps to protect our investments and maximize our recovery value to the extent a portfolio company does not perform as expected.

***Disciplined Investment and Underwriting Process.*** Through its more than 20 years of investment experience, H.I.G. Capital has developed a disciplined investment process entailing intensive bottom-up fundamental analysis in order to generate attractive risk-adjusted returns while preserving downside protection. Our Investment Adviser utilizes the established investment processes developed by H.I.G. Capital to analyze investment opportunities, including structuring loans with appropriate covenants and pricing loans based on its knowledge of the lower middle market and on its rigorous underwriting standards. Each investment is reviewed by the investment committee, which is comprised of senior investment professionals of H.I.G. Capital with an average of more than 20 years of investment experience as of September 30, 2018.

## **Investment Strategy**

Our investment strategy is to generate current income and capital appreciation primarily by originating secured loans.

We seek to create a broad portfolio consisting of investments generally in the range of \$5 million to \$25 million primarily in debt securities and loans of U.S. based lower middle market companies. We primarily target borrowers in the United States with enterprise values of \$50 million to \$350 million across a broad range of industries. The proceeds of our loans are used for a variety of purposes, including refinancings of existing debt, acquisition financing, or working capital to support growth or realignment.

While we focus principally on originating senior secured loans to lower middle market companies that we believe have attractive risk adjusted returns, including first lien and second lien facilities, we may also opportunistically make investments at other levels of a company's capital structure, including mezzanine loans or equity interests. We also may receive warrants to purchase common stock in connection with our debt investments. We may also invest in assets consistent with our investment strategy indirectly through the acquisitions of interests in other investment companies. We generate current income through the receipt of interest payments, origination and other fees, and dividends. Our typical loans carry a floating interest rate based on LIBOR plus a spread, have a term of three to six years, are secured by all tangible and intangible assets of the borrower and include covenants, monitoring and information rights in favor of the lender.

Target businesses will typically exhibit some or all of the following characteristics:

- enterprise value of between \$50 million and \$350 million;
- organized in the United States;
- experienced management team;
- stable and predictable free cash flows;
- discernible downside protection through recurring revenue or strong tangible asset coverage;
- products and services with distinctive competitive advantages or other barriers to entry;
- low technology and market risk; and
- strong customer relationships.

None of these investment policies is fundamental, and they may be changed without stockholder approval.

We expect that, from time to time, our investments may include certain non-qualifying assets, including assets of non-U.S. companies, certain publicly traded companies and, to a lesser extent and subject to certain limits under the 1940 Act, registered or unregistered investment companies. See Risk Factors Risks Relating to our Business and Structure The constraints imposed on us as a business development company and RIC may hinder the achievement of

our investment objective and Regulation Qualifying Assets in the accompanying prospectus.

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## Recent Developments

**Reduction in Asset Coverage Ratio.** In March 2018, the Small Business Credit Availability Act, or the SBCAA, was enacted into law. The SBCAA amended the 1940 Act to reduce the asset coverage requirements applicable to business development companies from 200% to 150% so long as the business development company meets certain disclosure requirements and obtains certain approvals. On August 1, 2018, our stockholders approved the reduced asset coverage requirement as previously discussed. As a result, our asset coverage requirements applicable to senior securities decreased from 200% to 150%, effective August 2, 2018.

**Redemption of Senior Notes.** On July 10, 2018, we notified American Stock Transfer & Trust Company, LLC, the trustee for our 6.50% Senior Notes due 2020, or the Senior Notes, of our election to redeem the \$30 million aggregate principal amount of the Senior Notes outstanding, and instructed the trustee to provide notice of such redemption to the holders of the Senior Notes in accordance with the terms of the indenture agreement under which the Senior Notes are issued. The redemption was completed on August 9, 2018, and the Senior Notes were delisted from the NASDAQ Global Select Market.

**Issuance of Private Notes.** On July 13, 2018, we entered into an agreement governing the issuance of \$30 million aggregate principal amount of the Private Notes to qualified institutional investors in a private placement offered in reliance on Section 4(a)(2) of the Securities Act. The Private Notes have a fixed interest rate of 6.00% and are due on August 7, 2023, unless redeemed, purchased or prepaid prior to such date by us or our affiliates in accordance with the terms of the Private Notes. Interest on the Private Notes will be due semiannually, and the interest rate is subject to increase (up to 6.50%) in the event that, subject to certain exceptions, the Private Notes cease to have an investment grade rating. In addition, we are obligated to offer to repay the Private Notes at par if certain change in control events occur. The Private Notes are general unsecured obligations that rank *pari passu* with all of our outstanding and future unsecured unsubordinated indebtedness issued by us. The closing of the transaction occurred on August 7, 2018. We used the net proceeds from this offering, together with cash on hand, to redeem all of our Senior Notes, as discussed above.

**Waiver of Management Fees on Cash.** WhiteHorse Advisers has agreed to waive that portion of the base management fee payable with respect to cash and cash equivalents and restricted cash and cash equivalents to which it would otherwise be entitled under the Investment Advisory Agreement (defined below) for the fiscal quarters ended September 30, 2018, December 31, 2018 and March 31, 2019; and for the fiscal quarter ended June 30, 2019 only to the extent that the determination of base management fees would otherwise include March 31, 2019 cash and cash equivalents and restricted cash and cash equivalents for the purpose of calculating the average carrying value of consolidated gross assets.

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

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

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## Supplementary Risk Factors

Investing in us involves a high degree of risk and you could lose all or part of your investment. We refer to certain of these risks below.

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries. The Indenture (as defined below) under which the Notes will be issued will contain limited protection for holders of the Notes.

An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.

If a rating agency assigns the Notes a non-investment grade rating or the Notes are not rated, the Notes may be subject to greater price volatility than similar securities without such a rating.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

We may not be able to invest the proceeds of this offering in portfolio companies in a timely manner.

The trading market or market value of the Notes or any other publicly issued debt securities may fluctuate.

We may choose to redeem the Notes when prevailing interest rates are relatively low.

A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, if any, could cause the liquidity or market value of the Notes to decline significantly.

Foreign Account Tax Compliance Act provisions of the Code may apply to payments to certain foreign entities. See Supplementary Risk Factors beginning on page S-13 of this prospectus supplement and Risk Factors beginning on page 13 of the accompanying prospectus for more information on these and other risks you should carefully consider before deciding to invest in our securities.

## Company Information

Our principal executive offices are located at 1450 Brickell Avenue, 31<sup>st</sup> Floor, Miami, Florida 33131, telephone number (305) 381-6999. Our corporate website is located at [www.whitehorsefinance.com](http://www.whitehorsefinance.com). We make available, free of charge, on our website our proxy statement, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The SEC maintains an internet website, [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

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## SPECIFIC TERMS OF THE NOTES AND THE OFFERING

*This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes later in the accompanying prospectus under the heading "Description of Our Notes" in this prospectus supplement and "Description of our Debt Securities" in the accompanying prospectus before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture that will govern the Notes (as amended from time to time, the "Indenture").*

Issuer

WhiteHorse Finance, Inc.

Title of the securities

6.50% Notes due 2025

Initial aggregate principal amount being offered

\$33,000,000.

Over-allotment option

The underwriters may also purchase from us up to an additional \$4,950,000 aggregate principal amount of Notes to cover over-allotments, if any, within 30 days of the date of this prospectus supplement.

Initial public offering price

6.50% of the aggregate principal amount.

Principal payable at maturity

6.50% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Trustee, Paying Agent, Registrar and Transfer Agent for the Notes or at such other office designed by the Trustee, Paying Agent, Registrar and Transfer Agent.

Use of proceeds

We expect to use all or substantially all of the net proceeds from the sale of our Notes to invest in portfolio companies in accordance with our investment objective and strategies and for general corporate purposes. We expect that our new investments will consist primarily of senior secured debt investments in lower middle market companies. We will also pay operating expenses, including management and administrative fees, and may pay other expenses such as due diligence expenses relating to potential new investments, from the net proceeds from the sale of our Notes. We may also use a portion of the net proceeds from the sale of our Notes to repay amounts outstanding under our Credit Facility. As of September 30, 2018, we had \$168.5 million outstanding under our Credit Facility.

See "Use of Proceeds."

Type of Note

Fixed rate note

Listing

We intend to apply to list the Notes on The NASDAQ Global Select Market, subject to official notice of issuance, within 30 days of the original issue date under the symbol "WHFBZ".

Private rating of the Notes

A- from Egan-Jones Rating Company. An explanation of the significance of ratings may be obtained from the rating agency. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. The rating of the Notes should be evaluated independently from similar ratings of other securities. A credit rating of a security is paid for by the



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issuer and is not a recommendation to buy, sell or hold securities and maybe subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency. See Risk Factors A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, if any, could cause the liquidity or market value of the Notes to decline significantly.

Interest rate

6.50% per year.

Day count basis

360-day year of twelve 30-day months.

Original issue date

November 13, 2018

Stated maturity date

November 30, 2025

Date interest starts accruing

November 13, 2018

Interest payment dates

February 28, May 31, August 31 and November 30, commencing February 28, 2019. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day, and no additional interest will accrue as a result of such delayed payment.

Interest periods

The initial interest period will be the period from and including November 13, 2018 to, but excluding February 28, 2019, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

Regular record dates for interest

February 15, May 15, August 15 and November 15, beginning February 15, 2019; if a record date for interest is a non-business day, then that record date will be the next business day.

Specified currency

U.S. Dollars

Place of payment

The City of New York

Ranking of Notes

The Notes will be our direct senior unsecured obligations and will rank:

equally in right of payment with our other outstanding and future senior unsecured, unsubordinated indebtedness, including the \$30 million aggregate principal amount of our Private Notes (as described under Description of Our Notes Ranking of Notes );

senior to any of our future indebtedness that expressly states it is subordinated to the Notes (as described under Description of Our Notes Ranking of Notes );

effectively rank behind all of our existing and future secured indebtedness (including indebtedness that is initially unsecured in respect of which we subsequently grant security) in right of payment, to the extent of the value of the assets securing such indebtedness, including \$168.5 million outstanding

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under our Credit Facility as of September 30, 2018 (as described under Description of Our Notes Ranking of Notes ); and

structurally subordinated to any existing and future indebtedness of any of our subsidiaries, financing vehicles, or similar entities (as described under Description of Our Notes Ranking of Notes ).

Denominations

We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.

Business day

Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in The City of New York are authorized or required by law or executive order to close.

Optional redemption

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after November 30, 2021, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of \$25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act and the related rules, regulations and interpretations, to the extent applicable

If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act, to the extent applicable. Unless we default in payment of the redemption price, on and after the date of redemption interest will cease to accrue on the Notes called for redemption.

Sinking fund

The Notes will not be subject to any sinking fund.

Repayment at option of Holders

Holders will not have the option to have the Notes repaid prior to the stated maturity date.

Defeasance

The Notes are subject to defeasance by us, which means that, subject to the satisfaction of certain conditions, including depositing in trust for the benefit of the holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that, by their terms, will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates, we can legally release ourselves from all payment and other obligations on the Notes.

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Covenant defeasance

The Notes are subject to covenant defeasance by us, which means that, subject to the satisfaction of certain conditions, including depositing in trust for the benefit of the holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that, by their terms, will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates, we will be released from some of the restrictive covenants in the Indenture.

Form of Notes

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

Trustee, Paying Agent, Registrar and Transfer Agent

American Stock Transfer & Trust Company, LLC

Certain Covenants

The Notes will be issued under a base indenture, dated as of November 13, 2018, as modified by a supplemental indenture, or the Indenture, between us and American Stock Transfer & Trust Company, LLC, as Trustee. The terms of the Notes and Indenture will restrict us as follows:

For as long as the Notes remain outstanding, we will not violate, whether or not we are subject to, Section 18(a)(1)(A), as modified by Section 61(a)(1), of the 1940 Act, each as in effect from time to time, or any successor provisions but giving effect to any exemptive relief granted to the Company by the SEC; and

If at any time we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee for as long as the Notes remain outstanding (1) our audited annual consolidated financial statements within 90 days of the end of our fiscal year and (2) our unaudited interim consolidated financial statements within 45 days of the end of each fiscal quarter (other than our fourth fiscal quarter). All such financial statements will be prepared in all material aspects in accordance with applicable U.S. generally accepted accounting principles, or GAAP.

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Events of Default

As described under Description of Our Notes Events of Default, Events of Default with respect to the Notes include the following:

We do not pay the principal of, or any premium on, the Notes on the due date.

We do not pay interest on the Notes within 30 days of the due date, and such failure to pay is not cured within five days.

We remain in breach of a covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach. This notice must be sent by either the Trustee or holders of at least 25% of the principal amount of Notes.

Global Clearance and Settlement Procedures

Interests in the Notes will trade in DTC's Same Day Funds Settlement System. Any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the Paying Agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements in this prospectus supplement and the accompanying prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus involve risks and uncertainties, including statements as to:

our future operating results;  
changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes to the value of our assets;  
our business prospects and the prospects of our prospective portfolio companies;  
our ability to consummate new investments and the impact of such investments;  
the impact of increased competition;  
our contractual arrangements and relationships with third parties;  
the dependence of our future success on the general economy and its impact on the industries in which we invest;  
the ability of our prospective portfolio companies to achieve their objectives;  
the ability of our investment adviser to locate suitable investments for us and to monitor our investments;  
our expected financings and investments;  
the adequacy of our cash resources and working capital;  
our ability to make distributions to our stockholders;  
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 anticipate, believe, expect, intend, may, might, will, should, could, can, estimate, anticipate, predict, potential and similar words 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 as Supplementary Risk Factors in this prospectus supplement and Risk Factors in the accompanying prospectus, and elsewhere in this prospectus supplement and the accompanying prospectus.

We have based the forward-looking statements included in this prospectus supplement and the accompanying prospectus on information available to us on the date of this prospectus supplement and on the date of the accompanying prospectus, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from historical performance. 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 have filed or in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. This prospectus supplement and the accompanying prospectus may contain statistics and other data that have been obtained from or compiled from information made available by third-party service providers. We have not independently verified such statistics or data.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in connection with any offering of securities pursuant to this prospectus supplement, the accompanying prospectus or in periodic reports we file under the Exchange Act.





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## **SUPPLEMENTARY RISK FACTORS**

*Before you invest in our securities, you should be aware of various risks, including those described below and in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our securities. The risks set out below and in the accompanying prospectus are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price value of our Notes could decline, and you may lose all or part of your investment.*

### **Risks Relating to this Offering**

**The Notes will be unsecured and therefore effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.**

The Notes will mature on November 30, 2025 and will bear interest at an annual rate of 6.50%. The Notes will not be secured by any of our assets or any of the assets of our subsidiaries and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness. As a result, the Notes will be effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness, and the secured indebtedness of our subsidiaries, may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes.

**The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.**

The Notes will be obligations exclusively of WhiteHorse Finance, Inc. and not of any of our subsidiaries. None of our subsidiaries will be or will act as a guarantor of the Notes, and the Notes will not be required to be guaranteed by any subsidiaries we may acquire or establish in the future.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

**The Indenture under which the Notes are issued will contain limited protection for holders of the Notes.**

The Indenture will offer limited protection to holders of the Notes. The terms of the Indenture and the Notes will not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the Indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to the Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our

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subsidiaries and therefore would rank structurally senior in right of payment to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of the asset coverage requirement under Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;  
make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the Indenture will not require us to offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the Indenture and the Notes will not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they will not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity, except as required under the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the Indenture and the Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the Indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

**An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.**

The Notes will be new issue of debt securities for which currently there is no trading market. Although we intend to apply to list the Notes on The NASDAQ Global Select Market, subject to official notice of issuance, we cannot provide any assurances that the Notes will be approved for listing or that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

**If a rating agency assigns the Notes a non-investment grade rating or the Notes are not rated, the Notes may be subject to greater price volatility than similar securities without such a rating. Below investment grade securities, which are often referred to as junk bonds, are viewed as speculative investments because of concerns with respect to the issuer's capacity to pay interest and repay principal.**

An active trading market for the Notes may not develop, which could limit the market price of the Notes or our ability

If a rating agency assigns the Notes a non-investment grade rating, the Notes may be subject to greater price volatility than securities of similar maturity without such a non-investment grade rating. Below investment grade securities, which are often referred to as junk bonds, are viewed as speculative investments because of concerns with respect to the issuer's capacity to pay interest and repay principal. The underwriters may discontinue any market-making in the Notes at any time in their sole discretion.

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Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

**If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.**

Any default under the agreements governing our indebtedness, including a default under the Credit Facility, the Private Notes or under other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes, and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Credit Facility, the Private Notes or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the agreements relating to the Credit Facility, the Private Notes or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Credit Facility, the Private Notes or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations could proceed against the collateral securing the debt. Because the Credit Facility and the Private Notes have, and any future debt will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future indebtedness is accelerated, we may be unable to repay or finance the amounts due.

**We may not be able to invest the proceeds of this offering in portfolio companies in a timely manner.**

We estimate that it will take up to six months for us to invest a portion of the net proceeds of this offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. If we are unable to invest the proceeds of this offering in portfolio companies pursuant to our proposed timetable, which may have an adverse impact on our performance and results of operations, including our ability to pay dividends to our stockholders.

**The trading market or market value of the Notes or any other publicly issued debt securities may fluctuate.**

Our publicly issued debt securities, including the Notes, do not currently have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities, including the Notes, will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities, including the Notes. These factors include

the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies, if any;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;

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the level, direction and volatility of market interest rates generally; and market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of our debt securities, including the Notes, or the trading market for these debt securities.

**We may choose to redeem the Notes when prevailing interest rates are relatively low.**

On or after November 30, 2021, we may choose to redeem the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the Notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes being redeemed. Our redemption right also may adversely impact your ability to sell the Notes as the optional redemption date or period approaches, or you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

**A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, if any, could cause the liquidity or market value of the Notes to decline significantly.**

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion.

The Notes have received a private rating of A- from Egan-Jones Rating Company. An explanation of the significance of ratings may be obtained from the rating agency. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of Notes of any changes in our credit ratings. There can be no assurance that our credit ratings will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely by the rating agency if in their judgment future circumstances relating to the basis of the credit ratings, such as adverse changes in our company, so warrant.

**FATCA withholding may apply to payments to certain foreign entities.**

Payments made under the Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under the Foreign Account Tax Compliance Act provisions of the Code, or FATCA. This tax may apply to certain payments of interest as well as (beginning on January 1, 2019) payments made upon maturity, redemption, or sale of the Notes, unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Holders should consult their tax advisors regarding FATCA and how it may affect an investment in the Notes.





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## **USE OF PROCEEDS**

We estimate that the net proceeds we will receive from the sale of the \$33.0 million aggregate principal amount of the Notes in this offering will be approximately \$31.8 million (or approximately \$36.5 million if the underwriters fully exercise their option to purchase additional Notes), in each case based on a public offering price of 100% of par, after deducting the underwriting discounts and commissions of \$1.0 million (or approximately \$1.2 million if the underwriters fully exercise their option to purchase additional Notes) and estimated offering expenses of approximately \$0.2 million, (or approximately \$0.16 per Note) payable by us.

We expect to use all or substantially all of the net proceeds from the sale of our Notes to invest in portfolio companies in accordance with our investment objective and strategies and for general corporate purposes. We expect that our new investments will consist primarily of senior secured debt investments in lower middle market companies. We will also pay operating expenses, including management and administrative fees, and may pay other expenses such as due diligence expenses relating to potential new investments, from the net proceeds from the sale of our Notes. We may also use a portion of the net proceeds from the sale of our Notes to repay amounts outstanding under our Credit Facility. As of September 30, 2018, we had \$168.5 million outstanding under our Credit Facility. Our Credit Facility bears interest at LIBOR plus 2.75% on outstanding borrowings and will mature on December 29, 2021.

We anticipate that we will use substantially all of the net proceeds of the sale of our Notes for the above purposes within approximately six months after the completion of the offering described in this prospectus supplement, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. We cannot assure you that we will achieve our targeted investment pace.

Until such appropriate investment opportunities can be found, we intend to invest the net proceeds of the offering of our Notes in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in lower yielding interest-bearing deposits or other short-term instruments. See Regulation Temporary Investments in the accompanying prospectus for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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## **SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated financial and other information below should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and the related financial statements and notes thereto. Financial information as of September 30, 2018 and 2017 and for the nine months then ended was derived from our unaudited financial statements. Financial information as of December 31, 2017, 2016, 2015, 2014 and 2013 and for the years then ended has been derived from our consolidated financial statements that were audited by Crowe LLP, an independent registered public accounting firm.

(1) Weighted average effective yield is computed by dividing (a) annualized interest income (including interest income resulting from the amortization of fees and discounts) by (b) the weighted average cost of investments.

The following tables set forth, for the periods indicated, certain consolidated quarterly financial information (dollars in thousands, except per share amounts). This information is derived from our unaudited

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financial statements which include, in the opinion of management, all normal recurring adjustments which management considers necessary for a fair presentation of the results for such periods. The results for any quarter are not necessarily indicative of results for future periods.

|   | 2018                 |           |           |           |
|---|----------------------|-----------|-----------|-----------|
|   | Q3                   | Q2        | Q1        |           |
| Total investment income   | \$ 15,318            | \$ 14,654 | \$ 16,605 |           |
| Net investment income   | 3,777                | 4,607     | 8,578     |           |
| Net realized and unrealized gains on investments                | 15,685               | 14,447    | 5,275     |           |
| Net increase in net assets resulting from operations            | 19,462               | 19,054    | 13,853    |           |
|   | 2017                 |           |           |           |
|   | Q4                   | Q3        | Q2        | Q1        |
| Total investment income   | \$ 13,920            | \$ 13,024 | \$ 14,285 | \$ 13,575 |
| Net investment income   | 6,804                | 5,950     | 6,936     | 6,522     |
| Net realized and unrealized gains on investments                | 1,684                | 3,106     | 339       | 3,107     |
| Net increase in net assets resulting from operations            | 8,488                | 9,056     | 7,275     | 9,629     |
|   | 2016                 |           |           |           |
|   | Q4                   | Q3        | Q2        | Q1        |
| Total investment income   | \$ 13,359            | \$ 14,030 | \$ 13,050 | \$ 13,410 |
| Net investment income   | 6,555                | 7,268     | 6,426     | 6,762     |
| Net realized and unrealized gains (losses) on investments       | 2,519                | 1,326     | 1,703     | (1,230 )  |
| Net increase in net assets resulting from operations            | 9,074                | 8,594     | 8,129     | 5,532     |
|   | 2015                 |           |           |           |
|   | Q4                   | Q3        | Q2        | Q1        |
| Total investment income   | \$ 11,934            | \$ 11,707 | \$ 12,162 | \$ 11,271 |
| Net investment income   | 3,873 <sup>(1)</sup> | 5,662     | 5,886     | 5,334     |
| Net realized and unrealized losses on investments               | (18,652)             | (4,234 )  | (136 )    | (561 )    |
| Net (decrease) increase in net assets resulting from operations | (14,779)             | 1,428     | 5,750     | 4,773     |
|   | 2014                 |           |           |           |
|   | Q4                   | Q3        | Q2        | Q1        |
| Total investment income   | \$ 11,013            | \$ 9,265  | \$ 9,018  | \$ 8,250  |
| Net investment income   | 4,976                | 4,043     | 3,992     | 3,990     |
| Net realized and unrealized (losses) gains on investments       | (1,380 )             | 519       | 1,024     | 2,380     |
| Net increase in net assets resulting from operations            | 3,594                | 4,563     | 5,017     | 6,370     |
|   | 2013                 |           |           |           |
|   | Q4                   | Q3        | Q2        | Q1        |

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|   |          |           |          |          |
|---|----------|-----------|----------|----------|
| Total investment income                                   | \$ 8,615 | \$ 11,122 | \$ 9,498 | \$ 8,382 |
| Net investment income                                     | 4,169    | 6,282     | 4,850    | 4,009    |
| Net realized and unrealized gains (losses) on investments | 2,166    | (262 )    | (1,683 ) | (501 )   |
| Net increase in net assets resulting from operations      | 6,335    | 6,020     | 3,167    | 3,508    |

(1) Includes \$3.2 million of accelerated amortization of debt acquisition costs related to the refinancing of our revolving credit facility on December 23, 2015.

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The following table sets forth, as of September 30, 2018:

the actual consolidated capitalization of WhiteHorse Finance; the capitalization of WhiteHorse Finance, as adjusted to give effect to the sale of \$33.0 million aggregate principal of our Notes in this offering (assuming no exercise of the overallotment option), excluding accrued interest, after deducting the underwriting discounts and commissions of approximately \$1.0 million payable by us and estimated offering expenses of approximately \$0.2 million payable by us.

This as-adjusted information is illustrative only; our capitalization following the completion of this offering is subject to further adjustments. You should read this table together with Use of Proceeds for more information. You should also read this table with our consolidated financial statements and related notes thereto, in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement for more information.

|  | As of September 30,<br>2018 (unaudited) |                               |
|--|---|-------------------------------|
|  | Actual                                  | As<br>Adjusted <sup>(1)</sup> |
|  | (dollars in thousands)                  |                               |
| <b>Assets:</b>   |   |                               |
| Investments, at fair value   | \$ 509,620                              | \$ 509,620                    |
| Cash and cash equivalents  | 11,481                                  | 43,234                        |
| Restricted cash and cash equivalents   | 15,116                                  | 15,116                        |
| Other assets   | 5,626                                   | 5,626                         |
| Total assets   | \$ 541,843                              | \$ 573,596                    |
| <b>Liabilities:</b>  |   |                               |
| Debt:  |   |                               |
| Credit Facility  | 168,500                                 | 168,500                       |
| Private notes  | 30,000                                  | 30,000                        |
| Notes offered herein   |   | 33,000                        |
| Other liabilities <sup>(2)</sup>   | 25,689                                  | 24,442                        |
| Total liabilities  | \$ 224,189                              | \$ 255,942                    |
| <b>Net assets:</b>   |   |                               |
| Common stock, par value \$0.001 per share; 100,000,000 shares authorized,<br>20,546,032 shares issued and outstanding as of September 30, 2018 | \$ 21                                   | \$ 21                         |
| Paid-in capital in excess of par   | 302,498                                 | 302,498                       |
| Accumulated overdistributed net investment income  | (11,696 )                               | (11,696 )                     |
| Accumulated realized losses on investments   | (644 )                                  | (644 )                        |
| Accumulated unrealized depreciation on investments   | 27,475                                  | 27,475                        |
| Total net assets   | \$ 317,654                              | \$ 317,654                    |

(1) Does not include the use of net proceeds to repay any of the outstanding indebtedness under the Credit Facility or the exercise of the underwriters' overallotment option, if any, in connection with this offering.

(2) Includes deferred debt issuance costs of \$2.8 million, actual, and \$4.0 million, as adjusted, as of September 30, 2018.



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## SENIOR SECURITIES

### (In Thousands)

Information about our senior securities is shown in the following tables as of December 31, 2017, 2016, 2015, 2014, 2013 and 2012 and as of September 30, 2018. The report of our independent registered public accounting firm, Crowe LLP, on the senior securities table as of December 31, 2017, 2016, 2015, 2014, 2013 and 2012, is attached as an exhibit to the registration statement of which this prospectus supplement is a part. The indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

| Class and Year                                    | Total Amount Outstanding <sup>(1)</sup> | Asset Coverage per Unit <sup>(2)</sup> | Involuntary Liquidating Preference per Unit <sup>(3)</sup> | Average Market Value per Unit <sup>(4)</sup> |
|---|---|--|--|--|
| <b>Credit Facility<sup>(5)</sup></b>              |   |  |  |  |
| Fiscal 2018 (as of September 30, 2018, unaudited) | \$ 168,500                              | \$ 2,623                               | \$   | N/A  |
| Fiscal 2017                                       | 155,000                                 | 2,576                                  |  | N/A  |
| Fiscal 2016                                       | 155,000                                 | 2,368                                  |  | N/A  |
| Fiscal 2015                                       | 102,000                                 | 2,305                                  |  | N/A  |
| Fiscal 2014                                       | 105,500                                 | 2,183                                  |  | N/A  |
| Fiscal 2013                                       | 25,000                                  | 3,064                                  |  | N/A  |
| Fiscal 2012                                       | 51,250                                  | 2,622                                  |  | N/A  |
| <b>Senior Notes<sup>(6)</sup></b>                 |   |  |  |  |
| Fiscal 2018 (as of September 30, 2018, unaudited) | \$                                      | \$                                     | \$   | \$ N/A                                       |
| Fiscal 2017                                       | 30,000                                  | 2,576                                  |  | 1,026  |
| Fiscal 2016                                       | 30,000                                  | 2,368                                  |  | 1,005  |
| Fiscal 2015                                       | 30,000                                  | 2,305                                  |  | 1,010  |
| Fiscal 2014                                       | 30,000                                  | 2,183                                  |  | 1,006  |
| Fiscal 2013                                       | 30,000                                  | 3,064                                  |  | 982  |
| <b>Private Notes</b>                              |   |  |  |  |
| Fiscal 2018 (as of September 30, 2018, unaudited) | \$ 30,000                               | \$ 2,623                               | \$   | N/A  |
| <b>Unsecured Term Loan<sup>(7)</sup></b>          |   |  |  |  |
| Fiscal 2015                                       | \$ 55,000                               | \$ 2,305                               | \$   | N/A  |
| Fiscal 2014                                       | 55,000                                  | 2,183                                  |  | N/A  |
| Fiscal 2013                                       | 55,000                                  | 3,064                                  |  | N/A  |
| Fiscal 2012                                       | 90,000                                  | 2,622                                  |  | N/A  |

(1) Total amount of each class of senior securities outstanding at the end of the period presented (in thousands), exclusive of debt issuance costs.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit (including for the Senior Notes, which were issued in \$25 increments).

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4)



Not applicable, except for with respect to the Senior Notes, as other senior securities are not registered for public trading on a stock exchange. The average market value per unit for the Senior Notes is based on the average daily prices of such notes and is expressed per \$1,000 of indebtedness.

(5) On September 27, 2012, WhiteHorse Warehouse entered into the Natixis Credit Facility. On December

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23, 2015, WhiteHorse Credit entered into the Credit Facility, and we drew \$102.0 million on the Credit Facility and used the proceeds to repay the Natixis Credit Facility in full.

(6) On August 9, 2018, we redeemed 100% of the \$30 million aggregate principal amount of the Senior Notes outstanding and delisted the Senior Notes from The NASDAQ Global Select Market.

(7) On June 30, 2016, we repaid in full the outstanding balance of \$55.0 million due under the Unsecured Term Loan.  
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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and other parts of this prospectus supplement and the accompanying prospectus contain forward-looking information that involves risks and uncertainties. The discussion and analysis contained in this section refers to the financial condition, results of operations and cash flows of WhiteHorse Finance, Inc. Please see Supplementary Risk Factors, Risk Factors and Special Note Regarding Forward-Looking Statements in this prospectus supplement and the accompanying prospectus for a discussion of the uncertainties, risks and assumptions associated with this discussion and analysis. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under Supplementary Risk Factors, Risk Factors and Special Note Regarding Forward-Looking Statements appearing elsewhere in this prospectus supplement and the accompanying prospectus.*

## Overview

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

We were formed on December 28, 2011 and commenced operations on January 1, 2012. We were originally capitalized with approximately \$176.3 million of contributed assets from H.I.G. Bayside Debt & LBO Fund II, L.P. and H.I.G. Bayside Loan Opportunity Fund II, L.P., or Loan Fund II, each of which is an affiliate of H.I.G. Capital, L.L.C., or H.I.G. Capital. These assets were contributed as of January 1, 2012 in exchange for 11,752,383 units in WhiteHorse Finance, LLC. On December 4, 2012, we converted from a Delaware limited liability company into a Delaware corporation and elected to be treated as a business development company under the 1940 Act.

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

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

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

Historically, the 1940 Act has permitted us to issue senior securities, including borrowing money from banks or other financial institutions, only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Small Business Credit Availability Act, or the SBCAA, was enacted into law. The SBCAA, among other things, amended the 1940 Act to reduce the asset coverage requirements applicable to business development companies from 200% to 150% so long as the business development company meets certain disclosure requirements and obtains certain approvals. At our

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

We are a direct lender targeting debt investments in privately held, lower middle market companies located in the United States. We define the lower middle market as those companies with enterprise values between \$50 million and \$350 million. Our investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing lower middle market companies across a broad range of industries. Such loans typically carry a floating interest rate based on the London Interbank Offered Rate, or LIBOR, plus a spread and typically have a term of three to six years. While we focus principally on originating senior secured loans to lower middle market companies, we may also opportunistically make investments at other levels of a company's capital structure, including mezzanine loans or equity interests, and in companies outside of the lower middle market, to the extent we believe the investment presents an opportunity to achieve an attractive risk-adjusted return. We also may receive warrants to purchase common stock in connection with our debt investments. We expect to generate current income through the receipt of interest payments, as well as origination and other fees, capital appreciation and dividends.

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

## **Revenues**

We generate revenue in the form of interest payable on the debt securities that we hold and capital gains and distributions, if any, on the portfolio company investments that we originate or acquire. Our debt investments, whether in the form of senior secured loans or mezzanine loans, typically have terms of three to six years and bear interest at a fixed or floating rate based on a spread over LIBOR. Interest on debt securities is generally payable monthly or quarterly, with the amortization of principal generally being deferred for several years from the date of the initial investment. In some cases, we may also defer payments of interest for the first few years after our investment. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date.

In addition, we generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. We capitalize loan origination fees, original issue discount and market discount, and we then amortize such amounts as interest income. Upon the prepayment of a loan or debt security, we record any unamortized loan origination fees as interest income. We record prepayment premiums on loans and debt securities as fee income when earned. Dividend income is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

## **Expenses**

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

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

our organization;

the base management fee and any incentive fee;

amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments; calculating our net asset value and net asset value per share (including the costs and expenses of independent valuation firms);

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

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

transfer agent and custody fees and expenses;

distributions on our shares;

brokerage fees and commissions;

registration fees;

listing fees;

taxes;

independent directors fees and expenses;

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

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

costs of holding stockholder meetings;

our fidelity bond;

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

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

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

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

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

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

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

## Recent Developments

WhiteHorse Advisers has agreed to waive that portion of the base management fee payable with respect to cash and cash equivalents and restricted cash and cash equivalents to which it would otherwise be entitled under the Investment Advisory Agreement for the fiscal quarters ended September 30, 2018, December 31, 2018 and March 31, 2019; and for the fiscal quarter ended June 30, 2019 only to the extent that the

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determination of base management fees would otherwise include March 31, 2019 cash and cash equivalents and restricted cash and cash equivalents for the purpose of calculating the average carrying value of consolidated gross assets.

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

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

## **Consolidated Results of Operations**

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

### **Investment Income**

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

### **Operating Expenses**

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

Interest expense totaled \$3.3 million and \$8.6 million for the three and nine months ended September 30, 2018, respectively. We incurred interest expense of \$2.4 million and \$7.4 million for the three and nine months ended September 30, 2017, respectively. The increase was due to higher interest rates resulting from an increase in LIBOR



over the comparable period during the prior year and includes approximately \$0.3 million of accelerated amortization of deferred financing costs relating to the refinancing of our Senior Notes in August 2018.

Base management fees, net of fees waived, totaled \$2.6 million and \$7.7 million for the three and nine months ended September 30, 2018, respectively, and \$2.5 million and \$7.1 million for the three and nine months ended September 30, 2017, respectively. The increase in base management fees was attributable to an increase in total gross assets as compared to the prior year period. In addition, WhiteHorse Advisers agreed to waive that portion of the base management fees payable with respect to cash and cash equivalents and restricted cash and cash equivalents to which it would otherwise be entitled under the Investment Advisory

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Agreement for the fiscal quarters ended September 30, 2018, December 31, 2018 and March 31, 2019. For the three and nine months ended September 30, 2018, WhiteHorse Advisers waived approximately \$0.1 million and \$0.1 million, respectively, in base management fees. For the three and nine months ended September 30, 2017, there were no base management fees waived.

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

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

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

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

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

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

## **Financial Condition, Liquidity and Capital Resources**

As a business development company, we distribute substantially all of our net income to our stockholders. We generate cash primarily from offerings of securities, borrowings under the Credit Facility (as defined below), and cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to fund a portion of our investments through future borrowings. In the future, we may obtain borrowings under other credit facilities and from issuances of senior securities to the extent permitted by the 1940 Act. In March 2018, the SBCAA was enacted into law, which, among other things, amended the 1940 Act to reduce the asset coverage requirements applicable to business development companies from 200% to 150% so long as the business development company meets certain disclosure requirements and obtains certain approvals. At our annual meeting of stockholders held on August 1, 2018, our stockholders approved the reduced asset coverage ratio from 200% to 150%, such that our maximum

debt-to-equity ratio increased from a prior maximum of 1.0x (equivalent of \$1 of debt outstanding for each \$1 of equity) to a maximum of 2.0x (equivalent to \$2 of debt outstanding for each \$1 of equity). As a result, our asset coverage requirements applicable to senior securities decreased from 200% to 150%, effective August 2, 2018. See

Overview. We may also borrow funds to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities, if the market for debt financing presents attractively priced debt financing opportunities or if our board of directors determines that leveraging our portfolio would be in our best interest and the best interests of our stockholders.

Our board of directors may decide to issue common stock, such as through at-the-market offerings, direct placements or otherwise, to finance our operations rather than issuing debt or other senior securities. Any

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decision to sell shares below the then-current net asset value per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below net asset value per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our net asset value per share. On June 30, 2017, we completed an offering of 2,200,000 shares of common stock at a public offering price of \$13.97 per share, which resulted in net proceeds to us of approximately \$30.3 million. Our investment adviser agreed to bear a portion of the underwriting discounts and commissions in connection with the offering of shares, such that the issuance of shares was at or above the net asset value per share at the time of the offering. If we were to issue additional shares of our common stock during the next 12 months, we do not intend to issue shares below the then-current net asset value per share.

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

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

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

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

As of December 31, 2017, we had cash and cash equivalent resources of \$38.9 million, including \$3.7 million of restricted cash. As of the same date, we had \$45.0 million undrawn and available to be drawn under the Credit Facility based on the collateral and portfolio quality requirements stipulated in the related credit and security agreement.

### **Credit Facility**

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

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

As of December 31, 2017, there was \$155.0 million in outstanding borrowings under the Credit Facility and, based on collateral and portfolio requirements stipulated in the Credit Facility agreement, approximately

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\$45.0 million was available to be drawn on such date. The Credit Facility is secured by all of the assets of WhiteHorse Credit, which included loans with a fair value of \$376.1 million as of December 31, 2017.

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

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

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

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

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

If any of our contractual obligations discussed above is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Advisory Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

**Senior Notes**

On July 23, 2013, we completed a public offering of our Senior Notes, the net proceeds of which were used to reduce outstanding obligations under an unsecured term loan. Interest on the Senior Notes was payable quarterly on March

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

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### **Private Notes**

On July 13, 2018, we entered into an agreement, or the Note Purchase Agreement, to sell in a private offering \$30 million aggregate principal amount of senior unsecured notes, or the Private Notes, to qualified institutional investors in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended. Interest on the Private Notes is payable semiannually on February 7 and August 7, at a fixed, annual rate of 6.00%. This interest rate is subject to increase (up to 6.50%) in the event that, subject to certain exceptions, the Private Notes cease to have an investment grade rating.

The Private Notes mature on August 7, 2023, unless redeemed, purchased or prepaid prior to such date by us or our affiliates in accordance with their terms. The Private Notes are general unsecured obligations that rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness that we may issue. The closing of the transaction occurred on August 7, 2018. We used the net proceeds from this offering, together with cash on hand, to redeem all of the Senior Notes, as discussed above.

### **Portfolio Investments and Yield**

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

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

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

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

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



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

frequent discussions with management and sponsors, including board observation rights where possible;

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

**Inflation**

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

**Off-Balance Sheet Arrangements**

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve elements of liquidity and credit risk in excess of the amount recognized on the consolidated statements of assets and liabilities. As of September 30, 2018 and December 31, 2017, we had commitments to fund approximately

\$2.0 million and \$6.4 million, respectively, of revolving lines of credit or delayed draw facilities to our portfolio companies. We reasonably believe that we have sufficient assets to adequately cover and allow us to satisfy our outstanding unfunded commitments.

## Distributions

In order to maintain our status as a RIC and to avoid the imposition of corporate-level tax on income, we must distribute dividends to our stockholders each taxable year of an amount generally at least equal to the sum of 90% of our ordinary income and realized net short-term capital gains in excess of realized net

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long-term capital losses out of the assets legally available for distribution. In order to avoid the imposition of certain excise taxes imposed on RICs, we must distribute dividends in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gains in excess of capital losses, or capital gain net income, adjusted for certain ordinary losses, for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gain net income for preceding years that were not distributed during such years on which we incurred no U.S. federal income tax.

During the three and nine months ended September 30, 2018, we declared to stockholders distributions of \$0.355 and \$1.065 per share, respectively, for total distributions of \$7.3 million and \$21.9 million, respectively. During the three and nine months ended September 30, 2017, we declared to stockholders distributions of \$0.355 and \$1.065 per share, respectively, for total distributions of \$7.3 million and \$20.3 million, respectively.

The timing and amount of our quarterly distributions, if any, are determined by our board of directors. While we intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution, we may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a business development company under the 1940 Act. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings fall below the total amount of our distributions paid for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. During the nine months ended September 30, 2018, we estimate that distributions to stockholders included approximately \$3.0 million in excess of net investment income, which was primarily due to the capital gains-based incentive fee accrued, but also included \$4.3 million of long-term capital gains, for tax purposes, based on current earnings for the fiscal year ending December 31, 2018. The specific tax characteristics of the distribution will be reported to stockholders on or after the end of the calendar year 2018 and in our periodic reports with the SEC.

Stockholders should read any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is only ordinary income or gains.

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

## **Contractual Obligations**

A summary of our significant contractual payment obligations as of September 30, 2018 is as follows:

Payments Due by Period (Dollars in Millions)

Distributions

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|                               | Total    | Less Than<br>1 Year | 1  | 3 Years | 3        | 5 Years | More Than<br>5 Years |
|-------------------------------|----------|---------------------|----|---------|----------|---------|----------------------|
| Credit Facility               | \$ 168.5 | \$                  | \$ |         | \$ 168.5 |         | \$                   |
| Private Notes                 | 30.0     |                     |    |         | 30.0     |         |                      |
| Total contractual obligations | \$ 198.5 | \$                  | \$ |         | \$ 198.5 |         | \$                   |

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

We entered into the Investment Advisory Agreement with WhiteHorse Advisers in accordance with the 1940 Act on December 4, 2012, which was most recently amended on November 1, 2018. Under the

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Investment Advisory Agreement, WhiteHorse Advisers manages our day-to-day investment operations and provides us with access to personnel and an investment committee and certain other resources so that we may fulfill our obligation to act as a portfolio manager of WhiteHorse Credit under the Credit Facility. Payments under the Investment Advisory Agreement in future periods will be equal to (1) a management fee equal to 2% of the value of our consolidated gross assets; provided, however, that the management fee on consolidated gross assets financed using leverage over 200% asset coverage (in other words, over 1.0x debt to equity) will be equal to 1.25% and (2) an incentive fee based on our performance. See Investment Advisory Agreement in Note 6 to the consolidated financial statements.

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

## **Related Party Transactions**

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

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

WhiteHorse Administration and certain of its affiliates provide us with the office facilities and administrative services, including access to the resources necessary for us to perform our obligations towards certain portfolio companies, pursuant to the Administration Agreement.

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

WhiteHorse Advisers, WhiteHorse Administration or their respective affiliates may have other clients with similar, different or competing investment objectives. In serving in these multiple capacities, WhiteHorse Advisers, WhiteHorse Administration or their respective affiliates may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of us or our stockholders. Such persons may face conflicts in the allocation of investment opportunities among us and other investment funds or accounts advised by or affiliated with WhiteHorse Advisers or WhiteHorse Administration. WhiteHorse Advisers or its affiliates will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy. However, we can offer no assurance that such opportunities will be allocated to us fairly or equitably in the short-term or over time.

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

## Impact of Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. The Tax Cuts and Jobs Act, among other things, permanently reduces the maximum federal corporate income tax rate, reduces the maximum individual income tax rate (effective for taxable years 2018 through 2025), restricts the deductibility of business interest expense, changes the rules regarding the calculation of net operating loss deductions that may be used to offset taxable income, expands the circumstances in which a foreign corporation will be treated as a controlled foreign corporation and, under certain circumstances, requires accrual method taxpayers to recognize income for U.S. federal income tax purposes no later than when the income is taken into account as

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revenue in an applicable financial statement. Although we currently believe the new tax law will not have a material impact on us, the effects of the various provisions of the Tax Cuts and Jobs Act listed above on the respective tax positions of us, our stockholders and our portfolio companies depend on the factual circumstances of each, over time.

## **Critical Accounting Policies**

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

### **Principles of Consolidation**

Under the investment company financial accounting guidance, as formally codified in Accounting Standards Codification, or ASC, Topic 946, *Financial Services – Investment Companies*, we are precluded from consolidating any entity other than another investment company. As provided under ASC Topic 946, we generally consolidate any investment company when we own 100% of its partners or members capital or equity units. We own a 100% equity interest in each of WhiteHorse Credit and WhiteHorse Finance Warehouse, LLC, or WhiteHorse Warehouse, which are investment companies for accounting purposes. As such, we have consolidated the accounts of WhiteHorse Credit and WhiteHorse Warehouse into our financial statements. As a result of this consolidation, the amount outstanding under the Credit Facility is treated as our indebtedness.

### **Valuation of Portfolio Investments**

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

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

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

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



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

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

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

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

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

The audit committee of the board of directors reviews these preliminary valuations, and on a quarterly basis, reviews the bases of the valuations by our investment adviser and the independent valuation firms.

At least once annually, the valuation for each portfolio investment is reviewed by an independent valuation firm. The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith.

Fair value of publicly traded instruments is generally based on quoted market prices. Fair value of non-publicly traded instruments, and of publicly traded instruments for which quoted market prices are not readily available, may be determined based on other relevant factors, including without limitation, quotations from unaffiliated market makers or independent third party pricing services, the price activity of equivalent instruments and valuation pricing models.

For those investments valued using quotations, the bid price is generally used unless we determine that it is not representative of an exit price.

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

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

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

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



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

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

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

### **Investment Transactions and Related Investment Income and Expense**

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

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

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

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

We may receive fees in addition to interest income from the loans during the life of the investment. We may receive origination fees upon the origination of an investment. We defer these origination fees and deduct them from the cost basis of the investment and subsequently accrete them into income over the term of the loan. We may receive facility, commitment and amendment fees, which are paid to us on an ongoing basis.

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We accrue facility fees, sometimes referred to as asset management fees, as a percentage periodic fee on the base amount (either the funded facility amount or the committed principal amount). Commitment fees are based upon the undrawn portion committed by us and we record them on an accrual basis. Amendment fees are paid in connection with loan amendments and waivers and we account for them upon completion of the amendments or waivers, generally when such fees are receivable. We include any such fees in fee income on the consolidated statements of operations.

## **Recent Accounting Pronouncements**

See Note 2 to our consolidated financial statements, beginning on page SF-15 of this prospectus supplement, which discusses recent accounting pronouncements applicable to us.

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## DESCRIPTION OF OUR NOTES

As required by federal law for all bonds and notes of companies that are publicly offered, the Notes are governed by a document called an indenture. An indenture is a contract between us and a financial institution acting as trustee on your behalf and is subject to, and governed by, the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, see [Description of our Notes](#) [Events of Default](#) for more information. Second, the trustee performs certain administrative duties for us, such as sending interest and principal payments to holders.

The Notes will be issued under the Indenture.

Because this section is a summary, it does not describe every aspect of the Notes and the Indenture. This section and [Specific Terms of the Notes and the Offering](#) in this prospectus supplement describe all material terms of the Notes and the Indenture. We urge you to read the Indenture because it, and not this description, defines your rights as a holder of the Notes. For example, in this section, we use capitalized words to signify terms that are specifically defined in the Indenture. Some of those definitions are repeated in this prospectus supplement, but, for the meanings of the other capitalized terms, you will need to read the Indenture. We have filed the form of the Indenture with the SEC.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the 1940 Act, after each such issuance is at least equal to 150%, subject to certain disclosure requirements.

In addition, while any indebtedness and other senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see [Risk Factors](#) [Risks Relating to Our Business and Structure](#) [Regulations](#) governing our operation as a business development company, including those related to the issuance of senior securities, will affect our ability to, and the way in which we, raise additional debt or equity capital in the accompanying prospectus.

### General

The Notes will mature on November 30, 2025. The principal amount payable at maturity will be 100.0% of the initial aggregate principal amount. The interest rate of the Notes is 6.50% per year, and interest will be paid every February 28, May 31, August 31 and November 30, beginning February 28, 2019. The regular record dates for interest payments will be every February 15, May 15, August 15 and November 15, commencing February 15, 2019. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day, and no additional interest will accrue as a result of such delayed payment. The initial interest period will be the period from and including November 13, 2018 to, but excluding February 28, 2019, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

We may issue additional notes under the Indenture, or the Additional Notes, from time to time after this offering. Any issuance of Additional Notes is subject to all of the covenants in the Indenture. The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase.

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We will issue the Notes in minimum denominations of \$25 and integral multiples of \$25 in excess thereof. The Notes will not be subject to any sinking fund, and holders of the Notes will not have the option to have the Notes repaid prior to the stated maturity date.

The Indenture does not contain any provisions that protect you as a holder of the Notes in the event we issue a large amount of debt or we are acquired by another entity.

We will pay principal and interest on the Notes in immediately available funds.

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### **Ranking of Notes**

The Notes will be our direct senior unsecured obligations and will rank senior in right of payment to any of our existing and future obligations that are, by their terms, expressly subordinated in right of payment to the Notes and will rank equally in right of payment with our other outstanding and future unsecured, unsubordinated indebtedness, including the Private Notes. The Notes will effectively rank behind all of our existing and future secured indebtedness (including indebtedness that is initially unsecured in respect of which we subsequently grant security) in right of payment, to the extent of the value of the assets securing such indebtedness, including our Credit Facility, and are structurally subordinated to any existing and future indebtedness of any of our subsidiaries, financing vehicles or similar entities.

### **Optional Redemption**

We may redeem the Notes in whole or in part at any time or from time to time at our option on or after November 30, 2021, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption of the Notes, at a redemption price equal to 100% of the outstanding principal amount of the Notes plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. If we exercise our option to redeem the Notes, it will be done in compliance with the Indenture and, to the extent applicable, the 1940 Act.

If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed in accordance with the Indenture and the 1940 Act, to the extent applicable, and in accordance with the rules of The NASDAQ Global Select Market or any national securities exchange or quotation system on which the Notes are then listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

### **Transfer and Exchange**

A holder may transfer or exchange Notes in accordance with the provisions of the Indenture. The registrar and the Trustee may require a holder to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes. No service charge will be made for any registration of transfer or exchange of Notes, but may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection with such transfer or exchange. We will not be required to transfer or exchange any Note selected for redemption. Also, we will not be required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed.

### **Private Rating of the Notes**

Our Notes have a private credit rating of A- from Egan-Jones Rating Company. An explanation of the significance of ratings may be obtained from the rating agency. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. The rating of

the Notes should be evaluated independently from similar ratings of other securities. A credit rating of a security is paid for by the issuer and is not a recommendation to buy, sell or hold securities and maybe subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency. See Risk Factors A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our securities, if any, could cause the liquidity or market value of the Notes to decline significantly.

## **Issuance of Securities in Registered Form**

Except as set forth below, we may issue the Notes in registered form, in which case we may issue them either in book-entry form only or in certificated form. Notes issued in book-entry form will be represented by Global Notes. We expect that we will issue the Notes in book-entry only form represented by global securities.

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A global security represents one or any other number of individual debt securities. This means the Notes will be represented by one or more Global Notes registered in the name of a depository that will hold them on behalf of financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the Global Notes held by the depository or its nominee. These institutions may hold these interests on behalf of themselves or customers. Each Note issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. The Depository Trust Company, New York, New York, known as DTC, will be the depository for Notes issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under Description of our Notes Issuance of Securities in Registered Form Special Situations when a Global Security Will Be Terminated. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that has an account with the depository. Thus, an investor whose security is represented by a global security will not be a holder of the Note, but only an indirect holder of a beneficial interest in the global security.

Under the Indenture, only the person in whose name a Note is registered is recognized as the holder of that Note. Consequently, for Notes issued in book-entry form, we will recognize only the depository as the holder of the Notes and we will make all payments on the Notes to the depository. The depository will then pass along the payments it receives to its participants, which, in turn, will pass the payments along to their customers, who are the beneficial owners. The depository and its participants pass along such payments under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the Notes.

As a result, investors will not own Notes directly. Instead, they will own beneficial interests in a Global Notes, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the Notes are represented by one or more Global Notes, investors will be indirect holders, and not holders, of the Notes.

### **Legal Holders**

Our obligations, as well as the obligations of the Trustee and those of any third parties employed by us or the Trustee, run only to the legal holders of the Notes. We do not have obligations to investors who hold beneficial interests in Global Notes, or by any other indirect means because we are issuing the Notes only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an Indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an Indenture), we would seek the approval only from the holders, and not the indirect holders, of the Notes. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those persons who invest in the Notes being offered by this prospectus, whether they are the holders or only indirect holders of those Notes. When we refer to your Notes, we mean the Notes in which you hold a direct or indirect interest.

**Special Considerations for Indirect Holders**

If you hold Notes through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

how it handles securities payments and notices;

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whether it imposes fees or charges;  
how it would handle a request for the holders' consent, if ever required;  
whether and how you can instruct it to send you Notes registered in your own name so you can be a holder, if that is permitted in the future;  
how it would exercise rights under the Notes if there were a default or other event triggering the need for holders to act to protect their interests; and  
if the Notes are in book-entry form, how the depositary's rules and procedures will affect these matters.

**Special Considerations for Global Securities**

As an indirect holder, an investor's rights relating to a global security are governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the Global Notes will be considered the holder of the Notes represented by the Global Notes.

An investor should be aware of the following:

an investor cannot cause the Notes to be registered in his or her name and cannot obtain certificates for his or her interest in the Notes, except in the special situations we describe below;  
an investor will be an indirect holder and must look to his or her own bank or broker for payments on the Notes and protection of his or her legal rights relating to the debt securities, as we describe under "Description of our Notes—Issuance of Securities in Registered Form—Special Considerations for Indirect Holders" above;  
an investor may not be able to sell interests in the Notes to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;  
an investor may not be able to pledge his or her interest in the Global Notes in circumstances where certificates representing the Notes must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;  
the depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in the Global Notes. We and the Trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the Trustee also do not supervise the depositary in any way;  
if we redeem less than all the Notes, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding the Notes;  
an investor is required to give notice of exercise of any option to elect repayment of its Notes, through its participant, to the Trustee and to deliver the Notes by causing its participant to transfer its interest in the Notes, on DTC's records, to the Trustee;  
DTC requires that those who purchase and sell interests in a Global Note deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a Global Note; and  
financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a Global Note, may also have their own policies affecting payments, notices and other matters relating to the Notes. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

**Special Situations when a Global Note Will Be Terminated**

In a few special situations described below, a Global Note will be terminated, and interests in it will be exchanged for certificates in non-book-entry form (certificated Notes). After that exchange, the choice of



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whether to hold the certificated Notes directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors under Description of our Notes Issuance of Securities in Registered Form above.

The special situations for termination of a Global Note are as follows:

if the depository notifies us that it is unwilling, unable or no longer qualified to continue as depository for that Global Note, and we are unable to appoint another institution to act as depository;

if we notify the Trustee that we wish to terminate that Global Note; or

if an event of default has occurred with regard to the Notes represented by that Global Note and has not been cured or waived; we discuss defaults later under Description of our Notes Events of Default.

If a Global Note is terminated, only the depository, and not we or the Trustee, is responsible for deciding the names of the institutions in whose names the Notes represented by the Global Note will be registered and, therefore, who will be the holders of those Notes.

## **Payment and Paying Agents**

We will pay interest to the person listed in the Trustee's records as the owner of the Note at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the Note on the interest due date. That day, often about two weeks in advance of the interest due date, is called the record date. Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price.

The most common manner is to adjust the sales price of the Notes to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called accrued interest.

### **Payments on Global Notes**

We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the Global Note. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants, as described under Description of our Notes Form, Exchange and Transfer of Certificated Registered Securities.

### **Payment When Offices Are Closed**

If any payment is due on the Notes on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the Indenture as if they were made on the original due date, except as otherwise indicated in this prospectus. Such payment will not result in a default under any Note or the Indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their Notes.

## Certain Covenants

We will be restricted as follows:

For as long as the Notes remain outstanding, we will not violate, whether or not we are subject to, Section 18(a)(1)(A), as modified by Section 61(a)(1), of the 1940 Act, each as in effect from time to time, or any successor provisions but giving effect to any exemptive relief granted to the Company by the SEC; and

If at any time we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file periodic reports with the SEC, we agree to furnish to holders of the Notes and

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the Trustee for as long as the Notes remain outstanding (1) our audited annual consolidated financial statements within 90 days of the end of our fiscal year and (2) our unaudited interim consolidated financial statements within 45 days of the end of each fiscal quarter (other than our fourth fiscal quarter). All such financial statements will be prepared in all material aspects in accordance with applicable U.S. GAAP.

### **Events of Default**

You will have rights if an Event of Default occurs in respect of the Notes and is not cured, as described later in this subsection.

The term **Event of Default** in respect of the Notes means any of the following:

we do not pay the principal of, or any premium on, the Notes on the due date;  
we do not pay interest on the Notes within 30 days of the due date, and such failure to pay is not cured within five days;  
we remain in breach of a covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach. This notice must be sent by either the Trustee or holders of at least 25% of the principal amount of Notes; and

we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur.

The Trustee may withhold notice to the holders of the Notes of any default, except a default in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

### **Remedies if an Event of Default Occurs**

If an Event of Default has occurred and has not been cured or waived, the Trustee or the holders of not less than 66.66% in principal amount of the Notes may declare the entire principal amount to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the Notes if the default is cured or waived and certain other conditions are satisfied. In the event that we file for bankruptcy, there will not be an automatic acceleration of maturity under the Indenture without a declaration of acceleration of maturity.

Except in cases of default, where the Trustee has some special duties, the Trustee is not required to take any action under the Indenture at the request of any holders unless the holders offer the Trustee reasonable protection from expenses and liability (called an **indemnity** ). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. The Trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the Notes, the following must occur:

you must give the Trustee written notice that an Event of Default has occurred and remains uncured;  
the holders of at least 25% in principal amount of all outstanding Notes must make a written request that the Trustee take action because of the default and must offer reasonable indemnity to the Trustee against the cost and other liabilities of taking that action;

the Trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and

the holders of a majority in principal amount of the Notes must not have given the Trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your Notes at any time on or after the due date.

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**Book-entry and other indirect holders of Notes should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to each Trustee a written statement of certain of our officers certifying that, to their knowledge, we are in compliance with the Indenture and the Notes, or else specifying default.

### **Waiver of Default**

The holders of a majority in principal amount of the Notes may waive a default for all the Notes. If this happens, the default will be treated as if it had not occurred. No one can waive a payment default on a holder's Notes, however, without such holder's approval.

## **Merger or Consolidation**

Under the terms of the Indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the Notes;

alternatively, we must be the surviving company;

immediately after the transaction, no event of default exists;

we must deliver certain certificates and documents to the Trustee; and

we must satisfy any other requirements specified in this prospectus supplement and the accompanying prospectus.

## **Modification or Waiver**

There are three types of changes we can make to the Indenture and the Notes.

### **Changes Requiring Your Approval**

First, there are changes that we cannot make to your Notes without your specific approval. The following is a list of those types of changes:

change the stated maturity of the principal of or interest on the Notes;

reduce any amounts due on the Notes;

change the place or currency of payment on the Notes;

impair your right to sue for payment on the Notes following the date on which such amount is due and payable;

reduce the percentage in principal amount of the Notes the consent of whose holders is needed to modify or amend the Indenture;

reduce the percentage in principal amount of the Notes the consent of whose holders is needed to waive compliance with certain provisions of the Indenture or to waive certain defaults; and

modify any other aspect of the provisions of the Indenture dealing with supplemental indentures consented to by holders of the Notes, waiver of past defaults or the waiver of certain covenants.

**Changes Not Requiring Approval**

The second type of change does not require any vote by the holders of the Notes. This type is limited to clarifications and certain other changes that would not materially adversely affect holders of the outstanding Notes in any material respect.

**Changes Requiring Majority Approval**

Any other change to the Indenture and the Notes must be approved by the holders of a majority in principal amount of that series.

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In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of the Notes may waive our compliance with some of the covenants in the Indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Description of our Notes Modification or Waiver Changes Requiring Your Approval.

### **Further Details Concerning Voting**

When taking a vote, we will use the principal amount that would be due and payable on the voting date if the maturity of the Notes were accelerated to that date because of a default to decide how much principal to attribute to a Note.

Notes will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Notes will also not be eligible to vote if they have been fully defeased as described later under Description of our Notes Defeasance Full Defeasance. We will generally be entitled to set any day as a record date for the purpose of determining the holders of Notes that are entitled to vote or take other action under the Indenture. If we set a record date for a vote or other action to be taken by holders of the Notes, that vote or action may be taken only by persons who are holders of outstanding Notes on the record date and must be taken within eleven months following such record date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the Indenture or Note or request a waiver.**

## **Defeasance**

### **Covenant Defeasance**

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the Indenture under which the Notes are issued. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. In order to achieve covenant defeasance, we must do the following:

we must deposit in trust for the benefit of all holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that, by their terms, will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates; and  
we may be required to deliver to the Trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit and just repaid the Notes ourselves at maturity.

We must deliver to the Trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers' certificate stating that we have complied with all conditions precedent to covenant defeasance.

If we accomplish covenant defeasance, you can still look to us for repayment of the Notes if there were a shortfall in the trust deposit or the Trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing such default, you may not be able to obtain payment of the shortfall.

**Full Defeasance**

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the Notes (called full defeasance ) if we put in place the following other arrangements for you to be repaid:

we must deposit in trust for the benefit of all holders of such Notes a combination of money and U.S. government or U.S. government agency notes or bonds that, by their terms, will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;

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we may be required to deliver to the Trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an Internal Revenue Service ruling that allows us to make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit and just repaid the Notes ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the Notes would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your Notes, and you would recognize gain or loss on the debt securities at the time of the deposit; and

we must deliver to the Trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act and a legal opinion and officers' certificate certifying compliance with all conditions precedent to defeasance.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent.

## **Form, Exchange and Transfer of Certificated Registered Securities**

If registered Notes cease to be issued in book-entry form, they will be issued:

only in fully registered certificated form;  
without interest coupons; and

in denominations of \$25 and amounts that are multiples of \$25.

Holders may exchange their Notes for Notes of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated Notes at the office of the Trustee. We have appointed the Trustee to act as our agent for registering Notes in the names of holders transferring Notes. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated Notes, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If we redeem any of the Notes, we may block the transfer or exchange of those Notes selected for redemption during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated Notes selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any Note that will be partially redeemed.

If registered Notes are issued in book-entry form, only the depository will be entitled to transfer and exchange the Notes as described in this subsection, since it will be the sole holder of the Notes.

## **Resignation of Trustee**

The Trustee may resign or be removed, so long as a successor trustee is appointed.

### **The Trustee under the Indenture**

American Stock Transfer & Trust Company, LLC will serve as the Trustee under the Indenture.

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## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of the material U.S. federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), the material U.S. federal estate tax consequences) applicable to an investment in the Notes. This summary deals only with Notes that are purchased for cash in this offering for a price equal to the issue price of the Notes (*i.e.*, the first price at which a substantial amount of the notes is sold for money to investors, other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). This summary does not purport to be a complete description of the income and estate tax considerations applicable to such an investment. The discussion is based upon the Code, the treasury regulations promulgated thereunder, or the Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus supplement and all of which are subject to change, potentially with retroactive effect. No assurance can be given that the U.S. Internal Revenue Service, or the IRS, would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below. You should consult your own tax advisor with respect to tax considerations that pertain to your purchase of our Notes.

This discussion deals only with Notes held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment purposes) and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a hedge against currency risks or as a position in a straddle, hedge, constructive sale transaction or conversion transaction for tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities, accrual method taxpayers for U.S. federal income tax purposes required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement, or U.S. holders (as defined below) whose functional currency is not the U.S. dollar. In addition, this discussion does not deal with any tax consequences other than U.S. federal income tax consequences (and, in the case of a non-U.S. holder, U.S. federal estate tax consequences). If you are considering purchasing the Notes, you should consult your own tax advisor concerning the application of the U.S. federal income and estate tax laws to you in light of your particular situation, as well as any consequences to you of purchasing, owning and disposing of the Notes under the laws of any other taxing jurisdiction.

For purposes of this discussion, the term U.S. holder means a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any state thereof or the District of Columbia, (iii) a trust (a) subject to the control of one or more U.S. persons and the primary supervision of a court in the United States, or (b) that existed on August 20, 1996 and has made a valid election (under applicable Treasury Regulations) to be treated as a domestic trust, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source. The term non-U.S. holder means a beneficial owner of a Note that is neither a U.S. holder nor a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes).

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partnerships

holding Notes, and the persons holding interests in such partnerships, should consult their own tax advisors as to the consequences of investing in the Notes in their individual circumstances.

## **Taxation of Note Holders**

***Taxation of U.S. Holders.*** Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder's regular method of tax accounting.

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Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (excluding amounts representing accrued and unpaid interest, which are treated as ordinary income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the U.S. holder's initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period in the Note was more than one year. Long-term capital gains generally are taxed at reduced rates for individuals and certain other non-corporate U.S. holders. The distinction between capital gain and loss and ordinary income and loss also is important for purposes of, among other things, the limitations imposed on a U.S. holder's ability to offset capital losses against ordinary income.

In addition, if the issue price of the Notes (i.e., the first price at which a substantial amount of the Notes is sold to investors) is less than their stated redemption price at maturity (i.e., the sum of all payments to be made on the Notes, other than payments of qualified stated interest) by more than a specified de minimis amount, the Notes will be considered as having been issued for U.S. federal income tax purposes with original issue discount, or OID. In the case of the Notes, the term qualified stated interest generally means that interest that is unconditionally payable at least annually and at a single fixed rate. If the Notes are issued with OID, a U.S. holder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such U.S. holder's regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which a Note is held by a U.S. holder using a constant yield method that reflects the compounding of interest. This means that a U.S. holder will be required to include increasingly greater amounts of OID over time. Alternatively, if a U.S. holder acquires a Note with de minimis OID (i.e., discount that is not OID), the U.S. holder generally will be required to include the de minimis OID in income at the time a principal payment on the Note is made in proportion to the amount paid. Any amount of de minimis OID on a Note that is recognized by a U.S. holder will be characterized as capital gain. Notice will be given if we determine that any of the Notes will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the Notes held by persons of record, other than certain U.S. tax-exempt holders.

Under applicable Treasury Regulations, if a U.S. holder recognizes a loss with respect to the Notes or shares of our common stock of \$2 million or more for a non-corporate U.S. holder or \$10 million or more for a corporate U.S. holder in any single taxable year (or a greater loss over a combination of taxable years), the U.S. holder may be required to file with the IRS a disclosure statement on IRS Form 8886. Direct U.S. holders of portfolio securities are in many cases excepted from this reporting requirement, but, under current guidance, U.S. holders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to U.S. holders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. U.S. holders of the Notes or our common stock should consult their own tax advisors to determine the applicability of these Treasury Regulations in light of their individual circumstances.

**Taxation of Non-U.S. Holders.** Except as provided below under Information Reporting and Backup Withholding and FATCA, a non-U.S. holder generally will not be subject to U.S. federal income or withholding taxes on payments of principal or interest on a Note provided that (i) income on the Note is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, (ii) the non-U.S. holder is not a controlled foreign corporation related to the Company through stock ownership, (iii) the non-U.S. holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (iv) the non-U.S. holder does not own (directly or indirectly, actually or constructively) 10% or more of the total combined voting power of all classes of stock of the Company, and (v) the non-U.S. holder provides a valid certification on an IRS Form W-8BEN, Form W-8BEN-E, or other applicable U.S.

nonresident withholding tax certification form, certifying its non-U.S. holder status to (A) the applicable withholding agent, or (B) a securities clearing organization, bank, or other financial institution that holds customer securities in the ordinary course of its trade or business (*i.e.*, a financial institution ) and holds the Note on

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the non-U.S. holder's behalf and certifies to the applicable withholding agent (directly or through one or more similarly situated financial institutions) that it has received the required statement from the non-U.S. holder certifying that it is a non-U.S. person and furnishes the applicable withholding agent with a copy of the statement.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to U.S. federal income tax withholding on payments of interest on the Notes at a rate of 30% unless (i) the income is effectively connected with the conduct of a U.S. trade or business, so long as the non-U.S. holder has provided the applicable withholding agent with an IRS Form W-8ECI or substantially similar substitute U.S. nonresident withholding tax certification form stating that the interest on the Notes is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. in which case the interest will be subject to U.S. federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty provides otherwise), or (ii) an applicable income tax treaty or provision in the Code provides for a lower rate of, or exemption from, withholding tax, so long as the non-U.S. holder has provided the applicable withholding agent with an IRS Form W-8BEN or Form W-8BEN-E (or other applicable U.S. nonresident withholding tax certification form) signed under penalties of perjury, claiming such lower rate of, or exemption from, withholding tax under such income tax treaty. To claim the benefit of an income tax treaty or to claim exemption from withholding because income is effectively connected with a U.S. trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS forms. These forms may be required to be updated periodically. Additionally, a non-U.S. holder who is claiming the benefits of an income tax treaty may be required to obtain a U.S. taxpayer identification number and provide certain documentary evidence issued by a non-U.S. governmental authority in order to prove residence in a foreign country.

In the case of a non-U.S. holder that is a corporation and that receives income that is effectively connected with the conduct of a U.S. trade or business, such income may also be subject to a branch profits tax (which is generally imposed on a non-U.S. corporation on the actual or deemed repatriation from the United States of earnings and profits attributable to a U.S. trade or business) at a 30% rate. The branch profits tax may not apply (or may apply at a reduced rate) if the non-U.S. holder is a qualified resident of a country with which the United States has an income tax treaty. To claim an exemption from withholding because interest on the Notes is effectively connected with a United States trade or business, a non-U.S. holder must timely provide the appropriate, properly executed U.S. nonresident withholding tax certification form (currently on IRS Form W-8ECI) to the applicable withholding agent.

Generally, a non-U.S. holder will not be subject to U.S. federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, provided that the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. holder (and, if required by an applicable income tax treaty, is not attributable to a United States permanent establishment maintained by the non-U.S. holder). Non-U.S. holders should consult their own tax advisors with regard to whether taxes will be imposed on capital gain in their individual circumstances.

A Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) generally will not be subject to the U.S. federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the Treasury Regulations thereunder or (ii) such individual's interest in the Notes is effectively connected with the individual's conduct of a U.S. trade or business.

***Information Reporting and Backup Withholding.*** A U.S. holder (other than an exempt recipient, including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding on, and to information reporting requirements with respect to, payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes. In general, if a non-corporate U.S. holder



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identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding at the applicable rate (currently, 24%) may apply.

In addition, backup withholding tax and certain other information reporting requirements apply to payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes held by a non-U.S. holder, unless an exemption applies. Backup withholding and information reporting will not apply to payments we make to a non-U.S. holder if such non-U.S. holder has provided to the applicable withholding agent under penalties of perjury the required certification of their non-U.S. person status as discussed above (and the applicable withholding agent does not have actual knowledge or reason to know that they are a U.S. person) or if the non-U.S. holder is an exempt recipient.

If a non-U.S. holder sells or redeems a Note through a U.S. broker or the U.S. office of a foreign broker, the proceeds from such sale or redemption will be subject to information reporting and backup withholding unless such non-U.S. holder provides a withholding certificate or other appropriate documentary evidence establishing that such non-U.S. holder is not a U.S. person to the broker and such broker does not have actual knowledge or reason to know that such non-U.S. holder is a U.S. person, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting and backup withholding. If a non-U.S. holder sells or redeems a Note through the foreign office of a broker who is a U.S. person or has certain enumerated connections with the United States, the proceeds from such sale or redemption will be subject to information reporting unless the non-U.S. holder provides to such broker a withholding certificate or other appropriate documentary evidence establishing that the non-U.S. holder is not a U.S. person and such broker does not have actual knowledge or reason to know that such evidence is false, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting. In circumstances where information reporting by the foreign office of such a broker is required, backup withholding will be required only if the broker has actual knowledge that the non-U.S. holder is a U.S. person.

You should consult your tax advisor regarding the qualification for an exemption from backup withholding and information reporting and the procedures for obtaining such an exemption, if applicable. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner generally would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is timely furnished to the IRS.

**Medicare Tax on Net Investment Income.** A tax of 3.8% will be imposed on certain net investment income (or undistributed net investment income, in the case of estates and trusts) received by U.S. holders with modified adjusted gross income above certain threshold amounts. Net investment income as defined for U.S. federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the Notes. U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Notes.

**FATCA.** Certain provisions of the Code, known as FATCA, generally impose a withholding tax of 30% on certain payments to certain foreign entities (including financial intermediaries) unless various U.S. information reporting and diligence requirements (that are in addition to, the requirement to deliver an applicable IRS Form W-8, as discussed above) and certain other requirements have been satisfied. FATCA withholding generally applies to payments of interest and, after December 31, 2018, payments of gross proceeds (including principal payments) from the sale, redemption, retirement or other disposition of debt securities that can produce U.S. source interest (such as Notes) (collectively, withholdable payments) to certain non-U.S. entities (including, in some circumstances, where such an entity is acting as an intermediary) that fail to comply with certain certification, identification, withholding and information reporting requirements imposed by FATCA. FATCA withholding taxes generally apply to all withholdable payments without regard to whether the beneficial owner of the payment would otherwise be entitled to

an exemption from withholding taxes pursuant to an applicable income tax treaty with the U.S. or under U.S. domestic law. If FATCA withholding taxes are imposed with respect to any payments of interest or proceeds made under the Notes, holders that are otherwise eligible for an exemption from, or reduction of, U.S. federal withholding taxes with respect to such interest or proceeds will be required to seek a credit or refund from the IRS in order to obtain the benefit of such exemption or reduction, if any. Beneficial owners of or prospective beneficial owners of the Notes may be required to provide additional information to enable the applicable withholding agent to

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determine whether withholding is required. Persons located in jurisdictions that have entered into an intergovernmental agreement with the U.S. to implement FATCA may be subject to different rules. Non-U.S. holders, and U.S. holders that expect to hold their Notes through non-U.S. entities should consult their own tax advisors regarding the effect, if any, of these withholding and reporting provisions.

**The preceding discussion of material U.S. federal income tax considerations is for general information only and is not tax advice. We urge you to consult your own tax advisor with respect to the particular tax consequences to you of an investment in the Notes, including the possible effect of any pending legislation or proposed regulations.**

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Ladenburg Thalmann & Co. Inc., or Ladenburg Thalmann, is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated \_\_\_\_\_, 2018, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the aggregate principal amount of Notes set forth opposite the underwriter's name.

| Underwriter  | Principal amount of Notes |
|--|---------------------------|
| Ladenburg Thalmann & Co. Inc.                            | \$ 13,150,000             |
| BB&T Capital Markets, a division of BB&T Securities, LLC | 4,500,000                 |
| Janney Montgomery Scott LLC                              | 2,812,500                 |
| B. Riley FBR, Inc.                                       | 3,712,500                 |
| Incapital LLC  | 8,825,000                 |
| Total  | \$ 33,000,000             |

The underwriting agreement provides that the obligations of the underwriters to purchase the Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Notes (other than those covered by the overallotment option described below) if they purchase any of the Notes.

The underwriters propose to offer some of the Notes directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Notes to dealers at the public offering price less a concession not to exceed \$0.50 per Note, or 2.00% of the aggregate principal amount of the Notes. The underwriting discount of \$0.78125 per Note is equal to 3.125% of the aggregate principal amount of the Notes. If all of the Notes are not sold at the offering price, the representative may change the public offering price and other selling terms. Investors must pay for any Notes purchased on or before November 13, 2018. The representative has advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The underwriters hold an option, exercisable for 30 days from the date of this prospectus, to purchase up to an additional \$4,950,000 aggregate principal amount of the Notes at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional Notes approximately proportionate to that underwriter's initial purchase commitment.

We have agreed that, for a period of 60 days from the date of this prospectus supplement, such party will not, without the prior written consent of Ladenburg Thalmann, on behalf of the underwriters, offer, pledge, sell, contract to sell or otherwise dispose of or agree to sell or otherwise dispose of, directly or indirectly or hedge any debt securities issued or guaranteed by us or any securities convertible into or exercisable or exchangeable for debt securities issued or guaranteed by us or file any registration statement under the Securities Act with respect to any of the foregoing. Ladenburg in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

We intend to list the Notes on The Nasdaq Global Select Market. We expect trading in the Notes on the The Nasdaq Global Select Market to begin within 30 days after the original issue date under the trading symbol WHFBZ. We offer

no assurances that an active trading market for the Notes will develop and continue after the offering.

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The following table shows the public offering price, the underwriting discounts and commissions to be paid to the underwriters and the proceeds, before expenses, to us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional Notes.

|  | Per Note | Without<br>Option | With<br>Option |
|--|----------|-------------------|----------------|
| Public offering price  | 100.0 %  | \$ 33,000,000     | \$ 37,950,000  |
| Underwriting discount (sales load) paid by us <sup>(1)</sup> | 3.125 %  | \$ 1,031,250      | \$ 1,185,938   |
| Estimated Proceeds to us, before expenses                    | 96.875 % | \$ 31,968,750     | \$ 36,764,063  |

(1) The expenses associated with the offering, including the underwriting discount, are paid by us and are ultimately borne by our shareholders.

We have agreed to reimburse the underwriters for the reasonable fees and disbursements of counsel up to \$10,000.

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$0.2 million.

We, our Investment Adviser and our Administrator have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the Notes. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the Notes as a result of any market-making activities undertaken by any underwriter. This prospectus supplement and the accompanying prospectus is to be used by any underwriter in connection with the offering and, during the period in which a prospectus supplement and accompanying prospectus must be delivered, with offers and sales of the Notes in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Ladenburg Thalmann, on behalf of the underwriters, may purchase and sell Notes in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of Notes in excess of the number of Notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of Notes made in an amount up to the number of Notes represented by the underwriters' overallotment option. In determining the source of Notes to close out the covered syndicate short position, the underwriters will consider, among other things, the price of Notes available for purchase in the open market as compared to the price at which they may purchase Notes through the overallotment option. Transactions to close out the covered syndicate short position involve either purchases of Notes in the open market after the distribution has been completed or the exercise of the overallotment option. The underwriters may also make naked short sales of Notes in excess of the overallotment option. The underwriters must close out any naked short position by purchasing Notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of Notes in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Ladenburg Thalmann repurchases Notes originally sold by that syndicate member in

order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of Notes. They may also cause the price of Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on The Nasdaq Global Select Market, or in the over-the-counter market, or otherwise. Trading is expected to

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commence on The Nasdaq Global Select Market within 30 days after the date of initial delivery of the Notes. If the underwriters commence any of these transactions, they may discontinue them at any time.

A prospectus supplement and accompanying prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of Notes to underwriters for sale to their online brokerage account holders. The representative will allocate Notes to underwriters that may make Internet distributions on the same basis as other allocations. In addition, Notes may be sold by the underwriters to securities dealers who resell Notes to online brokerage account holders.

We anticipate that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of our portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters may have performed investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they have received customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

The principal business address of Ladenburg Thalmann is Ladenburg Thalmann & Co. Inc., 277 Park Avenue, 12<sup>th</sup> floor, New York, New York 10172.

## **Other Jurisdictions**

The Notes offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

## **Potential Conflicts of Interest**

Certain of the underwriters and their respective affiliates have provided, and may in the future provide, various investment banking, commercial banking, financial advisory, brokerage and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees and expense reimbursement.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they received or will receive customary fees and expenses, including acting as underwriters for our securities offerings. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and such investment and securities activities may involve securities and/or instruments of our company. The underwriters and their respective affiliates may also make

investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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## **LEGAL MATTERS**

Certain legal matters regarding the securities offered hereby will be passed upon for us by Dechert LLP, Boston, Massachusetts. Dechert LLP also represents the Investment Adviser. Certain legal matters in connection with the offering will be passed upon for the underwriters by Blank Rome LLP, New York, New York.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Crowe LLP, an independent registered public accounting firm, has audited our consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, as set forth in its report elsewhere in this prospectus. We have included our consolidated financial statements in reliance on Crowe LLP's report, given on their authority as experts in accounting and auditing. Crowe LLP is located at 488 Madison Avenue, Floor 3, New York, New York 10022.

## **ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities, with respect to the Notes offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the Notes being offered by this prospectus supplement and the accompanying prospectus.

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. We maintain a website at [www.whitehorsefinance.com](http://www.whitehorsefinance.com) and make all of our annual, quarterly and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. You may also obtain such information by contacting us, in writing at: 1450 Brickell Avenue, 31<sup>st</sup> Floor, Miami, Florida 33131, Attention: Investor Relations, or by telephone at (305) 381-6999. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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TABLE OF CONTENTS**WhiteHorse Finance, Inc.****Consolidated Statements of Assets and Liabilities**  
**(in thousands, except share and per share data)**

|  | September 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| Investments, at fair value   |                                      |                      |
| Non-controlled/non-affiliate company investments   | \$435,932                            | \$404,434            |
| Non-controlled affiliate company investments   | 73,688                               | 36,246               |
| Total investments, at fair value (amortized cost \$482,145 and \$448,522, respectively)  | 509,620                              | 440,680              |
| Cash and cash equivalents  | 11,481                               | 35,219               |
| Restricted cash and cash equivalents   | 15,116                               | 3,717                |
| Interest receivable  | 4,506                                | 4,947                |
| Receivables from investments sold  | 599                                  | 783                  |
| Prepaid expenses and other receivables   | 521                                  | 185                  |
| Total assets   | \$541,843                            | \$485,531            |
| <b>Liabilities</b>   |                                      |                      |
| Debt   | \$195,708                            | \$182,122            |
| Distributions payable  | 7,294                                | 7,289                |
| Management and incentive fees payable  | 11,724                               | 7,848                |
| Payables for investments purchased   | 7,780                                |                      |
| Accounts payable and accrued expenses  | 742                                  | 701                  |
| Interest payable   | 899                                  | 527                  |
| Advances received from unfunded credit facilities  | 42                                   | 92                   |
| Total liabilities  | 224,189                              | 198,579              |
| <b>Commitments and contingencies (See Note 7)</b>  |                                      |                      |
| <b>Net assets</b>  |                                      |                      |
| Common stock, 20,546,032 and 20,531,948 shares issued and outstanding, par value \$0.001 per share, respectively, and 100,000,000 authorized | 21                                   | 20                   |
| Paid-in capital in excess of par   | 302,498                              | 302,292              |
| Accumulated overdistributed net investment income  | (11,696 )                            | (6,784 )             |
| Accumulated net realized losses on investments   | (644 )                               | (734 )               |
| Accumulated net unrealized appreciation (depreciation) on investments  | 27,475                               | (7,842 )             |
| Total net assets   | 317,654                              | 286,952              |
| <b>Total liabilities and total net assets</b>  | <b>\$541,843</b>                     | <b>\$485,531</b>     |
| Number of shares outstanding   | 20,546,032                           | 20,531,948           |
| Net asset value per share  | \$15.46                              | \$13.98              |

*See notes to the consolidated financial statements*

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

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

**operations**

**Per Common Share Data**

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

*See notes to the consolidated financial statements*

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

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

*See notes to the consolidated financial statements*



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

|   | Nine months ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2018                               | 2017      |
| <b>Cash flows from operating activities</b>   |                                    |           |
| Net increase in net assets resulting from operations  | \$52,369                           | \$25,960  |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities: |                                    |           |
| Paid-in-kind income   | (460 )                             | (540 )    |
| Net realized gains on investments   | (90 )                              | (156 )    |
| Net unrealized appreciation on investments  | (35,317 )                          | (6,396 )  |
| Accretion of discount   | (3,503 )                           | (2,323 )  |
| Amortization of deferred financing costs  | 933                                | 623       |
| Acquisition of investments  | (209,790)                          | (94,783 ) |
| Proceeds from principal payments and sales of portfolio investments   | 180,220                            | 80,589    |
| Net changes in operating assets and liabilities:  |                                    |           |
| Interest receivable   | 441                                | (647 )    |
| Prepaid expenses and other receivables  | (336 )                             | 818       |
| Receivables from investments sold   | 184                                | (681 )    |
| Payables for investments purchased  | 7,780                              | (995 )    |
| Management and incentive fees payable   | 3,876                              | 1,042     |
| Accounts payable and accrued expenses   | 41                                 | 546       |
| Interest payable  | 372                                | 8         |
| Advances received from unfunded credit facilities   | (50 )                              |           |
| Net cash (used in) provided by operating activities   | (3,330 )                           | 3,065     |
| <b>Cash flows from financing activities</b>   |                                    |           |
| Proceeds from sales of common stock, net of offering costs  |                                    | 30,287    |
| Borrowings  | 130,400                            | 102,567   |
| Repayments of debt  | (116,900)                          | (102,567) |
| Deferred financing costs  | (847 )                             | (1,033 )  |
| Distributions paid to common stockholders, net of distributions reinvested  | (21,662 )                          | (19,302 ) |
| Net cash (used in) provided by financing activities   | (9,009 )                           | 9,952     |
| <b>Net change in cash, cash equivalents and restricted cash</b>   | (12,339 )                          | 13,017    |
| <b>Cash, cash equivalents and restricted cash at beginning of period</b>  | 38,936                             | 28,894    |
| <b>Cash, cash equivalents and restricted cash at end of period</b>  | \$26,597                           | \$41,911  |
| <b>Supplemental disclosure of cash flow information:</b>  |                                    |           |
| Interest paid   | \$7,344                            | \$6,751   |

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



statements of cash flows:

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

*See notes to the consolidated financial statements*

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**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments (Unaudited)  
September 30, 2018  
*(in thousands)***

*See notes to the consolidated financial statements*

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**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments  
(Unaudited) (continued)  
September 30, 2018  
*(in thousands)***

*See notes to the consolidated financial statements*

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**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments  
(Unaudited) (continued)  
September 30, 2018  
*(in thousands)***

*See notes to the consolidated financial statements*

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**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments  
(Unaudited) (continued)  
September 30, 2018  
(in thousands)**

- Except as otherwise noted, all investments are non-controlled/non-affiliate investments as defined by the
- (1) Investment Company Act of 1940, as amended (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 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
- (2) Street Journal ( Prime or P ). The one, three and six-month LIBOR were 2.3%, 2.4% and 2.6%, respectively, as of September 30, 2018. The Prime was 5.25% as of September 30, 2018.
- (3) The interest rate is the all-in-rate including the current index and spread, the fixed rate, and the payment-in-kind ( PIK ) interest rate, as the case may be.
- (4) The investment or a portion of the investment does not provide collateral for the Company s credit facility.
- Not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any
- (5) non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of total assets. Qualifying assets represented 80%, of total assets as of the date of the consolidated schedule of investments.
- (6) Investment is a non-controlled/affiliate investment as defined by the 1940 Act.
- (7) The investment has an unfunded commitment in addition to any amounts presented in the consolidated schedule of investments as of September 30, 2018. See Note 7.
- (8) The investment is on non-accrual status.
- (9) The fair value of the investment was determined using observable inputs. See Note 4. There are no legal restrictions on sales of the investment.

*See notes to the consolidated financial statements*

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**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments  
(Unaudited) (continued)  
September 30, 2018  
(in thousands)**

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

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

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

*See notes to the consolidated financial statements*

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TABLE OF CONTENTS**WhiteHorse Finance, Inc.**

**Consolidated Schedule of Investments**  
**December 31, 2017**  
*(in thousands)*

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

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|   |                                 |        |          |        |        |        |      |
|---|---------------------------------|--------|----------|--------|--------|--------|------|
| Rural Media Group, Inc.                                     | (1.00%<br>Floor)                |        |          |        |        |        |      |
| First Lien Secured Term Loan                                | P+<br>5.75%<br>(1.00%<br>Floor) | 10.25% | 12/29/22 | 7,133  | 6,991  | 6,991  | 2.44 |
| First Lien Secured Delayed Draw Loan <sup>(8)</sup>         | P+<br>5.75%<br>(1.00%<br>Floor) | 10.25% | 12/29/22 |        |        |        |      |
|   |                                 |        |          | 27,133 | 26,592 | 26,591 | 9.27 |
| <u>Data Processing &amp; Outsourced Services</u>            |                                 |        |          |        |        |        |      |
| FPT Operating Company, LLC/<br>TLabs Operating Company, LLC |                                 |        |          |        |        |        |      |
| First Lien Secured Term Loan                                | L+<br>8.25%<br>(1.00%<br>Floor) | 9.61%  | 12/23/21 | 23,305 | 22,975 | 23,188 | 8.08 |
| <u>Department Stores</u>                                    |                                 |        |          |        |        |        |      |
| Mills Fleet Farm Group, LLC                                 |                                 |        |          |        |        |        |      |
| Second Lien Secured Term Loan                               | L+<br>9.75%<br>(1.00%<br>Floor) | 11.32% | 02/26/23 | 7,146  | 7,038  | 7,146  | 2.49 |
| <u>Diversified Support Services</u>                         |                                 |        |          |        |        |        |      |
| Account Control Technology Holdings,<br>Inc.                |                                 |        |          |        |        |        |      |
| First Lien Secured Term Loan <sup>(4)</sup>                 | L+<br>8.50%<br>(1.00%<br>Floor) | 9.88%  | 04/28/22 | 14,329 | 13,971 | 14,180 | 4.94 |
| Sitel Worldwide Corporation                                 |                                 |        |          |        |        |        |      |
| Second Lien Secured Term Loan                               | L+<br>9.50%<br>(1.00%<br>Floor) | 10.88% | 09/18/22 | 8,670  | 8,553  | 8,651  | 3.01 |
|   |                                 |        |          | 22,999 | 22,524 | 22,831 | 7.95 |
| <u>Environmental &amp; Facilities Services</u>              |                                 |        |          |        |        |        |      |
| Montrose Environmental Group, Inc.                          |                                 |        |          |        |        |        |      |
| Second Lien Secured Term Loan                               | L+<br>9.50%<br>(1.00%<br>Floor) | 10.88% | 09/30/20 | 8,500  | 8,345  |        |      |