

WhiteHorse Finance, Inc.
Form N-2
April 08, 2013

As filed with the Securities and Exchange Commission on April 8, 2013

Registration No.

**SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM N-2

**x REGISTRATION STATEMENT UNDER THE
SECURITIES ACT OF 1933**

o PRE-EFFECTIVE AMENDMENT NO.

o POST-EFFECTIVE AMENDMENT NO.

**REGISTRATION STATEMENT UNDER THE
INVESTMENT COMPANY ACT OF 1940**

WhiteHorse Finance, Inc.

(Exact name of Registrant as Specified in Charter)

**1450 Brickell Avenue, 31st Floor
Miami, Florida 33131**

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code:
(305) 381-6999

Richard Siegel
H.I.G. WhiteHorse Advisers, LLC
1450 Brickell Avenue, 31st Floor
Miami, Florida 33131
(305) 379-2322

(Name and Address of Agent for Service)

Copies of information to:

Thomas J. Friedmann
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Dechert LLP
1900 K Street, N.W.
Washington, DC 20006
Telephone: (202) 261-3300

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement. If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than Securities offered in connection with a dividend reinvestment plan, check the following box. ☐

It is proposed that this filing will become effective (check appropriate box):

☐

when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities being Registered	Proposed Maximum Aggregate Offering Price ⁽¹⁾	Amount of Registration Fee ⁽²⁾
[]% Senior Notes due []	\$ 1,000,000	\$ 136.40

(1) Includes the underwriters' option to purchase additional Notes.

(2) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated , 2013

WhiteHorse Finance, Inc.

\$

% Senior Notes due

We are a recently organized, 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. Our investment objective is to generate risk-adjusted returns primarily by originating secured loans to small-capitalization, or small-cap, companies across a broad range of industries, providing our stockholders with current income and capital appreciation.

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, LLC, an alternative asset manager founded in 1993 and focused on the small-cap market. H.I.G. Capital, LLC had approximately \$11 billion of capital under management as of December 31, 2012.

We are an emerging growth company within the meaning of the recently enacted Jumpstart Our Business Startups Act.

We are offering for sale \$ in aggregate principal amount of % senior notes due , which we refer to as the Notes. The Notes will mature on . We will pay interest on the Notes on , , and of each year, beginning on . We may redeem the Notes in whole or in part at any time or from time to time on or after 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 *pari passu* with future unsecured unsubordinated indebtedness issued by WhiteHorse Finance, Inc. We intend to list the Notes on under the symbol , and we expect trading in the Notes on to begin within 30 days of the original issue date. 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.

This prospectus contains important information you should know before investing in our securities. 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 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, 31st 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, nor any other regulatory body, has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Investing in our securities involves a high degree of risk, including credit risk and the risk of the use of leverage. Before buying any of our Notes, you should read the discussion of the material risks of investing in us, including the risk of leverage, in Risk Factors beginning on page 13 of this prospectus.

	Per Note	Total
Public offering price	%	\$
Underwriting discount and commission	%	\$
Proceeds, before expenses, to us ⁽¹⁾	%	\$

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

The underwriters may also exercise their option to purchase up to an additional \$ 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 to cover over-allotments, if any. If the underwriters exercise this option in full, the total underwriting discount will be \$, and total proceeds, before expenses, will be \$.

The public offering price set forth above does not include accrued interest, if any. Interest on the Notes will accrue from , 2013.

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 , 2013.

The date of this prospectus is , 2013.

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You should rely only on the information contained in this 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 is accurate only as of the date on the front of this prospectus. Our business, financial condition and prospects may have changed since that date. To the extent required by applicable law, we will update this prospectus during the offering period to reflect material changes to the disclosure this prospectus.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. Except where the context suggests otherwise, the terms:

we, us, our and WhiteHorse Finance refer to WhiteHorse Finance, Inc., a Delaware corporation, and its consolidated subsidiaries, WhiteHorse Warehouse (as defined below) and Bayside Financing S.A.R.L.;

H.I.G. Capital refers, 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;

Initial Members refer, collectively, to H.I.G. Bayside Debt & LBO Fund II, L.P. and H.I.G. Bayside Loan Opportunity Fund II, L.P.;

Unsecured Term Loan refers to the \$90 million unsecured term loan between us, H.I.G. Bayside Loan Opportunity Fund II, L.P., as guarantor, and Citibank, N.A., as sole lead arranger;

Credit Facility refers to the \$150 million secured revolving credit facility between WhiteHorse Warehouse, as borrower, and the Lender (as defined below), for which Natixis, New York Branch, provides liquidity support, and the Lender refers, collectively, to the asset-backed commercial paper conduit, together with any additional lenders that may join the Credit Facility in the future;

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

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; and

the investment committee refers to our investment adviser's investment committee.

On December 3, 2012, we converted from a Delaware limited liability company into a Delaware corporation. In this conversion, WhiteHorse Finance, Inc. succeeded the business of WhiteHorse Finance, LLC, and the members of WhiteHorse Finance, LLC became stockholders of WhiteHorse Finance, Inc. In this prospectus, we refer to these transactions as the BDC Conversion, and, where applicable, shares refer to our units prior to the BDC Conversion and to shares of common stock in our corporation afterward.

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.

We also intend to elect to be treated as a regulated investment company, or RIC, for tax purposes, under the U.S. Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2012.

We are a direct lender targeting debt investments in privately held, small-cap companies located in the United States. We define the small-cap market as those companies with enterprise values between \$50 million and \$350 million. Our investment objective is to generate attractive risk-adjusted returns primarily by originating and investing in senior secured loans, including first lien and second lien facilities, to performing small-cap companies across a broad range

of industries that typically carry a floating interest rate based on the London Interbank Offered Rate, or LIBOR, and have a term of three-to-six years. While we focus principally on originating senior secured loans to small-cap companies, we may also 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

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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.

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.

In December 2012, we priced our initial public offering, or the IPO, selling 6,666,667 million shares at a public offering price of \$15.00 per share. Concurrent with the IPO, certain persons affiliated with us or our investment adviser purchased an additional 472,673 shares through a private placement transaction exempt from registration under the Securities Act of 1933, as amended, or the Securities Act, at \$15.00 per share. In this prospectus, we refer to this private placement transaction as the Concurrent Private Placement. As a result of the IPO and the Concurrent Private Placement, we received net proceeds of approximately \$92.5 million.

As of December 31, 2012, our investment portfolio consisted of senior secured loans across eight positions with an aggregate fair value of \$180.5 million and a principal balance outstanding of \$181.6 million. As of that date, the majority of our portfolio comprised senior secured loans to small-cap borrowers. As of December 31, 2012, our portfolio had an average investment size of \$22.7 million, with investment sizes ranging from \$1.4 million to \$60.9 million, a weighted average unlevered cash current yield of 14.2%, and a yield to maturity of 17.9%, with yields to maturity ranging from 9.7% to 30.4%. Yield to maturity is calculated based on the cost of purchased investments or the fair value of contributed investments, in each case on the date of purchase or contribution, as applicable; and uses the relevant published LIBOR curve as of such date; and assumes (1) all scheduled interest payments are made as scheduled and (2) each investment is held to maturity with no prepayments or losses and is repaid at par upon maturity. Also as of December 31, 2012, the weighted average remaining term of our debt investments was approximately 2.3 years, with remaining terms ranging from 0.5 years to 4.0 years. However, we can offer no assurance that the cash current yield or yield to maturity on our investments will remain at levels equivalent to our existing investment portfolio. These yield calculations reflect gross investment returns with respect to our investments as of December 31, 2012 and do not reflect any reduction of such returns to reflect the corresponding expenses that we incurred during the fiscal period ending on such date.

H.I.G. Capital

H.I.G. Capital is one of the leading global alternative asset managers focused on the small-cap market. H.I.G. Capital was founded in 1993 and, over the past 19 years, has grown by continually enhancing its strategic investment capabilities into additional asset classes within the small-cap market. As of December 31, 2012, H.I.G. Capital managed approximately \$11 billion of capital through a number of buyout, credit-oriented and growth capital funds, each of which is focused on the small-cap market. As of such date, H.I.G. Capital operated through domestic offices in Miami, New York, Boston, San Francisco, Dallas, Atlanta and Chicago and international offices in London, Hamburg, Paris, Madrid and Rio de Janeiro, with approximately 260 investment professionals with the operating, strategy and investing experience necessary to execute the firm's value-added investment strategy. H.I.G. Capital's investment professionals share a common investment philosophy built around a highly analytical, private equity-like framework of rigorous business assessment, extensive due diligence and a disciplined risk valuation methodology that guides investment decisions. H.I.G. Capital has built an extensive and proprietary network of informal and unconventional deal sources in the small-cap business community consisting of accountants, attorneys, and other advisors who have access to small-cap companies. We believe that H.I.G. Capital, as an experienced small-cap investor, has a demonstrated ability to identify, source, analyze, invest and monitor investments in the small-cap

market.

Our Investment Adviser

Our investment activities are managed by our investment adviser, WhiteHorse Advisers. WhiteHorse Advisers is an affiliate of H.I.G. Capital and is responsible for sourcing potential investments, conducting research and diligence on prospective investments and equity sponsors, analyzing investment opportunities, structuring our investments and monitoring our investments in portfolio companies on an ongoing basis. WhiteHorse Advisers has also agreed to provide us with access to personnel and an investment committee.

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WhiteHorse Advisers was organized in May 2012 as a Delaware limited liability company and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. Under our investment advisory agreement with WhiteHorse Advisers, or the Investment Advisory Agreement, we pay our investment adviser a base management fee and an incentive fee for its services. See The Adviser and the Administrator Investment Advisory Agreement for a discussion of the base management fee and incentive fee that we have agreed to pay our investment adviser.

WhiteHorse Advisers has entered into 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 WhiteHorse Advisers and to provide access to its senior investment personnel to enable WhiteHorse Advisers to perform all of its obligations under the Investment Advisory Agreement. We believe that the Staffing Agreement provides our investment adviser with access to deal flow generated by H.I.G. Capital in the ordinary course of business and commits certain members of H.I.G. Capital's investment committee to serve as members of WhiteHorse Advisers investment committee, or the investment committee. In addition, under the Staffing Agreement, H.I.G. Capital is obligated to allocate investment opportunities among its managed affiliates fairly and equitably over time in accordance with its allocation policy. See Certain Relationships Investment Advisory Agreement. Through the Staffing Agreement, our investment adviser takes advantage of the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of H.I.G. Capital's senior investment professionals.

An affiliate of our adviser, WhiteHorse Administration, provides administrative services necessary for us to operate. See The Adviser and the Administrator Administration Agreement for a discussion of the fees and expenses for which we are required to reimburse WhiteHorse Administration.

Market Opportunity

We believe that market inefficiencies and an imbalance between the supply of, and demand for, capital in the small-cap credit market creates an attractive investment opportunity through the origination of primary loans for the following reasons:

Specialized Lending Requirements. In our experience, lending to small-cap companies requires more rigorous due diligence and underwriting processes than lending to larger companies. Small-cap companies typically have fewer management resources to dedicate to the borrowing process, and often receive no assistance from financial advisors in this regard. Because of these and other specialized lending requirements, only a limited segment of the lending community has historically served small-cap borrowers.

Reduced Lending by Commercial Banks. Recent regulatory changes and continued ownership of legacy assets have significantly curtailed banks' lending capacities. In response, we believe that many commercial banks have deemphasized their service and product offerings to small-cap companies in favor of lending to larger customers. We believe that the relative decline in competition from commercial banks will drive a higher volume of deal flow to us.

Reduced Credit Supply from Non-Bank Lenders. We believe lending to small-cap companies by hedge funds and other non-bank lenders is constrained, as many such lenders have gone out of business, exited this market or are winding down. Along with reduced lending by commercial banks, we believe that reduced credit supply from non-bank lenders provides a promising environment for originating loans to small-cap companies.

Significant Demand for Credit. We believe that demand for debt financing from small-cap 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 combination of strong demand by small-cap companies and the reduced supply of credit described above should increase lending opportunities for us.

Inefficient Market. We believe there are a number of inefficiencies in the small-cap credit market that will allow us to achieve superior risk-adjusted returns relative to other types of loans. Unlike larger companies, small-cap 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 small-cap companies

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enhance protections and reduce or eliminate intercreditor issues. In addition, small-cap lenders face less competition than lenders to larger companies. As a result, small-cap lenders frequently have greater flexibility in structuring favorable transactions.

Competitive Strengths

We believe we are well-positioned to take advantage of opportunities in the small-cap market due the following competitive strengths:

Leading Small-Cap Market Position. H.I.G. Capital is one of the leading global alternative asset managers focused on the small-cap market. With approximately \$11 billion of capital and 19 years of investment experience focused primarily on small-cap companies as of December 31, 2012, H.I.G. Capital believes it has a specialized knowledge of the small-cap marketplace and expertise in evaluating the issues and opportunities facing small-cap companies throughout economic cycles.

Large and Experienced Team with Substantial Resources. Our investment adviser has access through the Staffing Agreement to the resources and expertise of H.I.G. Capital's approximately 390 employees in twelve offices across the United States, Europe and South America as of December 31, 2012. As of such date, H.I.G. Capital had approximately 260 experienced investment professionals, including 78 professionals dedicated to debt investing. We believe that the quality of these resources provides a significant advantage and will contribute to the strength of our business.

Extensive Deal Sourcing Infrastructure. Given the inefficiencies of the small-cap market, finding smaller companies that represent attractive debt investment opportunities requires a different sourcing network than that for larger companies. Over the past 19 years, H.I.G. Capital has built an extensive and proprietary network of deal sources in the small-cap market consisting of accountants, attorneys and other advisors who have access to these companies. Each of H.I.G. Capital's approximately 260 investment professionals is involved in deal sourcing and our in-house business development group of approximately 15 deal sourcing professionals further enhances 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 December 31, 2012, H.I.G. Capital's credit platform managed over \$5 billion of capital across multiple investment funds supported by 78 dedicated credit investment professionals. These investment professionals bring a depth of experience across a broad range of transaction types, including primary loan originations and distressed debt investments. We believe this experience will provide us with expertise in credit documentation, loan structuring and restructuring negotiations to help 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 19 years of investment experience, H.I.G. Capital has developed a disciplined investment process entailing intensive bottom-up fundamental analysis which we utilize in order to generate attractive risk-adjusted returns while preserving downside protection. 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 December 31, 2012.

Investment Strategy

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

Our typical investment size ranges from \$10 million to \$50 million. 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. We focus principally on originating senior secured loans to performing privately-held small-cap companies across a broad range of industries that typically carry a floating interest rate based on LIBOR and have a term of three to six years. While we focus principally on originating senior secured loans to small-cap companies, including first lien and second lien facilities, we may also opportunistically make investments at other levels of a company's capital

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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, 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.

Organizational Structure

The following shows an organizational chart reflecting our relationship with our investment adviser and administrator as of the date of this prospectus:

Recent Developments

On January 8, 2013, we paid our first quarterly distribution of \$0.108 per share.

On April 3, 2013, we paid a distribution of \$0.355 per share in respect to the quarter ending March 31, 2013.

Operating and Regulatory Structure

Our investment activities are managed by WhiteHorse Advisers and supervised by our board, a majority of whom are independent of us, H.I.G. Capital, WhiteHorse Advisers and their respective affiliates.

As a business development company, we are required to comply with certain regulatory requirements. For example, some existing funds controlled by our affiliates and affiliated funds formed in the future and managed by our investment adviser may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. If our investment adviser undertakes to manage a new fund in the future, we do not intend to invest in any portfolio company in which that fund has a pre-existing investment, although we may co-invest with such affiliate on a concurrent basis, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. See Regulation for more information.

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Also, as a business development company, we are generally prohibited from acquiring assets other than qualifying assets unless, after giving effect to any acquisition, at least 70% of our total assets are qualifying assets. Qualifying assets generally include securities of eligible portfolio companies, cash, cash equivalents, U.S. government securities and high-quality debt instruments maturing in one year or less from the time of investments. Under the rules of the 1940 Act, eligible portfolio companies include:

private U.S. operating companies;
public U.S. operating companies whose securities are not listed on a national securities exchange (e.g., the New York Stock Exchange) or registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act; and
public U.S. operating companies having a market capitalization of less than \$250 million.
Public U.S. operating companies whose securities are quoted on the over-the-counter bulletin board and through Pink Sheets LLC are not listed on a national securities exchange and therefore are eligible portfolio companies. See Regulation Qualifying Assets.

We intend to elect to be treated for U.S. federal income tax purposes as a RIC under the Code. In order to be treated as a RIC, we must satisfy certain source of income, asset diversification and distribution requirements. See Tax Matters.

Use of Leverage

As a business development company, we are permitted under the 1940 Act to borrow funds to finance a portion of our investments. As of December 31, 2012, we had \$141.3 million of debt outstanding under the Credit Facility and the Unsecured Term Loan. In addition to the Credit Facility and the Unsecured Term Loan, we expect to use leverage to finance a portion of our investments in the future, consistent with the rules and regulations under the 1940 Act. As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. If this ratio declines below 200%, we cannot incur additional debt and could be required to sell a portion of our investments to repay debt when it is disadvantageous to do so.

We expect to incur leverage through either a traditional credit facility, a private securitization vehicle or the issuance of debt securities, rather than through an issuance of preferred stock. We may grant a security interest in up to 100% of our assets under the terms of any debt instruments into which we enter. In addition, under the terms of any credit facility or other debt instruments into which we enter, we may be required to use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to other uses.

The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. In the future, we may borrow from, and issue senior securities to, banks, insurance companies and other lenders. If the value of our assets decreases, leverage would cause net asset value to decline more sharply than it otherwise would have had we not leveraged, thereby magnifying losses or eliminating our equity stake in a leveraged investment. See Risk Factors Risks Relating to our Business and Structure We intend to finance our investments with borrowed money, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Conflicts of Interest

We are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into certain joint transactions (which could include investments in the same portfolio company) with such affiliates, absent the prior approval of our independent directors. Our investment adviser and its affiliates, including persons that control, or are under common control with, us or our investment adviser, are also considered to be our affiliates under the 1940 Act, and we are generally prohibited from buying or selling any

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security from or to, or entering into joint transactions with, such affiliates without prior approval of our independent directors and, in some cases, exemptive relief from the SEC.

We may, however, invest alongside our investment adviser's and its affiliates' other clients in certain circumstances where doing so is consistent with applicable law and SEC staff interpretations. For example, we may invest alongside such accounts consistent with guidance promulgated by the staff of the SEC permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that our investment adviser, acting on our behalf and on behalf of other clients, negotiates no term other than price. We may also invest alongside our investment adviser's other clients as otherwise permissible under regulatory guidance, applicable regulations and the allocation policy of H.I.G. Capital and our investment adviser. Under this allocation policy, a calculation based on the type of investment would be applied to determine the amount of each opportunity to be allocated to us. This allocation policy would be periodically reviewed by our investment adviser and approved by our independent directors. We expect that these determinations will be made similarly for other accounts sponsored or managed by our investment adviser and its affiliates. If sufficient securities or loan amounts are available to satisfy our and each such account's proposed demand, we expect that the opportunity will be allocated in accordance with our investment adviser's pre-transaction determination. Where there is an insufficient amount of an investment opportunity to satisfy us and other accounts sponsored or managed by our investment adviser or its affiliates, the allocation policy further provides that allocations among us and such other accounts will generally be made pro rata based on the amount that each such party would have invested if sufficient securities or loan amounts were available. However, we can offer no assurance that investment opportunities will be allocated to us fairly or equitably in the short-term or over time.

In situations where co-investment with other accounts managed by our investment adviser or its affiliates is not permitted or appropriate, H.I.G. Capital and our investment adviser will need to decide which client will proceed with the investment. Our investment adviser's allocation policy provides, in such circumstances, for investments to be allocated on a random or rotational basis to assure that all clients have fair and equitable access to such investment opportunities. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which a fund managed by our investment adviser or its affiliates has previously invested. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. These restrictions may limit the scope of investment opportunities that would otherwise be available to us.

See Risk Factors Risks Relating to our Business and Structure There are significant potential conflicts of interest that could affect our investment returns and Certain Relationships.

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.

We have a limited operating history.

The lack of experience of our investment adviser in operating under the constraints imposed on us as a business development company and RIC may hinder the achievement of our investment objectives.