

Harvest Capital Credit Corp  
Form 10-Q  
November 13, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2014**

**OR**

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

**COMMISSION FILE NUMBER: 1-35906**

**HARVEST CAPITAL CREDIT CORPORATION**

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

Delaware 46-1396995  
(State or other Jurisdiction of (I.R.S. Employer

**(Incorporation or Organization) Identification No.)**

767 Third Avenue, 25<sup>th</sup> Floor  
New York, NY 10017

**(Address of Principal Executive Offices) (Zip Code)**

(212) 906-3500

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company  
(do not check if a  
smaller reporting  
company)

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

The number of shares of the registrant's Common Stock, \$0.001 par value, outstanding as of November 11, 2014 was  
6,211,237.

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**HARVEST CAPITAL CREDIT CORPORATION**

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****Harvest Capital Credit Corporation**

## Statements of Assets and Liabilities

	September 30, 2014 (unaudited)	December 31, 2013
<b>ASSETS:</b>		
Non-affiliated/non-control investments, at fair value (cost of \$95,705,353 @ 9/30/14 and \$68,241,970 @ 12/31/13)	\$97,048,424	\$69,012,300
Affiliated investments, at fair value (cost of \$2,072,663 @ 9/30/14 and \$2,062,107 @ 12/31/13)	1,488,141	1,540,176
Total investments, at fair value (cost of \$97,778,016 @ 9/30/14 and \$70,304,077 @ 12/31/13)	98,536,565	70,552,476
Cash	7,838,413	18,984,162
Interest receivable	636,922	449,902
Accounts receivable – other	7,222	11,344
Deferred financing costs	1,118,093	1,247,534
Other assets	191,379	99,833
Total assets	\$108,328,594	\$91,345,251
<b>LIABILITIES:</b>		
Revolving line of credit	\$14,000,000	\$-
Accrued interest payable	44,527	35,521
Accounts payable and accrued expenses	1,538,651	556,892
Other liabilities	2,722,693	1,898,352
Total liabilities	18,305,871	2,490,765
Commitments and contingencies (Note 8)		
<b>NET ASSETS:</b>		
Common stock, \$0.001 par value, 100,000,000 shares authorized, and 6,205,256 issued and outstanding @ 9/30/14 and 6,148,227 issued and outstanding @ 12/31/13	6,205	6,148
Capital in excess of common stock	89,265,915	88,497,898
Net realized losses on investments	(10,757 )	-

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Net unrealized appreciation on investments	758,549	248,396
Undistributed (Distributions in excess of) net investment income	2,811	102,044
Total net assets	90,022,723	88,854,486
Total liabilities and net assets	\$108,328,594	\$91,345,251
Common stock issued and outstanding	6,205,256	6,148,227
Net asset value per common share	\$14.51	\$14.45

See accompanying notes to unaudited financial statements.

**Harvest Capital Credit Corporation**

## Statements of Operations (unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b>Investment Income:</b>				
Interest:				
Cash - non-affiliated/non-control investments	\$2,609,688	\$1,565,699	\$7,720,977	\$4,340,757
Cash - affiliated investments	55,768	56,210	166,756	165,554
PIK - non-affiliated/non-control investments	288,876	242,865	1,053,006	795,702
PIK - affiliated investments	27,267	14,396	81,467	42,611
Amortization of fees, discounts and premiums, net	642,849	172,385	1,072,629	550,950
Other interest income	292,970	-	376,822	-
Total interest income	3,917,418	2,051,555	10,471,657	5,895,574
<b>Total investment income</b>	<b>3,917,418</b>	<b>2,051,555</b>	<b>10,471,657</b>	<b>5,895,574</b>
<b>Expenses:</b>				
Interest expense - revolving line of credit (related party)		-		627,568
Interest expense - revolving line of credit	30,217	-	60,645	-
Interest expense - unused line of credit (related party)		63,889		115,360
Interest expense - unused line of credit	100,883	-	303,715	-
Interest expense - deferred financing costs (related party)		10,882		35,786
Interest expense - deferred financing costs	64,707	-	190,644	-
Total interest expense	195,807	74,771	555,004	778,714
General and administrative	314,710	265,492	967,241	608,416
Base management fees	486,442	250,048	1,310,643	497,120
Incentive management fees	504,146	(83,264 )	1,458,818	303,179
Administrative services expense	143,124	70,417	348,201	206,250
<b>Total expenses</b>	<b>1,644,229</b>	<b>577,464</b>	<b>4,639,907</b>	<b>2,393,679</b>
<b>Less waivers:</b>				
Incentive fees waived (1)	-	-	(320,827 )	-
<b>Total net expenses</b>	<b>1,644,229</b>	<b>577,464</b>	<b>4,319,080</b>	<b>2,393,679</b>
<b>Net investment income</b>	<b>2,273,189</b>	<b>1,474,091</b>	<b>6,152,577</b>	<b>3,501,895</b>
Net realized losses on investments	(13,874 )		(10,757 )	-
Net change in unrealized (depreciation) appreciation on investments	(242,822 )	(360,137 )	510,153	98,991
<b>Total net unrealized and realized gains (losses) on investments</b>	<b>(256,696 )</b>	<b>(360,137 )</b>	<b>499,396</b>	<b>98,991</b>

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<b>Net increase in net assets resulting from operations</b>	<b>\$2,016,493</b>	<b>\$1,113,954</b>	<b>\$6,651,973</b>	<b>\$3,600,886</b>
Net investment income per share (basic and diluted)	\$0.37	\$0.24	\$1.00	\$0.91
Net increase in net assets resulting from net operations per share (basic & diluted)	\$0.33	\$0.18	\$1.08	\$0.93
Weighted average shares outstanding (basic) (2)	6,194,804	6,097,708	6,175,863	3,856,705
Weighted average shares outstanding (diluted) (2)	6,194,804	6,098,160	6,175,863	3,857,157
Dividends declared per common share (basic and diluted)	\$0.34	\$0.34	\$1.01	\$2.24

For the period from our initial public offering in May 2013 to March 31, 2014, our investment adviser agreed to waive its incentive fee to the extent required to support a minimum dividend yield of 9% per year based on our initial public offering price per share of \$15.00. For the 2013 periods presented during this waiver period,

- (1) no incentive fees were waived. Any such incentive fees that would have been waived were not earned in those periods since the Company did not exceed the income incentive fee hurdle for the period of time following our initial public offering through the end of the third quarter of 2013.
- (2) The shares outstanding and per share amounts for all periods prior to May 2013 have been adjusted as described in Note 1.

See accompanying notes to unaudited financial statements.



**Harvest Capital Credit Corporation**

## Statements of Changes in Net Assets (unaudited)

	<b>Nine Months Ended September 30,  2014</b>	<b>Nine Months Ended September 30,  2013</b>
Increase in net assets from operations:		
Net investment income	\$6,152,577	\$3,501,895
Net realized losses on investments	(10,757 )	-
Net change in unrealized appreciation on investments	510,153	98,991
Net increase in net assets resulting from operations	6,651,973	3,600,886
Distributions to shareholders (1):		
Distributions from net investment income	(6,251,811 )	(4,745,817 )
Distributions from capital gains	-	-
Return of capital	-	-
Decrease in net assets resulting from shareholder distributions	(6,251,811 )	(4,745,817 )
Capital share transactions:		
Issuance of common shares (net of offering costs of \$25,000 (2) for 2014 and \$798,667 for 2013)	(24,940 )	70,527,832
Conversion of mezzanine equity to common shares		160,775
Reinvestment of dividends	793,015	440,813
Net increase in net assets from capital share transactions	768,075	71,129,420
Total increase in net assets	1,168,237	69,984,489
Net assets at beginning of period	88,854,486	19,806,327
Net assets at end of period	\$90,022,723	\$89,790,816
Capital share activity (common shares):		
Shares sold (3)		4,918,788
Shares issued from reinvestment of dividends	57,029	
Conversion of mezzanine shares to common shares (3)		20,485
Net increase in capital share activity (common shares)	57,029	4,939,273
Capital share activity (mezzanine equity):		
Shares sold (3)		9,763
Conversion of mezzanine shares to common shares (3)		(20,485 )

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Net (decrease) increase in capital share activity (mezzanine equity) - (10,722 )

- Distributions for the nine months ended September 30, 2014 were in excess of net investment income in the amount of \$99,234. Distributions for the nine months ended September 30, 2013 were comprised of \$4,745,817 (1) from net investment income. Of the \$4,745,817 in distributions made during the nine months ended September 30, 2013, \$816,229 were from earnings for the quarter ended December 31, 2012. See Dividends and Distributions Policy in Note 2.
- (2) Reimbursement to Harvest Capital Strategies of offering costs paid during the initial public offering.
- (3) The shares outstanding and per share amounts for all periods prior to May 2013 have been adjusted as described in Note 1.

See accompanying notes to unaudited financial statements.

**Harvest Capital Credit Corporation**

## Statements of Cash Flows (unaudited)

	<b>Nine Months Ended September 30,  2014</b>	<b>Nine Months Ended September 30,  2013</b>
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 6,651,973	\$ 3,600,886
Adjustments to reconcile net increase in net assets resulting from operations to net cash used by operating activities:		
Paid in kind income	(1,134,473 )	(838,313 )
Net realized losses on investments	10,757	-
Net unrealized appreciation of investments	(510,153 )	(98,991 )
Amortization of fees, discounts and premiums, net	(1,072,629 )	(549,235 )
Amortization of deferred financing costs	190,644	35,786
Purchase of investments (net of loan origination and other fees)	(44,570,612)	(15,782,495)
Proceeds from principal payments	19,293,024	7,031,339
Changes in operating assets and liabilities		
Increase in interest receivable	(187,020 )	(155,978 )
Increase in accounts receivable - other and other assets	(87,424 )	(107,074 )
Increase (decrease) in accrued interest payable	9,006	109,155
Increase in accounts payable and other liabilities	1,806,100	-
Net cash used in operating activities	(19,600,808)	(6,754,920 )
Cash flows from financing activities:		
Borrowings on revolving credit facility (related party)	-	2,000,000
Borrowings on revolving credit facility	21,800,000	-
Repayment of borrowings on revolving credit facility (related party)	-	(30,226,666)
Repayment of borrowings on revolving credit facility	(7,800,000 )	-
Proceeds from the issuance of common stock	57	71,240,941
Offering expenses from the issuance of common stock and common units	(25,000 )	(798,667 )
Issuance of mezzanine equity	-	134,225
Distributions to equity holders (net of stock issued under dividend reinvestment plan of \$793,015 and \$440,813, respectively)	(5,458,796 )	(4,305,004 )
Payment of deferred financing costs	(61,202 )	(124,970 )
Net cash provided by financing activities	8,455,059	37,919,859
Net (decrease) increase in cash during the period	(11,145,749)	31,164,939

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Cash at beginning of period	18,984,162	7,639,801
Cash at end of period	\$ 7,838,413	\$ 38,804,740
Non-cash operating activities:		
Purchase of investments (net of loan origination and other fees)	\$ (4,500,000 )	\$ -
Proceeds from principal payments	\$ 4,500,000	\$ -
Non-cash financing activities:		
Value of shares issued in connection with dividend reinvestment plan	\$ 793,015	\$ 440,813
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest (related party)	\$ -	\$ 984,027
Cash paid during the period for interest	\$ 355,354	\$ -

See accompanying notes to unaudited financial statements.

**Harvest Capital Credit Corporation**

## Schedule of Investments

(as of September 30, 2014)

(unaudited)

<u>Portfolio Company</u>	<u>Investment (1) (2)</u>	<u>Origination Date</u>	<u>Outstanding Principal</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Investments in Non-controlled, Non-affiliated Portfolio Companies</b>					
<u>Capital Equipment Reseller</u>					
Lanco Acquisition, LLC (3.7%)*	Senior Secured Term Loan, due 06/12/2018 (11.50%; LIBOR +11.00% with 0.50% LIBOR floor)	6/13/2014	796,500	773,854	773,854
	Senior Secured Term Loan, due 03/12/2019 (15.00%; 12.50% Cash/2.50% PIK)		2,312,551	2,246,114	2,246,114
	Revolving Line of Credit (8.50%; LIBOR +8.00% with 0.50% LIBOR floor)		350,000	330,658	330,658
	Common Equity Warrants (12% of fully diluted common equity)			42,000	25,669
<u>Dietary Supplements</u>					
Atrium Innovations, Inc. (1.1%)*	Senior Secured Term Loan, due 02/15/2021 (4.25%; LIBOR +3.25% with 1.00% LIBOR floor)	1/29/2014	995,000	995,577	976,344
<u>Distributor - Tobacco Products</u>					
North Atlantic Trading Company, Inc. (6.7%)*	Senior Secured Term Loan, due 01/13/2020	1/13/2014	992,721	983,646	998,925

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(7.75%; LIBOR +6.50% with  
1.25% LIBOR floor)

Junior Secured Term Loan, due 07/13/2020 (11.50% LIBOR +10.25% with 1.25% LIBOR floor)	1/13/2014	5,000,000	4,971,746	5,075,000
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Document and Information Solutions

Novitex Acquisition, LLC (Arsloane Acquisition) (7.7%)*	Junior Secured Term Loan, due 07/7/2021 (11.75%; LIBOR + 10.50% with 1.25% LIBOR floor)	7/7/2014	7,000,000	6,931,598	6,931,598
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Hand Tool Manufacturing

Rostra Tool Company (6.2%)*	Junior Secured Subordinated Debt, due 12/15/2014 (17.00%; the greater of 17.00% (13.00% Cash/4.00% PIK) or LIBOR +13.50% (9.50% Cash/4.00% PIK))	2/1/2012	4,871,936	4,851,858	4,920,654
	Common Equity Warrants (14.99% of fully diluted common equity)			-	636,572

Heavy and Civil Engineering and Construction

LNB Construction, Inc. (4.3%)*	Junior Secured Subordinated Debt, due 11/30/2014 (20.00%; 17.00% Cash/3.00% PIK)	8/21/2012	3,672,812	3,357,588	3,672,812
	Options to Purchase Common Equity (16.5% of fully diluted common equity)			193,750	200,000

Industrial Fluid Filtration Services

CRS Reprocessing, LLC (6.4%)*(3)	Junior Secured Subordinated Debt, due 11/02/2015 (15.00%; 12.00% Cash/3.00% PIK)	10/30/2013	6,264,170	6,104,841	5,723,193
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Industrial Machinery Manufacturing

		5/7/2014	4,410,133	4,317,313	4,317,313
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Douglas Machines Corp. (5.2%)*	Senior Secured Term Loan, due 04/6/2017 (13.50% Cash)				
	Revolving Line of Credit (9.70%; LIBOR +9.50% with 0.20% LIBOR floor)	300,000	300,000	300,000	
	Common Equity Warrants (2.0% of fully diluted common equity)		12,500	98,075	

Metal Fabricating & Finishing

Northeast Metal Works, LLC (9.9%)*	Senior Secured Debt, due 12/31/2017 (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)	9/29/2014	8,450,000	8,389,834	8,389,834
	Revolving Line of Credit (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)		500,000	500,000	500,000

Novelty Shops

PD Products, LLC (5.2%)*	Senior Secured Term Loan, due 10/04/2018 (12.00%; LIBOR +10.50% with 1.50% LIBOR floor)	10/4/2013	4,812,659	4,740,371	4,684,093
Peekay Acquisition, LLC (Christals) (2.2%)*	Senior Secured Term Loan, due 12/27/2015 (18.00%; 15.00% Cash/3.00% Accommodation Fee)	12/31/2012	2,000,000	1,828,752	1,993,099
	Common Equity Warrants (Christals Acquisition, LLC) (2.0% of fully diluted common equity)			35,000	
	Common Equity Warrants (Christals Parent, LLC) (8.0% of fully diluted common equity)			70,000	

Other Nondepository Credit Intermediation

WBL SPE I, LLC (1.7%)*	Senior Secured Term Loan, due 09/30/2016 (15.00% Cash)	9/30/2013	1,500,000	1,463,990	1,500,000
WBL SPE II, LLC (3.3%)*	Senior Secured Term Loan, due 12/23/2016 (15.00% Cash)	9/30/2014	3,007,547	2,985,670	3,007,546
World Business Lenders, LLC (0.2%)*	Common Equity  (0.4% of fully diluted common equity)	12/23/2013		200,000	218,910

Pet Food Retail Stores

CP Holding Co., Inc. (Choice Pet) (5.8%)*	Senior Secured Debt, due 02/28/2018 (14.75%; 12.00% Cash/2.75% PIK)	5/30/2013	5,189,658	5,100,766	5,189,658
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Radio Station Operator

Multicultural Radio Broadcasting, Inc. (5.6%)	Senior Secured Term Loan, due 09/15/2018 (11.50%; LIBOR +10.50% with 1.00% LIBOR floor)	9/30/2014	5,000,000	5,000,000	5,000,000
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Real Estate Brokerage  
Services

Americana Holdings LLC (5.1%)*	Junior Secured Term Loan, due 09/15/2018 (13.00% Cash)	9/16/2013	4,095,329	3,404,945	3,602,892
	Revenue Linked Security			860,877	951,593

Safety Consulting Services

Safety Services Acquisition Corp. (6.6%)*	Junior Secured Subordinated Debt, due 07/5/2017 (15.0%; 12.50% Cash/2.50% PIK)	4/5/2012	5,678,341	5,595,224	5,678,341
	Preferred Equity (0.64% of fully diluted common equity)			100,000	230,118

Software Publishing



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Optimal Blue, LLC (6.2%)*	Junior Secured Subordinated Debt, due 03/18/2019 (14.50%; 12.50% Cash/2.00% PIK)	12/18/2013	5,333,954	5,289,041	5,333,954
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	Common Equity (0.391% of fully diluted common equity)			100,000	210,456
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Speciality Advertising

Brite Media LLC (6.6%)*	Senior Secured Term Loan, due 04/24/2019 (10.25%; LIBOR +9.50% with 0.75% LIBOR floor)	4/24/2014	5,925,000	5,843,510	5,843,510
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	Revolving Line of Credit (10.25%; LIBOR +9.50% with 0.75% LIBOR floor)		-	-	-
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	Common Equity (1.07% fully diluted common equity)			100,000	121,586
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Structured Finance

Shinnecock CLO 2006-1, Ltd. (2.6%)*	CLO Subordinated Notes	3/7/2014	2,342,100	2,342,100	2,342,100
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Surveying & Engineering Services

SISD, Inc. (Garden State) (1.3%)*	Senior Secured Debt, due 03/1/2019 12/4/2013 (16.50%; LIBOR + 14.50% with 0.50% LIBOR floor/1.50% PIK)		1,003,833	937,555	1,073,833
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	Common Equity Warrants (4.0% of fully diluted common equity)			58,240	100,000
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Technology - Software

Applied Systems, Inc. 2nd Lien (0.6%)*	Junior Secured Term Loan, due 01/22/2022 (7.50%; LIBOR + 6.50% with 1.00% LIBOR floor)	1/15/2014	500,000	496,481	500,100
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Urgent Care Facility Operator

		8/2/2013	3,890,223	3,772,432	3,350,020
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Infinite Aegis Group, LLC (3.8%)*	Senior Secured Term Loan, due 07/31/2017 (18.19%; LIBOR + 15.00% Cash/3.00% PIK)				
	Common Equity Warrants (3% of fully diluted common equity)		77,522	-	
<b>Total Investments in Non-controlled, Non-affiliated Portfolio Companies</b>		<b>96,194,467</b>	<b>95,705,353</b>	<b>97,048,424</b>	
 <b>Investments in Affiliated Portfolio Companies</b>					
<u>Seafood Product Preparation and Packaging</u>					
Solex Fine Foods, LLC (1.7%)*	Senior Secured Term Loan, due 12/28/2016 (18.93%; LIBOR +12.50% Cash/3.29% PIK/2.97% Supplemental PIK)	12/31/2012 \$1,746,707	\$1,630,865	\$1,488,141	
	Common Equity (6.34% of fully diluted common equity)		290,284	-	
	Common Equity Warrants (6.4% of fully diluted common equity)		151,514	-	
<b>Total Investments in Affiliated Portfolio Companies</b>		<b>1,746,707</b>	<b>2,072,663</b>	<b>1,488,141</b>	
<b>Total Investments as of September 30, 2014 (100.7%)*</b>		<b>\$97,941,174</b>	<b>\$97,778,016</b>	<b>\$98,536,565</b>	

\*Value as a percentage of our net assets

Debt investments, the CLO subordinated notes and the revenue linked security are income producing. Common equity and all warrants are non-income producing. All investments other than Atrium Innovations, Inc., LNB (1) Construction, Inc., Shinnecock CLO 2006-1, Ltd., WBL SPE I, LLC, WBL SPE II, LLC and World Business Lenders, LLC are qualifying assets for purposes of Section 55(a) of the Investment Company Act of 1940, as amended.

For each loan, the Company has provided the interest rate in effect on the date presented, as well as the contractual components of that interest rate. In the case of the Company's variable or floating rate loans, the interest rate in effect takes into account the applicable LIBOR rate in effect on the date presented or, if higher, the applicable LIBOR floor.

(3) CRS Reprocessing, LLC is on non-accrual status effective for the period ending September 30, 2014.

**Harvest Capital Credit Corporation**

## Schedule of Investments

(as of December 31, 2013)

<u>Portfolio Company</u>	<u>Investment (1) (2)</u>	<u>Origination Date</u>	<u>Outstanding Principal</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Investments in Non-controlled, Non-affiliated Portfolio Companies</b>					
<u>Document and Information Solutions</u>					
Arsloane Acquisition, LLC	Junior Secured Term Loan, due 10/01/2020 (11.75%; LIBOR + (Pitney Bowes) (5.0%)* 10.50% with 1.25% LIBOR floor)	10/8/2013	4,500,000	4,437,666	4,437,666
<u>Hand Tool Manufacturing</u>					
Rostra Tool Company (5.4%)*	Junior Secured Subordinated Debt, due 12/15/2014 (17.00%; the greater of 17.00% (13.00% Cash/4.00% PIK) or LIBOR +13.50% (9.50% Cash/4.00% PIK))	2/1/2012	4,727,077	4,675,204	4,727,077
	Common Equity Warrants (14.99% of fully diluted common equity)			-	59,817
<u>Heavy and Civil Engineering and Construction</u>					
LNB Construction, Inc. (4.0%)*	Junior Secured Subordinated Debt, due 11/30/2014	8/21/2012	3,376,137	3,278,290	3,376,137

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(20.00%; 17.00%  
Cash/3.00% PIK)

Options to Purchase Common Equity (16.5% of fully diluted common equity)		193,750	200,000
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Industrial Fluid  
Filtration Services

CRS Reprocessing, LLC (6.8%)*	Junior Secured Subordinated Debt, due 10/30/2013 11/02/2015 (15.00%; 12.00% Cash/3.00% PIK)	6,123,783	6,060,086	6,060,086
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Industrial Machinery  
Manufacturing

Douglas Machines Corp. (4.9%)*	Junior Secured Subordinated Debt, due 4/6/2012 04/6/2017 (16.00%; 12.50% Cash/3.50% PIK)	4,257,840	4,161,840	4,257,840
	Common Equity Warrants (2.0% of fully diluted common equity)		12,500	65,650

Metal Fabricating &  
Finishing

Northeast Metal Works, LLC (5.4%)*	Senior Secured Debt, due 12/31/2017 (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)	12/31/2013 4,650,000	4,560,167	4,560,167
	Revolving Line of Credit (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)	12/31/2013 200,000	200,000	200,000

Novelty Shops

PD Products, LLC (5.5%)*	Junior Secured Subordinated Debt, due 10/4/2013 10/04/2018 (12.00%; LIBOR + 10.50% with 1.50% LIBOR floor)	5,000,000	4,928,297	4,928,297
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Peekay Acquisition, LLC (Christals) (2.3%)*	Senior Secured Term Loan, due 12/27/2015 (18.00%; 15.00% Cash/3.00% Accommodation Fee)	12/31/2012	2,000,000	1,759,799	2,000,000
	Common Equity Warrants (Christals Acquisition, LLC) (2.0% of fully diluted common equity)			35,000	-
	Common Equity Warrants (Christals Parent, LLC) (8.0% of fully diluted common equity)			70,000	-

Other Nondepository Credit Intermediation

WBL SPE I, LLC (1.4%)*	Senior Secured Term Loan, due 09/30/2016 (15.00% Cash)	9/30/2013	1,250,000	1,203,283	1,203,283
WBL SPE II, LLC (1.7%)*	Senior Secured Term Loan, due 12/23/2016 (15.00% Cash)	12/23/2013	1,500,000	1,477,500	1,477,500
World Business Lenders, LLC (0.2%)*	Common Equity (0.4% of fully diluted common equity)	12/23/2013		200,000	200,000

Pawn Retail Outlets

Pawn Plus, Inc. (4.1%)*	Senior Secured Term Loan, due 12/31/2016 (17.00%; the greater of 17.00% (15.00% Cash/2.00% PIK) or LIBOR +14.50% (12.50% Cash/2.00% PIK))	12/31/2012	3,804,398	3,581,164	3,647,159
	Common Equity Warrants (3.9% of fully diluted common equity)			133,524	-

Pet Food Retail Stores

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CP Holding Co., Inc. (Choice Pet) (5.7%)*	Senior Secured Debt, due 02/28/2018 (14.75%, 12.00% Cash/2.75% PIK)	5/30/2013	5,082,919	4,980,815	5,030,676
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Pharmaceutical

Merchant Wholesaler

Insight Pharmaceuticals, LLC (1.7%)*	Junior Secured Term Loan, due 08/25/2017  (13.25%; LIBOR + 11.75% with 1.50% LIBOR floor)	9/14/2011	1,544,828	1,535,043	1,544,828
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Real Estate Brokerage  
Services

Americana Holdings LLC (4.7%)*	Junior Secured Term Loan, due 09/15/2018 (13.00% Cash)	9/16/2013	4,264,569	3,441,121	3,441,121
	Revenue Linked Security			758,061	758,061

Safety Consulting Services

Safety Services Acquisition Corp. (6.6%)*	Junior Secured Subordinated Debt, due 4/5/2012 07/5/2017 (15.0%; 12.50% Cash/2.50% PIK)	5,572,028	5,503,043	5,572,028
	Preferred Equity (0.64% of fully diluted common equity)		100,000	303,745

Software Publishing

Optimal Blue (6.1%)*	Junior Secured Subordinated Debt, due 12/18/2013 03/18/2019 (14.50%; 12.50% Cash/2.00% PIK)	5,253,886	5,203,886	5,203,886
	Common Equity (0.391% of fully diluted common equity)		100,000	176,567

Surveying & Engineering Services

SISD, Inc. (Garden State) (1.1%)*	Senior Secured Debt, due 03/1/2019 12/4/2013 (16.50%; LIBOR + 14.50% with 0.50% LIBOR floor/1.50% PIK)	1,001,167	919,513	919,513
	Common Equity Warrants (4.0% of fully diluted common equity)		58,240	58,240

Urgent Care Facility Operator

Infinite Aegis Group, LLC (4.3%)*	Senior Secured Term Loan, due 07/31/2017 8/2/2013 (15.00%; LIBOR + 15.00% with no floor)	4,000,000	3,850,406	3,792,496
	Common Equity Warrants		77,522	55,435

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(3% of fully diluted  
common equity)

Water Treatment  
Solutions

EWT Holdings III Corp. 1st Lien (0.8%)*	Senior Secured Term Loan, due 01/15/2021  (4.75%; LIBOR + 3.75% with 1.00% LIBOR floor)	12/12/2013	750,000	746,250	755,025
<b>Total Investments in Non-controlled, Non-affiliated Portfolio Companies</b>				<b>68,241,970</b>	<b>69,012,300</b>

**Investments in  
Affiliated Portfolio  
Companies**

Seafood Product  
Preparation and  
Packaging

Solex (1.7%)*	Senior Secured Term Loan, due 12/28/2016 (15.79%; LIBOR + 12.50% Cash/3.29% PIK)	12/31/2012	\$ 1,767,338	\$ 1,620,309	\$ 1,515,896
	Common Equity (6.34% of fully diluted common equity)			290,284	12,299
	Common Equity Warrants (6.4% of fully diluted common equity)			151,514	11,981
<b>Total Investments in Affiliated Portfolio Companies</b>				<b>2,062,107</b>	<b>1,540,176</b>
<b>Total Investments as of December 31, 2013 (79.4%)*</b>				<b>\$ 70,304,077</b>	<b>\$ 70,552,476</b>

\*Value as a percentage of our net assets

Debt investments and the revenue linked security are income producing. Common equity and warrants are non-income producing. All investments other than LNB Construction, Inc., WBL SPE I, LLC, WBL SPE II, LLC and World Business Lenders, LLC, are qualifying assets for purposes of Section 55(a) of the Investment Company Act of 1940, as amended.

(2)For each loan, the Company has provided the interest rate in effect on the date presented, as well as the contractual components of that interest rate. In the case of the Company's variable or floating rate loans, the interest rate in effect takes into account the applicable LIBOR rate in effect on the date presented, or if higher, the applicable



LIBOR floor.

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## Harvest Capital Credit Corporation

### Notes to Unaudited Financial Statements

#### Note 1. Organization

Harvest Capital Credit Corporation (“HCAP”) was incorporated as a Delaware corporation on November 14, 2012, for the purpose of, among other things, acquiring Harvest Capital Credit LLC (“HCC LLC”). HCAP is an externally managed, closed-end, non-diversified management investment company that has filed an election to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). In addition, for tax purposes, HCAP has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”), beginning with our taxable year ending December 31, 2013.

On May 2, 2013, HCAP acquired HCC LLC. HCC LLC was organized as a limited liability company in the state of Delaware on February 7, 2011, and commenced operations on September 6, 2011, as an externally-managed specialty finance company with the objective of generating both current income and capital appreciation primarily by making direct investments in the form of subordinated debt and, to a lesser extent, senior debt and minority equity investments in privately-held U.S. small to mid-sized companies. Pursuant to the acquisition agreement, immediately prior to HCAP's election to be treated as a BDC under the 1940 Act, the following formation transaction was consummated:

HCAP acquired HCC LLC through a merger (the “Merger”) whereby HCC LLC merged with and into HCAP, and the holders of membership interests in HCC LLC received shares of HCAP common stock in exchange for their interests in HCC LLC. As a result of the Merger, the outstanding limited liability company interests in HCC LLC were converted into a number of shares of HCAP common stock equal to (i) \$33.7 million (*i.e.*, the net asset value of HCC LLC as of December 31, 2012), plus the proceeds of sales of membership interests by HCC LLC since December 31, 2012, plus the reclassification of mezzanine equity to members capital, and minus distributions of pre-December 31, 2012 earnings made by HCC LLC after December 31, 2012, divided by (ii) \$15.00 per share of the common stock of HCAP. In connection with the Merger, the number of membership interests of HCC LLC underlying each outstanding warrant of HCC LLC, and the exercise price thereof, were converted into HCAP's common stock equivalent (based on the merger conversion formula). In addition, the exercise prices of the warrants were subject to upward (but not downward) adjustment as the public offering price of HCAP's shares of common stock in the initial public offering described below was higher than the then-current exercise price of the warrants.

\*

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HCAP assumed and succeeded to all of the assets and liabilities of HCC LLC, including its obligations under the revolving credit facility with JMP Group LLC.

\* On May 7, 2013, HCAP closed its initial public offering of 3,400,000 shares of its common stock at a price of \$15.00 per share, raising \$51.0 million in gross proceeds, or \$50.4 million after deducting underwriting discounts and commissions.

\* On May 17, 2013, HCAP closed on the initial public offering underwriters' overallotment option of 433,333 shares of its common stock at \$15.00 per share, raising additional gross proceeds of \$6.5 million, or \$6.1 million after deducting underwriting discounts and commissions.

Since HCAP acquired all of the interests of HCC LLC and did not have any operations prior to the acquisition, for periods prior to the initial public offering we are presenting the historical financial statements of HCC LLC as HCAP's financial statements. When HCAP acquired HCC LLC, HCAP issued shares of its common stock in exchange for all HCC LLC's outstanding membership interests at a rate of 0.9913 shares for each membership interest. As a result of this transaction, we have retroactively applied the aforementioned exchange/conversion rate to all unit measurements relating to HCC LLC's membership interests for all periods presented and have replaced all references to membership interests of HCC LLC to shares of common stock of HCAP in the financial statements and notes thereto contained herein. On the date of the Merger, the net asset value of the Company was \$15.00 per share and none of the warrants assumed in the Merger had an exercise price below \$15.00 per share.

As used herein, the terms "we", "us" and the "Company" refer to HCC LLC for the periods prior to the initial public offering and refer to HCAP for the periods after the initial public offering.

## **Note 2. Summary of Significant Accounting Policies**

### ***Basis of Financial Statement Presentation***

The accompanying interim financial statements are presented in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of the financial statements for the interim periods have been included. The interim unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the period ended December 31, 2013. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

### ***Basis for Consolidation***

In accordance with Article 6 of Regulation S-X, the Company does not consolidate portfolio company investments.

Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, codified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 946, *Financial Services- Investment Companies*, the Company is precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

### ***Cash and Cash Equivalents***

Cash and cash equivalents as presented in the statement of assets and liabilities and the statement of cash flows include bank checking accounts and short term securities with an original maturity of less than 90 days.

*Investments and Related Investment Revenue and Expense*

All investments and the related revenue and expenses attributable to these investments are reflected on the statement of operations commencing on the settlement date unless otherwise specified by the transaction documents.

The Company accrues interest income if it expects that ultimately it will be able to collect it. Generally, when an interest payment default occurs on a loan in the portfolio, in which interest has not been paid for greater than 90 days, or if management otherwise believes that the issuer of the loan will not be able to service the loan and other obligations, the Company will place the loan on non-accrual status and will cease recognizing interest income on that loan until all principal and interest is current through payment or until a restructuring occurs, such that the interest income is deemed collectible.

However, the Company remains contractually entitled to this interest. The Company may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection and the amount of collectible interest can be reasonably estimated.

For loans with contractual PIK (payment-in-kind) interest income, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will not accrue PIK interest if we believe that the PIK interest is no longer collectible, including if the portfolio company valuation indicates that such PIK interest is not collectible. Loan origination fees - net of direct loan origination costs, original issue discounts that initially represent the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and market discounts or premiums - are accreted or amortized using the effective interest method as interest income over the contractual life of the loan. Upon the prepayment of a loan or debt security, any unamortized net loan origination fee will be recorded as interest income. Loan exit fees that are contractually required to be paid at the termination or maturity of the loan will be accreted to interest income over the contractual term of the loan. We suspend the accretion of interest income for any loans or debt securities placed on non-accrual status. We may also collect other prepayment premiums on loans. These prepayment premiums are recorded as other interest income as earned. Dividend income, if any, will be recognized on the ex-dividend date.

Certain expenses related to legal and tax consultation, due diligence, valuation expenses and independent collateral appraisals may arise when the Company makes certain investments. To the extent that such costs are not classified as direct loan origination costs, these expenses are recognized in the statement of operations as they are incurred.

### ***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

Realized gains and losses on investments are calculated using the specific identification method. We measure realized gains or losses on equity investments as the difference between the net proceeds from the sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. We measure realized gains or losses on debt investments as the difference between the net proceeds from the repayment or sale and the contractual amount owed to us on the investment, without regard to unrealized appreciation or depreciation previously recognized or unamortized deferred fees. The acceleration of unamortized deferred fees is recognized as interest income and the collection of prepayment and other fees is recognized as other interest income.

### ***Classification of Investments***

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual owns beneficially more than 25% of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through beneficial ownership of 5% or more, but 25% or less, of the outstanding voting securities of an investee company. Twenty-four of the Company's investments were classified as non-control/non-affiliated investments as of September 30, 2014 and twenty of the Company's investments were classified as non-control/non-affiliated investments as of December 31, 2013. One of the Company's investments was classified as affiliated as of September 30, 2014 and December 31, 2013, respectively.

### ***Valuation of Investments***

Valuation analyses of the Company's investments are performed on a quarterly basis pursuant to ASC 820, *Fair Value Measurement*. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with applicable accounting guidance and expands disclosure of fair value measurements.

Pursuant to ASC 820, the valuation standard used to measure the value of each investment is fair value defined as, "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Investments are recorded at their fair value at each quarter end (the measurement date).

### ***Fair Value Investment Hierarchy***

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

- Level 1** Quoted prices (unadjusted) for identical assets or liabilities in active public markets that the entity has the ability to access as of the measurement date.
- Level 2** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3** Significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability.

### ***Valuation Process***

Investments are measured at fair value as determined in good faith by our board of directors, based on, among other factors, consistently applied valuation procedures on each measurement date. Debt investments which have closed within six months of the measurement date are valued at cost unless unique circumstances dictate otherwise.

The Company engages an independent external valuation firm to review all Level 3 investments, at least annually. This external review is used as a key input in connection with the determination of the fair value of the Company's investments.

The board of directors undertakes a multi-step valuation process at each measurement date.

- \* Our valuation process begins with each investment valued by the investment professionals of our investment adviser responsible for the investment.
- \* Preliminary valuation conclusions are documented and discussed with our management and our investment adviser.
- \* The audit committee of our board of directors reviews and discusses the preliminary valuations.
- \* At least once annually, the valuation for each portfolio investment is reviewed by the independent valuation firm. The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith, based upon the input of our management, our investment adviser, the independent valuation firm and the audit committee.

### ***Valuation Methodology***

The following section describes the valuation methods and techniques used to measure the fair value of the investments.

Fair value for each investment will be derived using a combination of valuation methodologies that, in the judgment of our management, are most relevant to such investment, including, without limitation, being based on one or more of the following: (i) market prices obtained from market makers for which our management has deemed there to be enough breadth (number of quotes) and depth to be indicative of fair value, (ii) the price paid or realized in a completed transaction or binding offer received in an arms-length transaction, (iii) market approach (enterprise value), (iv) income approach (discounted cash flow analysis) or the (v) bond yield approach.



The valuation methods selected for a particular investment are based on the circumstances and on the level of sufficient data available to measure fair value. If more than one valuation method is used to measure fair value, the results are evaluated and weighted, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The determination of fair value using the selected methodologies takes into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public and private exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment, compliance with agreed upon terms and covenants, and assessment of credit ratings of an underlying borrower.

In most cases we use the bond yield approach for valuing our level 3 debt investments, as long as we deem this method appropriate. This approach entails analyzing the interest rate spreads for recently completed financing transactions which are similar in nature to ours, in order to assess what the range of effective market interest rates would be for our investment if it were being made on or near the valuation date. Then all of the remaining expected cash flows of the investment are discounted using this range of interest rates to determine a range of fair values for the debt investment.

The fair value of equity securities, including warrants, in portfolio companies oftentimes considers the market approach, which applies market valuation multiples of publicly-traded firms or recently acquired private firms engaged in businesses similar to those of the portfolio companies. This approach to determining the fair value of a portfolio company's equity security will typically involve: (1) applying to the portfolio company's trailing twelve month EBITDA (earnings before interest, taxes, depreciation and amortization) a range of enterprise value to EBITDA multiples that are derived from an analysis of comparable companies, in order to arrive at a range of enterprise values for the portfolio company; then (2) subtracting from the range of enterprise values balances of any debt or equity securities that rank senior to our equity securities; and (3) multiplying the range of equity values by the Company's ownership share of such equity to determine a range of fair values for the Company's equity investment.

We also use the income approach, which discounts a portfolio company's expected future cash flows to determine its net present enterprise value. The discount rate used is based upon the company's weighted average cost of capital, which is determined by blending the cost of the company's various debt instruments and its estimated cost of equity capital. The cost of equity capital is estimated based upon our market knowledge and discussions with private equity sponsors.

These valuation methodologies involve a significant degree of judgment. As it relates to investments that do not have an active public market, there is no single standard for determining the estimated fair value. Valuations of privately held investments are inherently uncertain, and they may fluctuate over short periods of time and may be based on estimates. The determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed. In some cases, fair value of such investments is best expressed as a range of values derived utilizing different methodologies from which a single estimate may then be determined.

Consequently, fair value for each investment may be derived using a combination of valuation methodologies that, in the judgment of our management, are most relevant to such investment. The selected valuation methodologies for a particular investment are consistently applied on each measurement date. However, a change in a valuation methodology or its application from one measurement date to another is possible if the change results in a measurement that is equally or more representative of fair value in the circumstances.

### ***Capital Gains Incentive Fee***

Under GAAP, the Company calculates the capital gains incentive fee as if the Company had realized all investments at their fair values as of the reporting date. Accordingly, the Company accrues a provisional capital gains incentive fee taking into account any unrealized gains or losses. As the provisional incentive fee is subject to the performance of investments until there is a realization event, the amount of provisional capital gains incentive fee accrued at a reporting date may vary from the capital gains incentive fee that is ultimately realized and the differences could be material.

### ***Deferred Financing Costs***

Deferred financing costs are made up of deferred debt issuance costs. The deferred debt issuance costs consist of fees and other direct costs incurred by the Company in obtaining debt financing from its lender and are recognized as assets and are amortized as interest expense over the term of the applicable credit facility. The deferred equity offering costs consist of legal fees and other costs incurred by the Company in conjunction with raising external capital and are recognized as an asset and recorded as a reduction to contributed capital when the Company raises equity. The balance of deferred financing costs as of September 30, 2014 and December 31, 2013 was \$1,118,093 and \$1,247,534,

respectively. Amortization expense relating to deferred debt issuance costs during the three months ended September 30, 2014 and the three months ended September 30, 2013 was \$64,707 and \$10,882, respectively. Amortization expense relating to deferred debt issuance costs during the nine months ended September 30, 2014 and the nine months ended September 30, 2013 was \$190,644 and \$35,786, respectively. Amortization expense of \$10,882 and \$35,786 recognized during the three and nine months ended September 30, 2013, respectively relates to the acceleration of deferred debt issuance costs related to the extinguishment of the senior secured revolving credit facility with JMP Group LLC. The amortization expense relating to the deferred equity offering costs during the three months ended September 30, 2014 and the three months ended September 30, 2013 was none. The amortization expense relating to the deferred equity offering costs during the nine months ended September 30, 2014 and the nine months ended September 30, 2013 was \$0 and \$48,667, respectively.

### *Other Liabilities*

Other liabilities as of September 30, 2014 consisted of one debt investment totaling \$2.0 million that had not closed as of September 30, 2014 and other miscellaneous accrued expenses. Other liabilities as of December 31, 2013 consisted of one debt investment totaling \$0.8 million that had not closed as of December 31, 2013, a \$0.3 million principal and interest reserve that was held at closing on one of our debt investments that closed in the fourth quarter of 2013 and \$0.8 million that was held at closing on one of our debt investments that closed in the fourth quarter of 2013 and other miscellaneous accrued expenses.

### *Dividends and Distributions*

Dividends and distributions to common stockholders are recorded on the ex-dividend date. Distributions to shareholders which exceed tax distributable income (tax net investment income and realized gains, if any) are reported as distributions of paid-in capital (i.e. return of capital). The tax character of distributions is made on an annual (full calendar-year) basis. The determination of the tax attributes of our distributions is made at the end of the year based upon our taxable income for the full year and the distributions paid during the full year. Therefore, a determination of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment. The Company adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if the board of directors authorizes, and we declare, a cash dividend or other distribution, then our stockholders who have not “opted out” of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution. No action is required on the part of a registered stockholder to have their cash dividend or other distribution reinvested in shares of our common stock.

### *Income Taxes*

HCC LLC was treated as a partnership for federal and state income tax purposes and did not incur income taxes. Accordingly, no provision for income taxes was made for periods prior to the initial public offering in the accompanying financial statements, as each member of HCC LLC was individually responsible for reporting income or loss, to the extent required by federal income tax laws and regulations, based upon its respective share of HCC LLC's revenues and expenses as reported for income tax purposes. Beginning with its first taxable year ending December 31, 2013, the Company elected to be treated, and intends to qualify annually thereafter, as a RIC under Subchapter M of the Code. To qualify for RIC tax treatment, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. As a RIC, the Company will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless the Company distributes in a timely manner an amount at least equal to the sum of (1) 98% of its ordinary income for each calendar year, (2) 98.2% of its capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which the Company paid no U.S. federal income tax.

During the quarter ended September 30, 2014, the Company declared dividends totaling \$0.3375 per share. The determination of whether the Company's distributions are paid out of earnings or constitute a return of capital is made annually as of the end of the Company's fiscal year based on its taxable income for the full year and distributions paid for the full year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year.

HCC LLC's and the Company's tax returns are subject to examination by federal, state and local taxing authorities. Because many types of transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported in the accompanying financial statements may be subject to change at a later date by the respective taxing authorities. The Company recognizes the financial statement benefit of a tax position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Penalties or interest that may be assessed related to any income taxes would be classified as other operating expenses in the financial statements. Based on an analysis of our tax position, there are no uncertain tax positions that met the recognition or measurement criteria. The Company has no amounts accrued for interest or penalties as of September 30, 2014. Neither HCC LLC nor the Company is currently undergoing any tax examinations. The Company does not anticipate any significant increase or decrease in unrecognized tax benefits for the next twelve months. The 2011, 2012 and 2013 federal tax years for HCC LLC and the Company remain subject to examination by the IRS. The 2011, 2012 and 2013 state tax years for HCC LLC remain subject to examination by the California Franchise Tax Board.

### ***Recent Accounting Pronouncements***

In June 2013, the FASB issued ASU 2013-08, *Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act will be automatically deemed an investment company under the new GAAP definition. The Company has adopted this standard for its fiscal year ending December 31, 2014. The adoption resulted in no additional disclosure requirements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is not permitted. The Company is currently evaluating the potential impact on our financial statements, as well as the available transition methods.

In August 2014, the Financial Accounting Standard Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40)—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this Update provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this Update apply to all entities and will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The adoption of this ASU is not expected to have a material impact on the Company's consolidated statement of assets and liabilities, results of operations or cash flows.

### **Note 3. Borrowings**

On October 29, 2013, in conjunction with securing and entering into the Credit Facility, the Company terminated its senior secured revolving credit facility with JMP Group LLC (the “JMP Facility”). The JMP Facility had been entered into between HCC LLC and JMP Group LLC as of August 24, 2011. On March 25, 2013, in advance of the initial public offering, HCC LLC and HCAP entered into an amendment to the JMP Facility with JMP Group LLC. The JMP Facility, as so amended, provided up to an aggregate of \$50.0 million of revolving borrowings until April 1, 2014, and after April 1, 2014, the amount outstanding thereunder was to become a term loan payable in fourteen consecutive quarterly installments (beginning on April 1, 2014), each in an amount equal to 5% of the term amount, and with the final payment of any other outstanding amounts due on the maturity date of August 24, 2017. Borrowings under the secured revolving credit facility bore interest at an annual rate equal to either (i) LIBOR + 4.50% or (ii) the Prime Rate + 2.25%, at the Company's election and subject to increases during a default under the JMP Facility.

On October 29, 2013, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with CapitalSource Bank, as agent and a lender, and each of the lenders from time to time party thereto, including City National Bank, to provide the Company with a \$55 million senior secured revolving credit facility (the “Credit Facility”). The Credit Facility is secured by all of the Company's assets. The Loan Agreement, among other things, has a revolving period that expires on October 29, 2015 and matures on October 29, 2018. Advances under the Credit Facility bear interest at a rate per annum equal to the lesser of (i) LIBOR plus 4.50% and (ii) the maximum rate permitted under applicable law. In addition, the Loan Agreement requires payment of a fee for unused amounts during the revolving period, which fee varies depending on the obligations outstanding as follows: (i) 0.75% per annum, if the average daily principal balance of the obligations outstanding for the prior month is less than fifty percent of the maximum loan amount; and (ii) 0.50% per annum, if such obligations outstanding are equal to or greater than fifty percent of the maximum loan amount. In each case, the fee is calculated based on the difference between (i) the

maximum loan amount under the Credit Facility and (ii) the average daily principal balance of the obligations outstanding during the prior calendar month.

The Loan Agreement also contains customary terms and conditions, including, without limitation, affirmative and negative covenants, including, without limitation, information reporting requirements, a minimum tangible net worth, a minimum debt service coverage ratio, a minimum liquidity of 4% of the maximum loan amount, a maximum leverage ratio of 1.00 to 1.00, and maintenance of RIC and business development company status. The Loan Agreement also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change of control, and the occurrence of a material adverse effect. In addition, the Loan Agreement provides that, upon the occurrence and during the continuation of such an event of default, the Company's administration agreement could be terminated and a backup administrator could be substituted by the agent.

As of September 30, 2014 and December 31, 2013, the outstanding balance on the Credit Facility was \$14.0 million and \$0, respectively.

#### **Note 4. Concentrations of Credit Risk**

The Company's investment portfolio consists primarily of loans to privately-held small to mid-size companies. Many of these companies may experience variation in operating results. Many of these companies do business in regulated industries and could be affected by changes in government regulations.

The largest debt investments may vary from year to year as new debt investments are recorded and repaid. The Company's five largest debt investments represented approximately 35.7% and 38.3% of total debt investments outstanding as of September 30, 2014 and December 31, 2013, respectively. Investment income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans. Interest income from the five largest debt investments accounted for approximately 20.3% and 43.9% of total loan interest and fee income for the three months ended September 30, 2014 and the three months ended September 30, 2013, respectively. Interest income from the five largest investments accounted for approximately 19.1% and 34.7% of total loan interest and fee income for the nine months ended September 30, 2014 and the nine months ended September 30, 2013, respectively.

**Note 5. Shareholders' Equity**

The following table summarizes the total shares issued and proceeds received for shares of the Company's common stock net of any underwriting discounts and offering costs for the three months and nine months ended September 30, 2014.

	Shares Issued	Offering price per share	Proceeds from shares issued
Dividend reinvestment plan	17,287	13.40	\$231,573
Total for the three months ended September 30, 2014	17,287	\$ 13.40	\$231,573
Dividend reinvestment plan	57,029	13.91	\$793,015
Total for the Nine Months ended September 30, 2014	57,029	\$ 13.91	\$793,015

As of September 30, 2014, the Company had warrants outstanding to purchase an aggregate of 338,841 shares of its common stock. Each warrant is exercisable at any time, but no later than its expiration date, which, depending on the warrant, ranges from October 27, 2014 to June 22, 2015. Each warrant has an exercise price per share of approximately (and in no event less than) \$15.00, subject to standard adjustments for stock splits, stock dividends, combinations of common stock, reclassifications, recapitalizations, or other similar events affecting the number of outstanding shares of common stock.

**Note 6. Fair Value Measurements**

As described in Note 2, the Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

*Cash and cash equivalents:* Cash and cash equivalents are Level 1 assets with readily observable market inputs. The Company determined that the historical cost carrying value is a reasonable estimate of fair value.



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*Revolving credit facilities:* The Credit Facility and the JMP Facility are Level 2 financial instruments with readily observable market inputs from other comparable credit facilities in the marketplace. The Company believes the interest rates on the Credit Facility and the JMP Facility are and were comparable to what the Company would be offered by third party lenders and determined the fair value to approximate the amortized cost carrying value.

*Off-balance sheet financial instruments:* The fair value of unfunded commitments is estimated based on the fair value of the funded portion of the corresponding debt investment.

As of September 30, 2014 and December 31, 2013, unfunded commitments totaled \$9.0 million and \$5.3 million, respectively, and their estimated fair values on such dates were \$9.0 million and \$5.2 million, respectively.

There are no assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2014 or December 31, 2013.

There were none and one transfers from level 3 to level 2 of the fair value hierarchy for the three months and nine months ended September 30, 2014 due to increased quoted market prices available from market makers for the financial instrument.

The following table details the financial instruments that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

**Fair Values as of September 30, 2014**

	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments	\$-	\$7,550,368	\$90,986,197	\$98,536,565
	\$-	\$7,550,368	\$90,986,197	\$98,536,565

**Fair Values as of December 31, 2013**

	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments	\$-	\$755,025	\$69,797,451	\$70,552,476
	\$-	\$755,025	\$69,797,451	\$70,552,476

The following table provides quantitative information related to the significant unobservable inputs used to fair value the Company's Level 3 investments as of September 30, 2014 and December 31, 2013:

Type of Investment	Fair Value at	Valuation Technique	Significant Unobservable Input	Range	Weighted Average	
	September 30, 2014					
Debt investments	\$85,851,118	Bond Yield	Risk adjusted discount factor	6.0% - 20.0%	15.2%	
			Market	EBITDA multiple	3.8x - 11.0x	6.2x
			Income	Weighted average cost of capital	3.3% - 27.5%	13.4%

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			Expected principal recovery	100.0%	N/A
Equity investments	\$1,841,386	Market	EBITDA multiple	3.8x - 11.0x	6.2x
		Income	Weighted average cost of capital	3.3% - 28.0%	13.4%
CLO equity	\$2,342,100	Bond Yield	Risk adjusted discount factor	14.4%	14.4%
Royalty security	\$951,593	Bond Yield	Risk adjusted discount factor	19.1%	19.1%

Type of Investment	Fair Value at		Significant Unobservable Input	Range	Weighted Average
	December 31, 2013	Valuation Technique			
Debt investments	\$67,895,656	Bond Yield	Risk adjusted discount factor	12.9% - 25.0%	15.9%
		Market	EBITDA multiple	4.1x - 11.0x	6.2x
		Income	Weighted average cost of capital	13.0% - 20.0%	16.3%
			Expected principal recovery	100.0%	N/A
Equity investments	\$1,143,734	Market	EBITDA multiple	4.1x - 11.0x	6.2x
		Income	Weighted average cost of capital	13.0% - 20.0%	16.3%
Royalty security	\$758,061	Bond Yield	Risk adjusted discount factor	21.0%	21.0%

When estimating the fair value of its debt investments, the Company typically utilizes the bond yield technique. The significant unobservable inputs used in the fair value measurement under this technique are risk adjusted discount factors. However, the Company also takes into consideration the market technique and income technique in order to determine whether the fair value of the debt investment is within the estimated enterprise value of the portfolio company. The significant unobservable inputs used under these techniques are EBITDA multiples, weighted average cost of capital and expected principal recovery. Under the bond yield technique, significant increases (decreases) in the risk adjusted discount factors would result in a significantly lower (higher) fair value measurement.

When estimating the fair value of its equity investments, the Company utilizes the (i) market technique and (ii) income technique. The significant unobservable inputs used in the fair value measurement of the Company's equity investments are EBITDA multiples and weighted average cost of capital ("WACC"). Significant increases (decreases) in EBITDA multiple inputs in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in WACC inputs in isolation would result in a significantly lower (higher) fair value measurement.

When estimating the value of its CLO equity investment, the Company typically utilizes the bond yield technique. The significant unobservable inputs used in the fair value measurement under this technique are risk adjusted discount factors. The Company also utilizes the performance and covenant compliance information as provided by the independent trustee along with other risk factors including default risk, prepayment rates, interest rate risk and credit spread risk when valuing this investment.

When estimating the fair value of its royalty security, the Company utilizes the bond yield technique and the specific provisions contained in the royalty security agreement. The determination of the fair value utilizing the specific provisions contained in the royalty security agreement is not a significant component of the Company's valuation process.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets:

	<b>Nine Months Ended September 30,  2014</b>	<b>Year Ended December 31,  2013</b>
Fair value of portfolio, beginning of period	\$69,797,451	\$38,024,042
New investments	39,483,895	38,829,968

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Principal payments received	(16,026,253)	(7,300,995 )
Loan origination and other fees received	(959,760 )	(1,651,274 )
Payment in kind interest earned	1,134,473	1,125,511
Accretion of deferred loan origination fees/discounts	1,085,062	818,904
Transfer (to) from level 2	(4,034,203 )	1,544,828
Realized losses on investments	(16,343 )	-
Unrealized appreciation (depreciation) on investments	521,875	(1,593,533 )
Fair value of portfolio, end of period	\$90,986,197	\$69,797,451

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a portion of the Company's assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

## Note 7: Related Party Transactions

We were founded in September 2011 by certain members of our investment adviser and JMP Group Inc., a full-service investment banking and asset management firm. JMP Group Inc. currently holds an equity interest in us and our investment adviser and was our lender under the JMP Facility. JMP Group Inc. conducts its primary business activities through three wholly-owned subsidiaries: (i) Harvest Capital Strategies, LLC, an SEC registered investment adviser that focuses on long-short equity hedge funds, middle-market lending and private equity, (ii) JMP Securities LLC, a full-service investment bank that provides equity research, institutional brokerage and investment banking services to growth companies and their investors, and (iii) JMP Credit Advisors LLC, which manages approximately \$845 million in credit assets of collateralized loan obligation funds.

On August 24, 2011, HCC LLC entered into the JMP Facility, a 6 year, \$30.0 million credit facility with JMP Group LLC. The JMP Facility initially had a two year revolving period with maximum outstanding amounts of \$20 million, which increased at a rate of \$2.5 million per quarter thereafter until the maximum outstanding amount available reached \$30.0 million in July 2012. The maximum amount outstanding was also limited by a covenant that restricted borrowings to be less than 2.0 times the Net Tangible Asset Value of HCC LLC. At the end of the two year revolving period, the outstanding balance was scheduled to amortize evenly at 5% in each of the following 16 consecutive quarters with the final 20% due at maturity in August 2017. The JMP Facility initially carried an interest rate of LIBOR + 7.00%, with a LIBOR floor of 1.50%, or the Prime rate + 4.75%. The JMP Facility also had an unused line fee of 0.50% per year. The Company paid an origination fee of 0.50% or \$150.0 thousand at the initial closing of the JMP Facility.

On March 25, 2013, in advance of our initial public offering, HCC LLC and HCAP entered into an amendment to the JMP Facility, which became effective following the completion of HCAP's initial public offering and the satisfaction of certain other closing conditions. The JMP Facility, as so amended, provided up to an aggregate of \$50.0 million of revolving borrowings until April 1, 2014, and after April 1, 2014, the amount outstanding thereunder was to become a term loan payable in fourteen consecutive quarterly installments (beginning on April 1, 2014), each in an amount equal to 5% of the term amount, and with the final payment of any other outstanding amounts due on the maturity date of August 24, 2017. Borrowings under the secured revolving credit facility bore interest at an annual rate equal to either (i) LIBOR + 4.50% or (ii) the Prime Rate + 2.25%, at the Company's election and subject to increases during a default under the JMP Facility.

On October 29, 2013, in conjunction with securing and entering into the Credit Facility, the Company terminated the JMP Facility.

Until the initial public offering, Harvest Capital Strategies LLC ("HCS") served as the investment adviser for HCC LLC under the investment advisory and management agreement, which provided for management fees payable quarterly to the investment adviser at a rate of 2.0% per annum of the gross assets of HCC LLC. HCS agreed to waive

the management fees payable to it by HCC LLC with respect to any assets acquired by HCC LLC prior to the initial public offering through the use of borrowings under the JMP Facility until such time that the JMP Facility was repaid in full and terminated. The investment adviser also received an incentive fee based on performance. The terms of the incentive fee were the same as the post- initial public offering incentive fee except that it did not have the total return requirement that the post- initial public offering incentive fee has.

In conjunction with the initial public offering, HCAP entered into a new investment advisory and management agreement to, among other things, have HCAP Advisors LLC, which is affiliated with HCS, replace HCS as our investment adviser. Under the new investment advisory and management agreement, the base management fee is calculated based on our gross assets (which includes assets acquired with the use of leverage and excludes cash and cash equivalents) at an annual rate of 2.0% on gross assets up to and including \$350 million, 1.75% on gross assets above \$350 million and up to and including \$1 billion, and 1.5% on gross assets above \$1 billion. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our pre-incentive fee net investment income that exceeds a 2% quarterly (8% annualized) hurdle rate, subject to a catch-up provision measured at the end of each fiscal quarter. The second part is calculated and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date) and equals 20% of our realized capital gains on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees.

The post- initial public offering incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our pre-incentive fee net investment income is payable except to the extent 20% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative income and capital gains incentive fees accrued and/or paid for the 11 preceding quarters. As a result, the total return requirement acts to defer our obligation to pay our investment adviser an incentive fee to the extent that we have generated cumulative net decreases in assets resulting from operations over the trailing 12 quarters due to unrealized or realized net losses on our investments and even in the event that our pre-incentive fee net investment income exceeds the hurdle rate. Additionally, our investment adviser agreed to waive its incentive fees from the period beginning with our initial public offering through March 31, 2014 to the extent required to support a minimum annual dividend yield of 9% (paid on a monthly basis) based on our initial public offering price per share of \$15.00 per share. The number of shares of common stock taken into account in connection with this determination only included shares outstanding immediately after the initial public offering plus the number of shares of common stock issued pursuant to our dividend reinvestment plan relating to those shares during the waiver period. Incentive fee expense, net of fees waived under the waiver agreement, for the three and nine months ended September 30, 2014 totaled \$504,146 and \$1,137,991, respectively. The capital gains incentive fee is determined and paid annually with respect to realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized capital losses for such year. The Company records an expense accrual relating to the capital gains incentive fee payable by the Company to its investment adviser when the unrealized gains on its investments exceed all realized and unrealized capital losses on its investments given the fact that a capital gains incentive fee would be owed to the investment adviser if the Company were to liquidate its investment portfolio at such time. The actual incentive fee payable to the Company's investment adviser related to capital gains is determined and payable in arrears at the end of each fiscal year and includes only realized capital gains for the period. The Company recorded net unrealized depreciation of \$242,822 for the quarter ended September 30, 2014 and net unrealized depreciation of \$1,714,368 since our initial public offering.

The incentive fee expense also included the waiver of \$320,827 in income incentive fees that would otherwise have been payable to the Company's investment adviser for the period ended March 31, 2014 but for the 9% minimum dividend yield waiver provision described above.

Total base management fees and incentive management fees expense was \$990,588 and \$166,784 for the three months ended September 30, 2014 and the three months ended September 30, 2013, respectively. Total base management fees and incentive management fees expense, net of fees waived under the waiver agreement, was \$2,769,461 and \$800,299 for the nine months ended September 30, 2014 and the nine months ended September 30, 2013, respectively. Accrued management fees were \$1.2 million and \$0.4 million as of September 30, 2014 and December 31, 2013, respectively.

HCC LLC entered into an administration agreement with JMP Credit Advisors LLC ("JMPCA"), a subsidiary of JMP Group Inc. The agreement provided that JMPCA would provide all of HCC LLC's administrative services including loan operations, accounting and recordkeeping and shareholders services. JMPCA would be reimbursed by HCC LLC for its expenses, including reimbursement for an allocable percentage of the compensation costs for the employees performing services under the agreement. There was a \$200,000 cap for reimbursement during the first twelve months of the agreement. In conjunction with the initial public offering, HCAP entered into a substantially similar



administration agreement with JMPCA except that payments required to be made by HCAP to JMPCA under the agreement were capped such that amounts payable to JMPCA would not exceed \$275,000 during the first year of the term of the administration agreement. Since the \$275,000 cap expired on April 29, 2014, the Company has negotiated a new cap with JMPCA of \$150,000 for each of the quarters ending June 30, September 30, and December 31, 2014. Total administrative services expense was \$143,124 and \$70,417 for the three months ended September 30, 2014 and the three months ended September 30, 2013, respectively. Total administrative services expense was \$348,201 and \$206,250 for the nine months ended September 30, 2014 and the nine months ended September 30, 2013, respectively. Accrued administrative services fees were \$143,125 and \$22,917 as of September 30, 2014 and December 31, 2013, respectively.

On February 7, 2011, HCC LLC engaged JMP Securities LLC, a subsidiary of JMP Group Inc., to serve as the placement agent for HCC LLC's offering of up to \$30.0 million of capital commitments. JMP Securities LLC or its affiliates may provide us with various financial advisory and investment banking services in the future, for which they would receive compensation. The Company did not record any commission during the three month and nine months ended September 30, 2014 and the three and nine months ended September 30, 2013 owed to the related party in connection with securing capital commitments. Additionally, JMP Securities LLC was one of the book-running underwriters in HCAP's initial public offering for which it received an estimated \$420,000 of compensation.

In connection with the Merger, the Company succeeded to all of the assets and liabilities of HCC LLC, including a potential obligation to pay HCS a capital gains incentive fee based on the net unrealized appreciation in HCC LLC's investment portfolio. An expense for the incentive fee in the amount of \$0.5 million was accrued in HCC LLC's financial statements at the time of the Merger and, accordingly, reduced the value of HCC LCC in the Merger. The Company will only be obligated to pay a capital gains incentive fee on the acquired investment assets when and if such fee would have become payable under the terms of the investment advisory agreement that HCC LLC had entered into with HCS and irrespective of the 9% minimum dividend hurdle waiver discussed above. The right to receive such incentive fee, if any, was assigned by HCS to HCAP Advisors LLC after the Merger.

**Note 8: Commitments and Contingencies**

At September 30, 2014, the Company had a total of \$9.0 million in unfunded commitments comprised of \$3.5 million and \$1.0 million of delayed draws that had not been fully drawn and expire on December 31, 2014 and April 1, 2015, respectively, and \$2.5 million of unfunded revolving line of credit commitments on four of the Company's debt investments, and \$2.0 million of a loan that had not closed as of September 30, 2014.

**Note 9: Net Increase in Net Assets Resulting from Operations per Common Share**

In accordance with the provision of FASB ASC 260, *Earnings per Share* ("ASC 260"), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. There were no potentially dilutive common shares issued as of September 30, 2014, and 452 potentially dilutive common shares issued as of December 31, 2013.

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for each period:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net increase in net assets resulting from operations	\$2,016,493	\$1,113,954	\$6,651,973	\$3,600,886
Weighted average shares outstanding (basic) (1)	6,194,804	6,097,708	6,175,863	3,856,705
Weighted average shares outstanding (diluted) (1)	6,194,804	6,098,160	6,175,863	3,857,157
Net increase in net assets resulting from operations per share (basic) (1)	\$0.33	\$0.18	\$1.08	\$0.93
Net increase in net assets resulting from operations per share (diluted) (1)	\$0.33	\$0.18	\$1.08	\$0.93

(1) The shares outstanding and per share amounts for all periods prior to May 2013 have been adjusted for the conversion rate of 0.9913 shares for each unit. See Note 1.



**Note 10: Financial Highlights**

The following is a schedule of financial highlights for the three and nine months ended September 30, 2014 and September 30, 2013, respectively:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b>Per share data:</b>				
Net asset value at beginning of period	\$ 14.52	\$ 14.85	\$ 14.45	\$ 16.89
Net investment income	0.37	0.24	0.99	0.91
Realized losses on investments	-	-	-	-
Net unrealized appreciation (depreciation) on investments	(0.04 )	(0.06 )	0.08	0.02
Net increase in net assets from operations	0.33	0.18	1.07	0.93
Distributions from net investment income (1)	(0.34 )	(0.34 )	(1.02 )	(2.24 )
Distributions from capital gains (1)	-	-	-	-
Return of capital (1)	-	-	-	-
Effect of shares issued, net of offering expenses	-	-	-	(0.89 )
Net asset value at end of period	\$ 14.51	\$ 14.69	\$ 14.50	\$ 14.69
Net assets at end of period	90,022,723	89,790,816	90,022,723	89,790,816
Shares outstanding at end of period (2)	6,205,256	6,111,961	6,205,256	6,111,961
Weighted average shares outstanding (2)	6,194,804	6,097,708	6,175,863	3,856,705
Per share market value at end of period	\$ 13.15	\$ 15.02	\$ 13.15	\$ 15.02
<b>Ratios and Supplemental data:</b>				
Total Return (3)	2.42 %	1.19 %	7.71 %	(0.51 %)
Average Net Assets	\$ 90,038,716	\$ 90,133,783	\$ 89,503,649	\$ 56,384,493
Ratio of expenses to average Net assets (annualized)	7.30 %	2.56 %	6.43 %	%(4) 5.66 %
Ratio of net investment income to average Net assets (annualized)	10.10 %	6.54 %	9.17 %	8.28 %
Incentive management fees				

Distributions for the nine months ended September 30, 2014 were in excess of net investment income in the amount of \$99,234. Distributions for the nine months ended September 30, 2013 were comprised of \$4,745,817 (1) from net investment income. Of the \$4,745,817 in distributions made during the nine months ended September 30, 2013, \$816,229 were from earnings for the quarter ended December 31, 2012. See Dividends and Distributions Policy in Note 2.

(2)

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The shares outstanding and per share amounts for the periods prior to May 2013 have been adjusted for the conversion rate of 0.99 shares for each unit. See Note 1.

Total return measures the changes in net asset value over the period indicated, taking into account dividends as (3)reinvested. Dividends and distributions are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's dividend reinvestment plan.

Had our investment adviser not agreed to waive its incentive fee for the period from our initial public offering (4)through March 31, 2014, to the extent required to support a minimum dividend yield of 9%, our ratio of expenses to average net assets would have increased by 47 basis points on an annualized basis.

### **Note 11: Subsequent Events**

On October 3, 2014, the Company made a \$1.5 million investment in Bridgewater Engine Ownership III, LLC. The investment is comprised of a \$1.5 million senior secured term loan.

On October 7, 2014, the Company made a \$3.0 million debt investment in Flavors Holdings, Inc.. The investment is comprised of a junior secured term loan.

On October 8, 2014, the Company sold its \$1.0 million first-lien term-loan investment in North Atlantic Trading Company, Inc. at a price of 99.75% of par.

On October 21, 2014, the Company made an additional \$0.5 million investment in Infinite Aegis Group, LLC. The investment is comprised of the last out tranche of a senior secured term loan.

On October 29, 2014, the Company made a \$4.0 million debt investment in SourceHOV LLC. The investment is comprised of a junior secured term loan.

On October 31, 2014, the Company was the Lead Arranger for a \$20.0 million junior secured subordinated term loan provided to FOX Rent A Car, Inc. The Company syndicated a portion of the investment maintaining a final hold of \$10.0 million.

On October 31, 2014, the Company received a full repayment at par, plus a 1% prepayment fee on its \$4.9 million debt investment in Rostra Tool Company. The Company also received \$0.6 million for its warrant. The Company generated an IRR of 25% on this investment.

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On October 31, 2014, the Company received a full repayment at par, plus a 2% prepayment fee and 5% exit fee on its \$1.0 million debt investment in SISD, Inc. (Garden State). The Company also received \$0.1 million for its warrants. The Company generated an IRR of 43% on this investment.

On November 6, 2014, the Company declared monthly distributions of \$0.1125 per share payable on each of November 28 and December 24, 2014, and January 29, 2015.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

Some of the statements in this quarterly report on Form 10-Q constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, including statements as to:

- our future operating results, including the performance of our existing investments;
- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our investment adviser;
- the impact of increased competition;
- the impact of investments we intend to make and future acquisitions and divestitures;
- our ability to turn potential investment opportunities into transactions and thereafter into completed and successful investments;
- the unfavorable resolution of any future legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- our regulatory structure and tax status;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly because we use leverage as part of our investment strategy;
- the ability of our portfolio companies to achieve their objective;
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or our investment adviser;
- our contractual arrangements and relationships with third parties;
- our ability to access capital and any future financings by us;
- the ability of our investment adviser to attract and retain highly talented professionals; and
- the impact of changes to tax legislation and, generally, our tax position.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include the words "may," "might," "will," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "anticipate," "pre" or similar words.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report on Form 10-Q, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. We undertake no obligation to

revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law or SEC rule or regulation. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained elsewhere in this quarterly report on Form 10-Q.

## Overview

We were formed as a Delaware corporation on November 14, 2012. We completed our initial public offering on May 7, 2013, raising \$51.0 million in gross proceeds. On May 17, 2013, we raised another \$6.5 million in gross proceeds from the closing of the initial public offering underwriters' overallotment option. Immediately prior to the initial public offering, we acquired Harvest Capital Credit LLC ("HCC LLC") in a merger whereby the outstanding limited liability company membership interests were converted into shares of our common stock and we assumed and succeeded to all of HCC LLC's assets and liabilities, including its entire portfolio of investments. We issued 2,246,699 shares of our common stock for all of its 2,266,974 outstanding membership interests in connection with the merger. HCC LLC is considered to be our predecessor for accounting purposes and, as such, its financial statements are our historical financial statements. Accordingly, the financial statements for periods prior to the initial public offering presented in this Form 10-Q and this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are in reference to the historical financial statements of HCC LLC.



As used herein, the terms “we”, “us” and the “Company” refer to HCC LLC for the periods prior to the initial public offering and refer to Harvest Capital Credit Corporation for the periods after the initial public offering.

Our investment objective is to generate both current income and capital appreciation primarily by making direct investments in the form of subordinated debt and, to a lesser extent, senior debt and minority equity investments. We plan to accomplish our investment objective by targeting investments in small and mid-sized U.S. private companies with annual revenues of less than \$100 million and EBITDA (earnings before interest, taxes, depreciation and amortization) of less than \$15 million. We believe that transactions involving companies of this size offer higher yielding investment opportunities, lower leverage levels and other terms more favorable than transactions involving larger companies.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As a BDC, we are required to comply with certain regulatory requirements. For instance, as a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in “eligible portfolio companies.” Under the relevant SEC rules, the term “eligible portfolio company” includes all private companies, companies whose securities are not listed on a national securities exchange, and certain public companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million, in each case organized in the United States.

We have elected to be treated for tax purposes as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). To qualify for RIC tax treatment, we must, among other things, meet certain source-of-income and asset diversification requirements. As a RIC, we generally will not have to pay corporate-level taxes on any income we distribute to our stockholders.

## **Portfolio**

### ***Portfolio Composition***

As of September 30, 2014, we had \$98.5 million (at fair value) invested in 25 companies. As of September 30, 2014, our portfolio included approximately 52.7% of senior secured term loans, 42.1% of junior secured term loans, 1.9% of equity investments, 2.4% of CLO equity investments and 0.9% of a royalty security at fair value.

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We completed 2013 with \$70.6 million (at fair value) invested in 21 companies. As of December 31, 2013, our portfolio included approximately 35.6% of senior secured term loans, 61.7% of junior secured term loans, 1.6% of equity investments and 1.1% of a royalty security at fair value.

We originate and invest primarily in privately-held middle-market companies (typically those with less than \$15.0 million of EBITDA) through senior secured and junior secured term loans, oftentimes with a corresponding equity investment component and less frequently with a corresponding royalty security. The composition of our investments as of September 30, 2014 and December 31, 2013 was as follows:

	As of September 30, 2014		As of December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Senior Secured	\$52,140,907	\$51,962,942	\$24,899,206	\$25,101,714
Junior Secured	41,003,322	41,438,544	43,224,476	43,548,968
Equity	1,430,810	1,841,386	1,422,334	1,143,733
CLO Equity	2,342,100	2,342,100	-	-
Royalty Securities	860,877	951,593	758,061	758,061
Total Investments	\$97,778,016	\$98,536,565	\$70,304,077	\$70,552,476

At September 30, 2014, our average portfolio company investment at amortized cost and fair value was approximately \$3.9 million and \$3.9 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately \$8.9 million and \$8.9 million, respectively. At December 31, 2013, our average portfolio company investment at amortized cost and fair value was approximately \$3.4 million and \$3.3 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately \$6.1 million and \$6.1 million, respectively.

At September 30, 2014, 57.1% of our debt investments bore interest based on floating rates (some of which were subject to interest rate floors), such as LIBOR, and 42.9% bore interest at fixed rates. At December 31, 2013, 45.2% of our debt investments bore interest based on floating rates (some of which were subject to interest rate floors), such as LIBOR, and 54.8% bore interest at fixed rates.

The weighted average yield at fair value on all of our debt investments as of September 30, 2014 and December 31, 2013 was approximately 15.4% and 16.6%, respectively. The weighted average yield was computed using the effective interest rates for all of our debt investments, including cash and PIK interest as well as the accretion of original issue discount and other deferred fees.

### ***Investment Activity***

During the three months ended September 30, 2014, we closed \$21.2 million of investment commitments in one new portfolio company and four of our existing portfolio companies. During the three months ended September 30, 2013, we closed \$13.3 million of investment commitments in two new portfolio companies and one existing portfolio company.

During the nine months ended September 30, 2014, we advanced an additional \$0.3 million under delayed draw and line of credit facilities in one of our existing portfolio companies, closed \$49.8 million of investment commitments in seven new portfolio companies and seven of our existing portfolio companies and closed on a \$2.6 million CLO equity investment. During the nine months ended September 30, 2013, we advanced an additional \$1.5 million under a line of credit facility in one of our existing portfolio companies and closed \$19.3 million of investment commitments in three new portfolio companies and one of our existing portfolio companies.

During the three months ended September 30, 2014, we received a \$10.0 million payoff at par for three portfolio company investments and sold one portfolio company investment at \$2.0 million. Additionally, we received \$0.8 million in principal repayments due to amortization or prepayments and \$0.3 million in repayments on revolving lines of credit. During the three months ended September 30, 2013, we received a \$2.5 million payoff at par for one portfolio company investment. Additionally, we received \$43.1 thousand in principal repayments due to amortization

or prepayments.

During the nine months ended September 30, 2014, we received a \$14.3 million payoff at par for four portfolio company investments and sold three portfolio company investments at \$6.6 million. Additionally, we received \$2.1 million in principal repayments due to amortization or prepayments and \$1.1 million in repayments on revolving lines of credit. During the nine months ended September 30, 2013, we received a \$6.7 million payoff at par for two portfolio investments, a \$0.1 million exit fee for one portfolio investment and \$0.1 million in principal repayments due to amortization.

Our level of investment activity can vary substantially from period to period depending on many factors, including the level of merger and acquisition activity in our target market, the general economic environment and the competitive environment for the types of investments we make.

**Asset Quality**

In addition to various risk management and monitoring tools, we use an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in our portfolio. This investment rating system uses a five-level numeric scale. The following is a description of the conditions associated with each investment rating:

Investment Rating 1 is used for investments that are performing above expectations, and whose risks remain favorable compared to the expected risk at the time of the original investment.

Investment Rating 2 is used for investments that are performing within expectations and whose risks remain neutral compared to the expected risk at the time of the original investment. All new loans are initially rated 2.

Investment Rating 3 is used for investments that are performing below expectations and that require closer monitoring, but where no loss of return or principal is expected. Portfolio companies with a rating of 3 may be out of compliance with financial covenants.

Investment Rating 4 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are often in workout. Investments with a rating of 4 are those for which some loss of return but no loss of principal is expected.

Investment Rating 5 is used for investments that are performing substantially below expectations and whose risks have increased substantially since the original investment. These investments are almost always in workout.

Investments with a rating of 5 are those for which some loss of return and principal is expected.

The following table shows the investment rankings of our income producing investments at fair value:

Investment Rating	Fair Value	As of September 30, 2014			As of December 31, 2013			
		% of		Number of	% of		Number of	
		Total	Portfolio	Companies	Fair Value	Total	Portfolio	Companies
1	20.5	21.1	%	6	\$9.5	13.6	%	2
2	63.7	65.9	%	14	54.6	78.7	%	16
3	5.3	5.5	%	2	3.8	5.5	%	1
4	7.2	7.5	%	2	1.5	2.2	%	1
5	-	-	%	-	-	-	%	-
	\$96.7	100.0	%	24	\$69.4	100.0	%	20

**Loans and Debt Securities on Non-Accrual Status**

We will not accrue interest on loans and debt securities if we have reason to doubt our ability to collect such interest or for such investments in which interest has not been paid for greater than 90 days. As of September 30, 2014 and December 31, 2013, we had one loan on non-accrual status and no loans on non-accrual, respectively.

## **Results of Operations**

An important measure of our financial performance is net increase (decrease) in net assets resulting from operations, which includes net investment income (loss), net realized gain (loss) and net unrealized appreciation (depreciation). Net investment income (loss) is the difference between our income from interest, dividends, fees and other investment income and our operating expenses including interest on borrowed funds. Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost. Net unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

## **Comparison of the Three Months and Nine Months Ended September 30, 2014 and 2013**

### ***Revenues***

We generate revenue in the form of interest income on debt investments and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments typically have a term of five to seven years and bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly. Payments of principal on our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt investments may pay interest in-kind, or PIK. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. The level of interest income we receive is directly related to the balance of interest-bearing investments multiplied by the weighted average yield of our investments. We expect that the dollar amount of interest and any dividend income that we earn to increase as the size of our investment portfolio increases. In addition, we may generate revenue in the form of prepayment fees, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

Investment income for the three months ended September 30, 2014 totaled \$3.9 million compared to investment income of \$2.1 million for the three months ended September 30, 2013. Investment income for the three months ended September 30, 2014 was comprised of \$2.7 million in cash interest, \$0.3 million in PIK interest, \$0.6 million in fees, discounts and premiums on the investment portfolio and \$0.3 million other interest income. Investment income for the three months ended September 30, 2013 was comprised of \$1.6 million in cash interest, \$0.3 million in PIK interest and \$0.2 million in fees, discounts and premiums on the investment portfolio. The increase in investment income in the three months ended September 30, 2014 is attributable to a larger investment portfolio during the period as compared to the three months ended September 30, 2013.

Investment income for the nine months ended September 30, 2014 totaled \$10.5 million compared to investment income of \$5.9 million for the nine months ended September 30, 2013. Investment income for the nine months ended September 30, 2014 was comprised of \$7.9 million in cash interest, \$1.1 million in PIK interest, \$1.1 million in fees, discounts and premiums on the investment portfolio and \$0.4 million other interest income. Investment income for the nine months ended September 30, 2013 was comprised of \$4.5 million in cash interest, \$0.8 million in PIK interest and \$0.6 million in fees, discounts and premiums on the investment portfolio. The increase in investment income in the nine months ended September 30, 2014 is attributable to a larger investment portfolio during the period as compared to the nine months ended September 30, 2013.

### *Expenses*

Our primary operating expenses include the payment of fees to HCAP Advisors LLC under the investment advisory and management agreement, our allocable portion of overhead expenses under the administration agreement and other operating costs described below. We bear all other out-of-pocket costs and expenses of our operations and transactions, which include:

- Interest expense and unused line fee;
- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;
- out-of-pocket fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- U.S. federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors' and officers' liability insurance and other insurance premiums;
- direct costs, such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;

costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S. federal and state securities laws; and other expenses incurred by JMP Credit Advisors LLC or us in connection with administering our business, including payments under the administration agreement that are based upon our allocable portion of overhead (subject to the review of our board of directors).

Operating expenses, net of fees waived under the waiver agreement, totaled \$1.6 million for the three months ended September 30, 2014 compared to \$0.6 million for the three months ended September 30, 2013. Operating expenses in both periods consisted of interest expense, base and incentive management fees, administrator expenses, professional fees, valuation fees, insurance expenses, directors' fees, and other general and administrative expenses. The increase in operating expenses was due to higher base management fees, incentive management fees and administrative expenses for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.



Operating expenses, net of fees waived under the waiver agreement, totaled \$4.3 million for the nine months ended September 30, 2014 compared to \$2.4 million for the nine months ended September 30, 2013. Operating expenses in both periods consisted of interest expense, base and incentive management fees, administrator expenses, professional fees, valuation fees, insurance expenses, directors' fees, and other general and administrative expenses. The increase in operating expenses was due to higher base management fees, incentive management fees and administrative expenses for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Interest expense was higher for the three months and nine months ended September 30, 2014 compared to the same periods in 2013 due to a higher average debt outstanding balance. We used cash raised from our initial public offering in May 2013 to pay-off all indebtedness and to fund new investments since then and have borrowed against our Credit Facility (defined below) in the second and third quarters of 2014.

The administrative services expense was \$0.1 million and \$0.3 million for the three months and nine months ended September 30, 2014 compared to \$0.1 million and \$0.2 million for the three months and nine months ended September 30, 2013. The Company negotiated a new fee cap under the administration agreement with JMP Credit Advisors that limits the amounts payable by the Company to \$150,000 for each of the quarters ending September 30 and December 30, 2014. For the period from our initial public offering to April 29, 2014, the fee cap under the administration agreement with JMP Credit Advisors was \$275,000.

The base management fee for the three months and nine months ended September 30, 2014 was \$0.5 million and \$1.3 million compared to \$0.3 million and \$0.5 million for the three months and nine months ended September 30, 2013. The increase is attributable to growth in the portfolio and a different base management fee calculation between the comparative periods (as described below). Incentive management fees, net of fees waived under the waiver agreement, for the three months and nine months ended September 30, 2014 were \$0.5 million and \$1.1 million compared to \$(0.1) million and \$0.3 million for the three months and nine months ended September 30, 2013. The increase in incentive management fees is attributable to the unrealized appreciation during the three months and nine months ended September 30, 2014 and exceeding the income incentive fee hurdle for the period of time following the expiration of the incentive management fee waiver (discussed below) through the end of the third quarter of 2014. See the discussion below for more information on our base and incentive fee expenses.

Our historical expense structure changed as a result of the completion of our initial public offering as follows:

The base management fee payable to our investment adviser prior to the initial public offering was calculated at an annual rate of 2.0% of our gross assets, including assets acquired with the use of borrowings. However, our investment adviser had agreed to waive the base management fee payable to it prior to the initial public offering with respect to any assets acquired by us through the use of borrowings under the JMP Facility (defined below) until such time that the credit facility has been repaid in full and terminated. Moreover, our investment adviser received a base management fee prior to the initial public offering with respect to cash and cash equivalents held by us. Subsequent

to the initial public offering, the base management fee is calculated based on our gross assets (which includes assets acquired with the use of leverage, but excludes cash and cash equivalents) at an annual rate of 2.0% on gross assets up to and including \$350 million, 1.75% on gross assets above \$350 million and up to and including \$1 billion, and 1.5% on gross assets above \$1 billion. Moreover, the waiver agreement described above with respect to assets acquired by us through the use of borrowings under the JMP Facility (defined below) was terminated in connection with our initial public offering. As a result, a base management fee is payable to our investment adviser on all assets acquired by us through the use of borrowings, including under a credit facility.

Our investment adviser agreed to permanently waive all or such portion of the incentive fee that it would otherwise collect from us to the extent necessary to support a minimum dividend yield of 9% for the period of time commencing with our initial public offering through March 31, 2014. The 9% dividend hurdle is based upon our initial public offering price of \$15 times the number of shares of our common stock currently outstanding plus the number of shares of common stock issued pursuant to our dividend reinvestment plan during the waiver period. Incentive fee expense, net of fees waived under the waiver agreement, for the three and nine months ended September 30, 2014 totaled \$504,146 and \$1,137,991 respectively. The capital gains incentive fee is determined and paid annually with respect to realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized capital losses for such year. The Company records an expense accrual relating to the capital gains incentive fee payable by the Company to its investment adviser when the unrealized gains on its investments exceed all realized and unrealized capital losses on its investments given the fact that a capital gains incentive fee would be owed to the investment adviser if the Company were to liquidate its investment portfolio at such time. The actual incentive fee payable to the Company's investment adviser related to capital gains is determined and payable in arrears at the end of each fiscal year and includes only realized capital gains for the period. The Company recorded net unrealized depreciation of \$242,822 in the quarter ended September 30, 2014 and net unrealized depreciation of \$1,714,368 since the initial public offering.

The incentive fee expense also included the waiver of \$320,827 in income incentive fees that would otherwise have been payable to the Company's investment adviser for the three months ended March 31, 2014 but for the 9% minimum dividend yield waiver provision described above.

Only a portion of the 2013 periods (i.e., from May 2, 2013, the date of our initial public offering, to December 31, 2013) reflect the change in our historical expense structure for the items noted above as well as our operations as a public company. As a result, the full impact of such changes will be more evident in future periods.

Other operating expenses included general and administrative expenses such as legal, accounting and valuation expenses.

### ***Net Investment Income***

For the three months and nine months ended September 30, 2014, net investment income was \$2.3 million and \$6.2 million, respectively, compared to \$1.5 million and \$3.5 million for the three months and nine months ended September 30, 2013, respectively. For the three months and nine months ended September 30, 2014, net investment income per share was \$0.37 and \$1.00, respectively, compared to \$0.24 and \$0.91 for the three months and nine months ended September 30, 2013, respectively. The increase in net investment income for the three months and nine months ended September 30, 2014 compared to September 30, 2013 is primarily attributable to a larger investment portfolio.

### ***Net Realized Gains and Losses***

Realized gains and losses on investments are calculated using the specific identification method. We measure realized gains or losses on equity investments as the difference between the net proceeds from the sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized. We measure realized gains or losses on debt investments as the difference between the net proceeds from the repayment or sale and the contractual amount owed to us on the investment, without regard to unrealized appreciation or depreciation previously recognized or unamortized deferred fees. The acceleration of unamortized deferred fees is recognized as interest income and the collection of prepayment and other fees is recognized as other interest income.

We recognized realized losses of \$13,874 and 10,757 for the three months and nine months ended September 30, 2014, respectively. We did not recognize any realized gains or losses on our investments for the three months and nine months ended September 30, 2013, respectively.

***Net Change in Unrealized Appreciation (Depreciation) of Investments***

Net change in unrealized appreciation (depreciation) primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded appreciation or depreciation when gains or losses are realized.

Net change in unrealized appreciation (depreciation) on investments totaled \$(0.2) million and \$0.5 million for the three months and nine months ended September 30, 2014, respectively, and \$(0.3) million and \$0.1 million for the three months and nine months ended September 30, 2013, respectively.

***Net Increase in Net Assets Resulting from Operations***

The net increase in net assets resulting from operations was \$2.0 million and \$6.7 million for the three months and nine months ended September 30, 2014, respectively, and \$1.1 million and \$3.6 million for the three months and nine months ended September 30, 2013, respectively. The increased amount for the three months and nine months ended September 30, 2014 compared to the three months and nine months ended September 30, 2013 primarily reflects the increase in net investment income and unrealized appreciation described above.

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

### *Cash Flows from Operating and Financing Activities*

Our operating activities used cash of \$19.6 million and \$6.8 million for the nine months ended September 30, 2014 and September 30, 2013, respectively, primarily in connection with the funding of new investments. Our financing activities provided cash of \$8.5 million and cash of \$37.9 million for the nine months ended September 30, 2014 and September 30, 2013, respectively. Our financing activities for the nine months ended September 30, 2014 were primarily in connection with dividends paid to shareholders and net borrowings on our Credit Facility. Our financing activities for the nine months ended September 30, 2013 were primarily in connection with proceeds received from our initial public offering, partially offset by paying down amounts outstanding under the JMP Facility (defined below).

Our liquidity and capital resources are derived from our credit facility proceeds, cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from public and private offerings of securities to finance our investment activities.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act, our plans to raise capital may not be successful. In this regard, if our common stock trades at a price below our then-current net asset value per share, we may be limited in our ability to raise equity capital given that we cannot sell our common stock at a price below net asset value per share unless our stockholders approve such a sale and our board of directors makes certain determinations in connection therewith.

In addition, we intend to distribute between 90% and 100% of our taxable income to our stockholders in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. In addition, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Also, as a BDC, we are generally required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. As of September 30, 2014

and December 31, 2013, we were in compliance with this requirement. Prior to our initial public offering, and our election to be treated as a BDC, we were not in compliance with this requirement, but we used the proceeds from the initial public offering to pay down the outstanding balance under the JMP Facility (defined below) and, as a result became compliant. The amount of leverage that we employ as a BDC will depend on our assessment of market conditions and other factors at the time of any proposed borrowing, such as the maturity, covenant package and rate structure of the proposed borrowings, our ability to raise funds through the issuance of shares of our common stock and the risks of such borrowings within the context of our investment outlook. Ultimately, we only intend to use leverage if the expected returns from borrowing to make investments will exceed the cost of such borrowing.

As of September 30, 2014 and December 31, 2013, we had cash of \$7.8 and \$19.0 million, respectively. Additionally, as of September 30, 2014 and December 31, 2013, we had undrawn availability on our Credit Facility of \$27.5 million and \$32.1 million, respectively.

### *Credit Facility*

On October 29, 2013, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with CapitalSource Bank, as agent and a lender, and each of the lenders from time to time party thereto, including City National Bank, to provide the Company with a \$55 million senior secured revolving credit facility (the “Credit Facility”). The Credit Facility is secured by all of the Company’s assets. The Loan Agreement, among other things, has a revolving period that expires on October 29, 2015 and a maturity date that expires on October 29, 2018. Advances under the Credit Facility bear interest at a rate per annum equal to the lesser of (i) LIBOR plus 4.50% and (ii) the maximum rate permitted under applicable law. In addition, the Loan Agreement requires payment of a fee for unused amounts during the revolving period, which fee varies depending on the obligations outstanding as follows: (i) 0.75% per annum, if the average daily principal balance of the obligations outstanding for the prior month are less than fifty percent of the maximum loan amount; and (ii) 0.50% per annum, if such obligations outstanding are equal to or greater than fifty percent of the maximum loan amount. In each case, the fee is calculated based on the difference between (i) the maximum loan amount under the Credit Facility and (ii) the average daily principal balance of the obligations outstanding during the prior calendar month.

The Loan Agreement also contains customary terms and conditions, including, without limitation, affirmative and negative covenants, including, without limitation, information reporting requirements, a minimum tangible net worth, a minimum debt service coverage ratio, a minimum liquidity of 4% of the maximum loan amount, a maximum leverage ratio of 1.00 to 1.00, and maintenance of RIC and business development company status. The Loan Agreement also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change of control, and the occurrence of a material adverse effect. In addition, the Loan Agreement provides that, upon the occurrence and during the continuation of such an event of default, the Company's administration agreement could be terminated and a backup administrator could be substituted by the agent.

On October 29, 2013, in conjunction with securing and entering into the Credit Facility, which, among other things, provides the Company with increased commitments, the Company terminated its senior secured revolving credit facility with JMP Group LLC (the "JMP Facility"). The JMP Facility had been entered into between HCC LLC and JMP Group LLC as of August 24, 2011. On March 25, 2013, in advance of the initial public offering, HCC LLC and HCAP entered into an amendment to the JMP Facility with JMP Group LLC. The JMP Facility, as so amended, provided up to an aggregate of \$50.0 million of revolving borrowings until April 1, 2014, and after April 1, 2014, the amount outstanding thereunder was to become a term loan payable in fourteen consecutive quarterly installments (beginning on April 1, 2014), each in an amount equal to 5% of the term amount, and with the final payment of any other outstanding amounts due on the maturity date of August 24, 2017. Borrowings under the JMP Facility bore interest at an annual rate equal to either (i) LIBOR + 4.50% or (ii) the Prime Rate + 2.25%, at the Company's election and subject to increases during a default under the JMP Facility. Under the JMP Facility, as so amended, the Company was required to pay JMP Group an amendment fee in the amount of \$100,000 if the amended facility was not terminated and repaid in full within 30 days of the date of the amendment. When the amended facility was not terminated and repaid in full within this period, however, JMP Group agreed to waive the amendment fee that the Company was otherwise required to pay. As of September 30, 2014 and December 31, 2013, the outstanding balance on the Credit Facility was \$14.0 and \$0, respectively.

### **Off-Balance Sheet Arrangements**

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. As of September 30, 2014, our off-balance sheet arrangements consisted of \$4.5 million of unfunded delayed draw commitments to provide debt financing to two of our portfolio companies and \$2.5 million of unfunded revolving line of credit commitments to four of our portfolio companies. As of December 31, 2013, our only off-balance sheet arrangements consisted of \$4.6 million of unfunded commitments to provide debt financing to three of our portfolio companies.

### **Regulated Investment Company Status and Dividends**

We have elected to be treated as a RIC under Subchapter M of the Code. If we qualify for RIC tax treatment, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation until realized. Dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income or the distribution of prior year taxable income carried forward into and distributed in the current year. Distributions also may include returns of capital.

To qualify for RIC tax treatment, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. As a RIC, the Company will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless the Company distributes in a timely manner an amount at least equal to the sum of (1) 98% of its ordinary income for each calendar year, (2) 98.2% of its capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which the Company paid no U.S. federal income tax.



We intend to distribute to our stockholders between 90% and 100% of our annual taxable income (which includes our taxable interest and fee income). However, the covenants contained in the Credit Facility may prohibit us from making distributions to our stockholders, and, as a result, could hinder our ability to satisfy the distribution requirement. In addition, we may retain for investment some or all of our net taxable capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) and treat such amounts as deemed distributions to our stockholders. If we do this, our stockholders will be treated as if they received actual distributions of the capital gains we retained and then reinvested the net after-tax proceeds in our common stock. Our stockholders also may be eligible to claim tax credits (or, in certain circumstances, tax refunds) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. To the extent our taxable earnings for a fiscal taxable year fall below the total amount of our dividends for that fiscal year, a portion of those dividend distributions may be deemed a return of capital to our stockholders. In this regard, of the \$4,672,460 in distributions from our initial public offering on May 2, 2013, to December 31, 2013, \$445,303 represented a return of capital.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage test for borrowings applicable to us as a BDC under the 1940 Act and due to provisions in the Credit Facility. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with these Treasury regulations or private letter rulings.

## **Recent Developments**

On October 3, 2014, the Company made a \$1.5 million investment in Bridgewater Engine Ownership III, LLC. The investment is comprised of a \$1.5 million senior secured term loan.

On October 7, 2014, the Company made a \$3.0 million debt investment in Flavors Holdings, Inc.. The investment is comprised of a junior secured term loan.

On October 8, 2014, the Company sold its \$1.0 million first-lien term-loan investment in North Atlantic Trading Company, Inc. at a price of 99.75% of par.

On October 21, 2014, the Company made an additional \$0.5 million investment in Infinite Aegis Group, LLC. The investment is comprised of the last out tranche of a senior secured term loan.

On October 29, 2014, the Company made a \$4.0 million debt investment in SourceHOV LLC. The investment is comprised of a junior secured term loan.

On October 31, 2014, the Company was the Lead Arranger for a \$20.0 million junior secured subordinated term loan provided to FOX Rent A Car, Inc. The Company syndicated a portion of the investment maintaining a final hold of \$10.0 million.

On October 31, 2014, the Company received a full repayment at par, plus a 1% prepayment fee on its \$4.9 million debt investment in Rostra Tool Company. The Company also received \$0.6 million for its warrant. The Company generated an IRR of 25% on this investment.

On October 31, 2014, the Company received a full repayment at par, plus a 2% prepayment fee and 5% exit fee on its \$1.0 million debt investment in SISD, Inc. (Garden State). The Company also received \$0.1 million for its warrants. The Company generated an IRR of 43% on this investment.

On November 6, 2014, the Company declared monthly distributions of \$0.1125 per share payable on each of November 28 and December 24, 2014, and January 29, 2015.

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

We are subject to financial market risks, including changes in interest rates. For the three months and nine months ended September 30, 2014, thirteen of our loans, or 52.0% of the fair value of our portfolio, bore interest at floating rates. Twelve of these floating rate loans have interest rate floors, which have effectively converted the loans to fixed rate loans in the current interest rate environment. For the three months and nine months ended September 30, 2013, five loans, or 31.9% of the fair value of the portfolio, bore interest at floating rates. Two of these investments had interest rate floors, which effectively converted the loans to fixed rate loans in the current interest rate environment. In the future, we expect other loans in our portfolio will have floating rates. Assuming that the Statement of Assets and Liabilities as of September 30, 2014, were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical one percent increase in LIBOR would increase our investment income by a maximum of \$0.1 million. Alternatively, a hypothetical decrease in LIBOR would have no impact on our net income as most of our floating rate loans and borrowing rates have LIBOR floors that would not be affected by the one percent decrease. Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. We have not engaged in any hedging activities to date.

**Item 4. Controls and Procedures.**

***(a) Evaluation of Disclosure Controls and Procedures***

As of September 30, 2014, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in timely alerting management, including the Chief Executive Officer and Chief Financial Officer, of material information about us required to be included in periodic SEC filings.

***(b) Changes in Internal Control Over Financial Reporting***

Management did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

### **Item 1A. Risk Factors**

There has been no material change in the information provided under the heading “Risk Factors” in our annual report on Form 10-K for the fiscal year ended December 31, 2013. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially affect our business, financial condition and/or operating results.

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

#### Sales of Unregistered Securities

During the quarter ended September 30, 2014, we issued a total of 17,287 shares of our common stock under our dividend reinvestment plan (“DRIP”). This issuance was not subject to the registration requirements of the Securities Act of 1933. The aggregate value of the shares of our common stock issued under the DRIP was approximately \$231,573.

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

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARVEST CAPITAL CREDIT CORPORATION

Dated: November 13, 2014 /s/ Richard P. Buckanavage  
Richard P. Buckanavage

Chief Executive Officer and President

/s/ Craig R. Kitchin  
Craig R. Kitchin

Chief Financial Officer, Chief Compliance Officer and Secretary

(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\* Filed herewith