

WhiteHorse Finance, Inc.
Form N-2/A
July 11, 2013

As filed with the Securities and Exchange Commission on July 10, 2013

Registration No. 333-187805

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

FORM N-2

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

PRE-EFFECTIVE AMENDMENT NO. 3

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
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(Name and Address of Agent for Service)

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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	Amount of
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	Maximum Aggregate Offering Price ⁽¹⁾	Registration Fee ⁽²⁾⁽³⁾
% Senior Notes due	\$50,000,000	\$6,820.00

(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.

(3) Includes amount previously paid.

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.

\$30,000,000

% 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 \$12 billion of capital under management as of March 31, 2013.

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

We are offering for sale \$30,000,000 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 March 31, June 30, September 30 and December 31 of each year, beginning on September 30, 2013. 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 equally in right of payment with existing and future unsecured, unsubordinated indebtedness issued by WhiteHorse Finance, Inc. The Notes have been approved for quotation on The NASDAQ Global Select Market, subject to official notice of issuance, under the symbol WHFBL . 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. 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. We do not intend to have the Notes rated. 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.

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 \$0.3 million (or \$0.25 per Note) in expenses in connection with this (1) offering, including the fees 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 \$4,500,000 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 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.

Joint Book-Running Managers

Deutsche Bank Securities

Keefe, Bruyette & Woods
A Stifel Company
Co-Lead Managers

Citigroup

Barclays

BB&T Capital Markets
Co-Managers

Sterne Agee

Wunderlich Securities

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, as amended, 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 elected 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 \$99.6 million.

As of March 31, 2013, our investment portfolio consisted of senior secured loans across 14 positions with an aggregate fair value of \$233.2 million and a principal balance outstanding of \$235.2 million. As of that date, the majority of our portfolio comprised senior secured loans to small-cap borrowers. As of March 31, 2013, our portfolio had an average investment size of \$16.8 million, with investment sizes ranging from \$1.0 million to \$60.9 million, a weighted average unlevered cash current yield of 14.6%, and a yield to maturity of 16.6%, with yields to maturity ranging from 8.2% 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 March 31, 2013, the weighted average remaining term of our debt investments was approximately 2.5 years, with remaining terms ranging from 0.3 years to 5.3 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 March 31, 2013 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 March 31, 2013, H.I.G. Capital managed approximately \$12 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 \$12 billion of capital and 19 years of investment experience focused primarily on small-cap companies as of March 31, 2013, 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 over 390 employees in twelve offices across the United States, Europe and South America as of March 31, 2013. 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 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 March 31, 2013, 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 March 31, 2013.

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 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

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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 May 22, 2013, we declared a distribution of \$0.355 per share in respect to the quarter ending June 30, 2013. The distribution will be payable on July 3, 2013 to stockholders of record as of June 21, 2013.

On July 9, 2013, we entered into an agreement with the lenders thereto, which amended the terms of the Unsecured Term Loan to subordinate the Unsecured Term Loan to the Notes in right of payment.

Ratio of Earnings to Fixed Charges

For the three months ended March 31, 2013 and the year ended December 31, 2012, our ratios of earnings to fixed charges were 2.6 and 7.2, respectively. See [Ratio of Earnings to Fixed Charges](#) for more information.

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 elected 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 Certain U.S. Federal Income Tax Considerations.

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 March 31, 2013 and 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 related to the investment committee, our investment adviser and its affiliates, including their obligations to other clients, 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. 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 Indenture 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. We do not intend to have the Notes rated. If a rating agency assigns the Notes a non-investment grade rating or the Notes are not rated, the Notes may be subject

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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.

There are significant potential conflicts of interest related to the investment committee, our investment adviser and its affiliates, including their obligations to other clients, that could affect our investment returns.

We are subject to risks associated with small-cap companies.

See Risk Factors beginning on page 13 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, 31st Floor, Miami, Florida 33131, telephone number (305) 381-6999. Our corporate website is located at www.whitehorsefinance.com. Information on our website is not incorporated into or a part of this prospectus.

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SPECIFIC TERMS OF THE NOTES AND THE OFFERING

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 this prospectus under the heading "Description of Our Notes" before investing in the Notes. Capitalized terms used in this prospectus and not otherwise defined shall have the meanings ascribed to them in this prospectus or in the indenture governing the Notes.

Issuer	WhiteHorse Finance, Inc.
Title of the securities	% Senior Notes due
Initial aggregate principal amount being offered	\$30,000,000
Over-allotment option	
The underwriters may also purchase from us up to an additional \$ _____ aggregate principal amount of Notes to cover over-allotments, if any, within 30 days of the date of this prospectus.	
Initial public offering price	100% of the aggregate principal amount.
Principal payable at maturity	
100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in New York City as we may designate.	
Use of proceeds	
We expect to use the net proceeds from selling the senior notes pursuant to this prospectus to reduce outstanding obligations under our Unsecured Term Loan. See "Use of Proceeds."	
Type of Note	Fixed rate note
Listing	
The Notes have been approved for quotation on The NASDAQ Global Select Market, subject to official notice of issuance, under the symbol "WHFBL".	
Interest rate	% per year
Day count basis	360-day year of twelve 30-day months,
Original issue date	, 2013
Stated maturity date	, 2013
Date interest starts accruing	, 2013
Interest payment dates	
Every March 31, June 30, September 30, and December 31, commencing September 30, 2013. 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 _____, 2013 to, but excluding September 30, 2013, 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.

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Regular record dates for interest

Every March 15, June 15, September 15, and December 15, commencing September 15, 2013; 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 (as described under Description of Our Notes Ranking of Notes);

-
senior to our Unsecured Term Loan, which, by its terms, is expressly subordinated in right of payment to the 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 our Credit Facility (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 , 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

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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.

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 an indenture dated as of _____, 2013, or the Indenture, between us and American Stock Transfer & Trust Company, LLC, 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,

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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. See Risk Factors Risks Relating to this Offering Pending legislation may allow us to incur additional debt. ; 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.

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.

Global Clearance and Settlement Procedures

Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and 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.

Available information

We have filed with the SEC a registration statement on Form N-2 under the Securities Act, which contains additional information about us and the Notes being offered by this prospectus. We file periodic reports, proxy statements and other information with the SEC. This information is available at the SEC's public reference room in Washington, D.C. and on the SEC's website at <http://www.sec.gov>.

We maintain a website at www.whitehorsefinance.com and intend to make all of our annual, quarterly and current reports, proxy statements and other information available, free of charge, on or through our website. You may also obtain such information by contacting us, in writing at: WhiteHorse Finance, 1450 Brickell Avenue, 31st Floor, Miami, Florida 33131, Attention: Investor Relations, or by telephone at (305) 381-6999.

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RISK FACTORS

Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our securities. The risks set out below 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 our Business and Structure

We have a limited operating history.

We were organized in December 2011 and closed our IPO on December 10, 2012. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives and that the value of your investment could decline substantially. We anticipate that it will take us six to 12 months following the date of our IPO to invest substantially all of the net proceeds of the IPO and the Concurrent Private Placement in accordance with our investment objectives and strategies, in part because privately negotiated investments in illiquid securities or private small-cap companies require substantial due diligence and structuring. During this period, we intend to invest the remaining net proceeds of the IPO and the Concurrent Private Placement in short-term investments, such as cash and cash equivalents. We expect we will earn yields substantially lower than the interest income that we anticipate receiving from investments in the future. As a result, any distributions we make during this period may be substantially lower than the distributions that we expect to pay when our portfolio is fully invested.

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.

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs that do not apply to other investment vehicles managed by H.I.G. Capital and its affiliates. Business development companies are required, for example, to invest at least 70% of their total assets primarily in securities of U.S. private or thinly traded public companies, cash, cash equivalents, U.S. government securities and other high-quality debt instruments that mature in one year or less from the date of investment. Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as qualifying assets only if such issuer has a common equity market capitalization that is less than \$250 million at the time of such investment. Moreover, qualification for taxation as a RIC requires satisfaction of source-of-income, asset diversification and distribution requirements. While our investment adviser has experience investing in securities of U.S. private or thinly traded public companies, neither we nor our investment adviser has any experience operating under these constraints, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objectives. As a result, we cannot assure you that our investment adviser will be able to operate our business under these constraints. Any failure to do so could subject us to enforcement action by the SEC, cause us to fail to satisfy the requirements associated with RIC status, cause us to fail the 70% eligible portfolio company test described above or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to business development companies and possibly lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inopportune times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it may be difficult to dispose of such investments on favorable terms, or at all. For example, we may have difficulty in finding a buyer, and, even if we do find a buyer, we may have to sell the investments for less than we could have received if we were able to sell them at a later time.

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We depend upon key personnel of H.I.G. Capital, our investment adviser and its affiliates.

We are an externally managed business development company, and therefore we do not have any internal management capacity or employees. We depend on the diligence, skill and network of business contacts of our investment adviser to achieve our investment objectives. We expect that our investment adviser will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the Investment Advisory Agreement.

Our investment adviser is an affiliate of H.I.G. Capital and will, in turn, depend upon access to the investment professionals and other resources of H.I.G. Capital and its affiliates to fulfill its obligations to us under the Investment Advisory Agreement. WhiteHorse Advisers will also depend on H.I.G. Capital to obtain access to deal flow generated by the professionals of H.I.G. Capital. Under the Staffing Agreement, an affiliate of H.I.G. Capital has agreed to provide our investment adviser with the resources necessary to fulfill these obligations. The Staffing Agreement provides that the affiliate will make available to WhiteHorse Advisers experienced investment professionals and access to the senior investment personnel of H.I.G. Capital for purposes of evaluating, negotiating, structuring, closing and monitoring our investments. We are not a party to the Staffing Agreement and cannot assure you that the affiliate of H.I.G. Capital will fulfill its obligations under the agreement. If the affiliate fails to perform, we cannot assure you that our investment adviser will enforce the Staffing Agreement, that such agreement will not be terminated by either party or that we will continue to have access to the investment professionals of H.I.G. Capital and its affiliates or their market knowledge and deal flow.

We depend upon the senior professionals of H.I.G. Capital to maintain relationships with sources of investment opportunities, and we intend to rely to a significant extent upon these relationships. We cannot assure you that these individuals will continue to provide investment advice to us. If these individuals, including the members of the investment committee, are no longer employed by our investment adviser or an affiliate of our investment adviser, or fail to maintain existing relationships or develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom the senior professionals of H.I.G. Capital have relationships are not obligated to provide us with investment opportunities, and we can offer no assurance that these relationships will generate investment opportunities for us in the future.

Our business model depends to a significant extent upon H.I.G. Capital's proprietary deal-flow network of informal and unconventional potential deal sources in the small-cap business community. Any inability of H.I.G. Capital to maintain or develop this network, or the failure of this network to generate investment opportunities, could adversely affect our business.

We depend upon H.I.G. Capital to maintain its extensive, proprietary small-cap deal sourcing network, and we expect to rely to a significant extent upon this network to provide us with investment opportunities. This network of informal and unconventional deal sources in the small-cap business community includes accountants, attorneys, brokers, insurance agents, consultants and financial advisors who have access to small-cap companies. If H.I.G. Capital fails to maintain such sourcing network, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom H.I.G. Capital has relationships are not obligated to provide us with investment opportunities, and we can offer no assurance that these relationships will generate investment opportunities for us in the future.

If our investment adviser is unable to manage our investments effectively, we may be unable to achieve our investment objectives.

Our ability to achieve our investment objectives will depend on our ability to manage our business and to grow our business. This will depend, in turn, on our investment adviser's ability to identify, invest in and monitor companies that meet our investment criteria. This, in turn, will depend on the ability of H.I.G. Capital to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objectives on a cost-effective basis will depend upon our investment adviser's execution of our investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. Our investment adviser has substantial responsibilities under the Investment

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Advisory Agreement. The personnel of H.I.G. Capital who are made available to our investment adviser under the Staffing Agreement are engaged in other business activities and may be called upon to provide managerial assistance to our portfolio companies, either of which activities could distract them, divert their time and attention such that they could no longer dedicate a significant portion of their time to our businesses or otherwise slow our rate of investment.

Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not replicate the historical results achieved by other entities managed or sponsored by members of the investment committee or by H.I.G. Capital or its affiliates.

Our primary focus in making investments generally differs from that of existing investment funds, accounts or other investment vehicles that are or have been managed by members of the investment committee or sponsored by H.I.G.

Capital or its affiliates. Past performance is not a guarantee of future results, and there can be no assurance that we will achieve comparable results. In addition, investors in our securities are not acquiring an interest in any such investment funds, accounts or other investment vehicles that are or have been managed by members of the investment committee or sponsored by H.I.G. Capital or its affiliates. While we may consider co-investing in portfolio investments with other investment funds, accounts or investment vehicles managed by members of the investment committee or sponsored by H.I.G. Capital or its affiliates, our ability to make such investments will be limited by the 1940 Act, including, potentially, requiring the prior approval of our independent directors and, in some cases, exemptive relief from the SEC. We have submitted an application for exemptive relief in relation to certain joint transactions. We can offer no assurance that we will obtain such approvals or exemptive relief or develop opportunities that comply with such limitations. We also cannot assure you that we will replicate the historical results achieved by members of the investment committee, and we caution you that our investment returns could be substantially lower than the returns achieved by them in prior periods. Additionally, all or a portion of the prior results may have been achieved in particular market conditions which may never be repeated.

The competitive market for investment opportunities in which we operate may limit our investment opportunities.

A number of entities compete with us to make the types of investments that we make in small-cap companies. We compete with public and private funds, including other business development companies, commercial and investment banks, commercial financing companies, specialty finance companies, hedge funds and, to the extent they provide an alternative form of financing, private equity funds. Some of our potential competitors are larger and have greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us as a business development company. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Participants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We do not seek to compete primarily based on

We may not replicate the historical results achieved by other entities managed or sponsored by members of the investment committee or by H.I.G. Capital or its affiliates.

the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may reduce our net investment income and increase our risk of loss.

We are currently operating in a period of global capital markets disruption and instability.

Since mid-2007, the global capital markets have experienced volatility and disruption, and the U.S. economy was in a recession for several consecutive calendar quarters during this period. Disruptions in the capital markets have resulted in increased spreads between the yields realized on higher risk securities and

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those realized on securities perceived to be risk-free, resulting in illiquidity in parts of the capital markets. A prolonged period of market illiquidity or uncertainty regarding U.S. government spending levels, including negotiation of federal spending cuts, and implementation of global fiscal austerity measures may have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions, including future recessions, also could affect our investment valuations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us or our portfolio companies. These events could limit our investment originations, limit our ability to grow and negatively impact our operating results.

We do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objectives, but we cannot assure you we will be successful.

We have elected to be treated as a RIC. If we are unable to qualify as a RIC, we will be subject to corporate-level income tax.

We have elected to be treated as a RIC under the Code. To qualify as a RIC under the Code and obtain RIC tax benefits, we must meet certain income source, asset diversification and annual distribution requirements. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. To the extent we use preferred stock or debt financing in the future, we may be subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under preferred stock or loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax benefits. If we fail to make sufficient distributions, as a result of contractual restrictions in the Credit Facility, the Unsecured Term Loan or otherwise, we may become subject to corporate-level income tax. To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because we anticipate that most of our investments will be in the debt of relatively illiquid small-cap private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to qualify for RIC tax benefits for any reason and remain or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our investors.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

As a RIC, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. For U.S. federal income tax purposes, we may be required to include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan, or PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to our overall investment assets, and increases in loan balances as a result of PIK interest would be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we do not receive in cash. In addition, after the expiration of the reinvestment period under the Credit Facility on September 27, 2014, we must use asset sales and repayment proceeds, if any (including any realized gains), to pay down any outstanding debt and certain other amounts prior to distributing cash from WhiteHorse Warehouse to us. Also, if we do not meet certain coverage tests under the Credit Facility or if an

event of default and acceleration occurs under the Credit Facility, then income and capital gains which would otherwise be distributable by us to our stockholders could be diverted to pay down debt or other amounts due under the Credit Facility.

As a result, we may have difficulty meeting the minimum distribution requirement for RICs. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional

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debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax benefits and thus be subject to corporate-level income tax. See Certain U.S. Federal Income Tax Considerations.

If our distributions exceed our current and accumulated earnings and profits, such excess distributions will be treated first as a return of capital to the extent of a stockholder's tax basis in his or her shares and then as capital gain. A return of capital is a return of the original capital invested by a stockholder rather than of our income or gains. Reducing a stockholder's tax basis will have the effect of increasing his or her gain (or reducing loss) on a subsequent sale of shares.

PIK interest payments we receive will increase our assets under management and, as a result, will increase the amount of base management fees payable by us to our investment adviser.

Certain of our debt investments may contain provisions providing for the payment of PIK interest. PIK interest increases in the loan balance of the underlying loan, and our receipt of PIK interest increases our assets under management. Because the base management fee that we pay to our investment adviser is based on the value of our consolidated gross assets, PIK interest increases the base management fee we pay. This increase in loan balance increases our pre-incentive fee net investment income and the incentive fees that we pay to our investment adviser.

Regulations governing our operation as a business development company will affect our ability to, and the way in which we, raise additional debt or equity capital.