

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Harvest Capital Credit Corp  
Form 10-Q  
August 10, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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  
(State or other Jurisdiction of  
Incorporation or Organization)

46-1396995  
(I.R.S. Employer  
Identification Number)

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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	..	Accelerated filer	p
Non-accelerated filer	..	Smaller reporting company	..

(Do not check if a smaller reporting Company)

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No  .  
The number of shares of the registrant's Common Stock, \$0.001 par value, outstanding as of August 6, 2015 was 6,255,313.

---

HARVEST CAPITAL CREDIT CORPORATION

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER  
ENDED JUNE 30, 2015

TABLE OF CONTENTS

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1.</u></b> <b><u>Financial Statements - (Unaudited)</u></b>	
<u>Statements of Assets and Liabilities</u> as of June 30, 2015 and December 31, 2014	<u>1</u>
<u>Statements of Operations</u> for the three months and six months ended June 30, 2015 and June 30, 2014	<u>2</u>
<u>Statements of Changes in Net Assets</u> for the six months ended June 30, 2015 and June 30, 2014	<u>3</u>
<u>Statements of Cash Flows</u> for the six months ended June 30, 2015 and June 30, 2014	<u>4</u>
<u>Schedule of Investments</u> as of June 30, 2015	<u>5</u>
<u>Schedule of Investments</u> as of December 31, 2014	<u>11</u>
<u>Notes to Unaudited Financial Statements</u>	<u>16</u>
<b><u>Item 2.</u></b> <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<u>33</u>
<b><u>Item 3.</u></b> <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<u>43</u>
<b><u>Item 4.</u></b> <b><u>Controls and Procedures</u></b>	<u>44</u>
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1.</u></b> <b><u>Legal Proceedings</u></b>	<u>44</u>
<b><u>Item 1A.</u></b> <b><u>Risk Factors</u></b>	<u>44</u>
<b><u>Item 2.</u></b> <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<u>44</u>
<b><u>Item 3.</u></b> <b><u>Defaults Upon Senior Securities</u></b>	<u>44</u>
<b><u>Item 4.</u></b> <b><u>Mine Safety Disclosures</u></b>	<u>44</u>
<b><u>Item 5.</u></b> <b><u>Other Information</u></b>	<u>45</u>
<b><u>Item 6.</u></b> <b><u>Exhibits</u></b>	<u>46</u>
<b><u>SIGNATURES</u></b>	<u>47</u>

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Harvest Capital Credit Corporation  
Statements of Assets and Liabilities (Unaudited)

	June 30, 2015	December 31, 2014
<b>ASSETS:</b>		
Non-affiliated/non-control investments, at fair value (cost of \$125,019,473 at 6/30/15 and \$111,101,709 at 12/31/14)	\$ 126,956,777	\$ 112,508,798
Affiliated investments, at fair value (cost of \$4,101,122 at 6/30/15 and \$4,019,908 at 12/31/14)	2,947,170	3,325,630
Total investments, at fair value (cost of \$129,120,595 at 6/30/15 and \$115,121,617 at 12/31/14)	129,903,947	115,834,428
Cash	2,591,857	2,171,771
Interest receivable	919,642	550,849
Accounts receivable – other	139,577	75,046
Deferred offering costs	1,083,952	119,640
Deferred financing costs	880,749	1,012,862
Other assets	334,128	105,408
Total assets	\$ 135,853,852	\$ 119,870,004
<b>LIABILITIES:</b>		
Revolving line of credit	\$ 14,797,637	\$ 26,075,140
Unsecured notes	27,500,000	—
Accrued interest payable	468,206	77,363
Accounts payable and accrued expenses	1,589,982	1,806,545
Payable for securities purchased	967,500	998,708
Other liabilities	17,352	39,933
Total liabilities	45,340,677	28,997,689
Commitments and contingencies (Note 8)		
<b>NET ASSETS:</b>		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 6,253,210 issued and outstanding at 6/30/15 and 6,222,673 issued and outstanding at 12/31/14	6,253	6,223
Capital in excess of common stock	89,801,273	89,424,499
Accumulated realized gains on investments	6,752	665,813
Net unrealized appreciation on investments	783,352	712,811
Undistributed (distributions in excess of) net investment income	(84,455 )	62,969
Total net assets	90,513,175	90,872,315
Total liabilities and net assets	\$ 135,853,852	\$ 119,870,004
Common stock issued and outstanding	6,253,210	6,222,673
Net asset value per common share	\$ 14.47	\$ 14.60

See accompanying notes to unaudited financial statements.



Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Harvest Capital Credit Corporation  
Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Investment Income:				
Interest:				
Cash - non-affiliated/non-control investments	\$3,828,387	\$2,729,784	\$7,168,423	\$5,111,289
Cash - affiliated investments	91,000	54,922	181,000	110,988
PIK - non-affiliated/non-control investments	314,992	393,813	621,118	764,130
PIK - affiliated investments	—	27,116	—	54,200
Amortization of fees, discounts and premiums, net	425,515	230,634	787,059	429,780
Total interest income	4,659,894	3,436,269	8,757,600	6,470,387
Other income	9,118	80,915	23,701	83,852
Total investment income	4,669,012	3,517,184	8,781,301	6,554,239
Expenses:				
Interest expense – revolving line of credit	176,968	30,428	300,573	30,428
Interest expense - unused line of credit	77,726	99,707	162,311	202,832
Interest expense - deferred financing costs	66,057	64,708	132,114	125,937
Interest expense - unsecured notes	481,251	—	823,474	—
Interest expense - deferred offering costs	45,007	—	74,520	—
Total interest expense	847,009	194,843	1,492,992	359,197
Professional fees	205,949	174,619	387,531	338,370
General and administrative	227,645	160,347	416,404	314,161
Base management fees	654,905	439,344	1,264,237	824,201
Incentive management fees	543,946	598,357	868,711	954,672
Administrative services expense	173,931	136,326	323,931	205,077
Total expenses	2,653,385	1,703,836	4,753,806	2,995,678
Less waivers:				
Incentive fees waived (1)	—	—	—	(320,827 )
Total net expenses	2,653,385	1,703,836	4,753,806	2,674,851
Net Investment Income, before tax	2,015,627	1,813,348	4,027,495	3,879,388
Excise Tax Credit (Expense)	35,864	—	35,864	—
Net Investment Income	2,051,491	1,813,348	4,063,359	3,879,388
Net realized (losses) gains on investments	(674,880 )	3,117	(659,061 )	3,117
Net change in unrealized appreciation (depreciation) on investments	1,814,698	575,533	70,541	752,975
Total net unrealized and realized gains (losses) on investments	1,139,818	578,650	(588,520 )	756,092
Net increase in net assets resulting from operations	\$3,191,309	\$2,391,998	\$3,474,839	\$4,635,480
Net investment income per share (basic and diluted)	\$0.33	\$0.29	\$0.65	\$0.63
Net increase in net assets resulting from operations per share (basic and diluted)	\$0.51	\$0.39	\$0.56	\$0.75
Weighted average shares outstanding (basic and diluted)	6,248,539	6,176,245	6,238,844	6,166,236
Dividends paid per common share (basic and diluted)	\$0.34	\$0.34	\$0.68	\$0.68

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

For the period from our initial public offering in May 2013 to March 31, 2014, our investment adviser agreed to (1) 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.

See accompanying notes to unaudited financial statements.

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Harvest Capital Credit Corporation  
Statements of Changes in Net Assets (Unaudited)

	Six Months Ended June 30,	
	2015	2014
Increase in net assets from operations:		
Net investment income	\$4,063,359	\$3,879,388
Net realized (losses) gains on investments	(659,061	) 3,117
Net change in unrealized (depreciation) appreciation on investments	70,541	752,975
Net increase in net assets resulting from operations	3,474,839	4,635,480
Distributions to shareholders (1):		
Distributions from net investment income	(4,210,783	) (4,161,400
Distributions from capital gains		)
Return of capital		
Decrease in net assets resulting from shareholder distributions	(4,210,783	) (4,161,400
		)
Capital share transactions:		
Issuance of common shares	30	(24,960
Reinvestment of dividends (2)	376,774	561,442
Net increase in net assets from capital share transactions	376,804	536,482
Total (decrease) increase in net assets	(359,140	) 1,010,562
Net assets at beginning of period	90,872,315	88,854,486
Net assets at end of period	\$90,513,175	\$89,865,048
Capital share activity (common shares):		
Shares issued from reinvestment of dividends	30,537	39,742
Net increase in capital share activity (common shares)	30,537	39,742

Distributions for the six months ended June 30, 2015 were in excess of net investment income in the amount of (1) \$147,424. Distributions for the six months ended June 30, 2014 were in excess of net investment income in the amount of \$282,012. See Dividends and Distributions Policy in Note 2.

(2) Net of par value of shares issued of \$30 and \$40 and funds received for fractional shares of \$24 and \$40 for June 30, 2015 and 2014, respectively.

See accompanying notes to unaudited financial statements.



HARVEST CAPITAL CREDIT CORPORATION  
Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$3,474,839	\$4,635,480
Adjustments to reconcile net increase in net assets resulting from operations to net cash used by operating activities:		
Paid in kind income	(690,968	) (1,240,881 )
Paid in kind income collected (1)	69,850	422,551
Net realized (losses) gains on investments	659,061	(3,117 )
Net unrealized depreciation (appreciation) of investments	(70,541	) (752,975 )
Amortization of fees, discounts and premiums, net	(787,059	) (429,780 )
Amortization of deferred financing costs	132,114	125,937
Amortization of deferred offering costs	74,520	—
Purchase of investments (net of loan origination and other fees)	(18,855,898	) (19,996,306 )
Proceeds from principal payments	6,573,543	2,014,909
Changes to operating assets and liabilities		
(Increase) in interest receivable	(368,793	) (89,911 )
(Increase) in accounts receivable - other and other assets	(293,251	) (189,663 )
Increase in accrued interest payable	390,843	4,727
(Decrease) in accounts payable and other liabilities	(1,237,852	) (521,360 )
Net cash used in operating activities	(10,929,592	) (16,020,389 )
Cash flows from financing activities:		
Borrowings on revolving credit facility	18,200,000	7,800,000
Repayment of borrowings on revolving credit facility	(29,477,504	) (4,244,072 )
Proceeds from the issuance of unsecured notes	27,500,000	—
Offering expenses from the issuance of unsecured notes	(1,038,832	) —
Proceeds from the issuance of common stock and common units	17	41
Offering expenses from the issuance of common stock		(25,000 )
Distributions to equity holders (net of stock issued under dividend reinvestment plan of \$376,780 and \$561,442, respectively)	(3,834,003	) (3,599,958 )
Net cash provided (used) by financing activities	11,349,678	(68,989 )
Net increase (decrease) in cash during the period	420,086	(16,089,378 )
Cash at beginning of period	2,171,771	18,984,162
Cash at end of period	\$2,591,857	\$2,894,784
Non-cash operating activities:		
Purchase of investments (net of loan origination and other fees)	\$—	\$(4,300,000 )
Proceeds from principal payments	\$—	\$4,300,000
Amendment fees	\$59,433	\$—

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Non-cash financing activities:

Value of shares issued in connection with dividend reinvestment plan	\$376,780	\$561,442
--	-----------	-----------

Supplemental disclosures of cash flow information:

Cash paid during the period for interest	\$895,515	\$228,533
--	-----------	-----------

(1) Paid in kind income collected has been broken out for more complete disclosure of our paid in kind activity. These amounts were previously included in the proceeds from principal payments.

See accompanying notes to unaudited financial statements.

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Harvest Capital Credit Corporation  
 Schedule of Investments (unaudited)  
 (as of June 30, 2015)

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (3)	Fair Value
Investments in Non-controlled, Non-affiliated Portfolio Companies					
Aviation					
Bridgewater Engine Ownership III, LLC	1.5 %* Senior Secured Term Loan, due 07/05/2019 (15.00%; the greater of 14.00% and LIBOR +8.50%, plus additional 1.00% PIK)	10/03/14	1,311,527	1,291,952	1,311,527
	Residual Value	(4)	—	8,699	9,447
Regional Engine Leasing, LLC	4.8 %* Senior Secured Term Loan, due 3/31/2020 (11.00%; the greater of 11.00% or LIBOR +4.50% with no LIBOR floor)	03/31/15	4,347,074	4,206,836	4,206,836
	Residual Value	(4)	—	102,421	111,227
Capital Equipment Reseller					
Lanco Acquisition, LLC	3.7 %* Senior Secured Term Loan A, due 06/12/2018 (11.50%; LIBOR +11.00% with 0.50% LIBOR floor)	06/13/14	677,000	660,943	676,525
	Senior Secured Term Loan B, due 03/12/2019 (15.00%; 12.50% Cash/2.50% PIK)		2,356,674	2,283,564	2,298,567
	Revolving Line of Credit, 06/12/2017 (8.50%; LIBOR +8.00% with 0.50% LIBOR floor)		350,000	350,000	348,744
	Common Equity Warrants (12% of fully diluted common equity)		—	42,000	—
Dietary Supplements					
Atrium Innovations, Inc.	1.1 %* Senior Secured Term Loan, due 02/16/2021	01/29/14	987,500	988,013	966,516

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

(4.25%; LIBOR +3.25% with  
1.00% LIBOR floor)

Distributor - Tobacco Products

North Atlantic Trading Company, Inc.	5.6	%*	Junior Secured Term Loan, due 07/13/2020 (11.50%; LIBOR +10.25% with 1.25% LIBOR floor)	01/13/14	5,000,000	4,974,323	5,025,000
---	-----	----	--	----------	-----------	-----------	-----------

Document and Information Solutions

Novitex Acquisition, LLC	7.5	%*	Junior Secured Term Loan, due 07/7/2021 (11.75%; LIBOR + 10.50% with 1.25% LIBOR floor)	07/07/14	7,000,000	6,936,685	6,764,213
-----------------------------	-----	----	--	----------	-----------	-----------	-----------

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company		Investment (1) (2)	Origination Date	Outstanding Principal	Cost (3)	Fair Value
Heavy and Civil Engineering and Construction						
LNB Construction, Inc.	4.1	%* Junior Secured Subordinated Debt, due 8/14/2015 (20.00%; 17.00% Cash/3.00% PIK)	08/21/12	3,598,712	3,589,129	3,598,712
		Options to Purchase Common Equity (21.93% of fully diluted common equity)		—	193,750	89,225
Industrial Fluid Filtration Services						
CRS Reprocessing, LLC	6.1	%* Junior Secured Subordinated Debt, due 09/30/2016 (5% Cash)	(5) 05/27/15	6,985,636	5,524,287	5,524,287
Industrial Machinery Manufacturing						
Douglas Machines Corp.	5.0	%* Senior Secured Term Loan, due 04/6/2017 (13.50% Cash)	05/07/14	4,365,133	4,280,876	4,365,133
		Revolving Line of Credit (9.70%; LIBOR +9.50% with 0.20% LIBOR floor)	(6)	—	—	—
		Common Equity Warrants (2.0% of fully diluted common equity)		—	12,500	145,445
Metal Fabricating & Finishing						
Northeast Metal Works, LLC	10.2	%* Senior Secured Term Loan, due 12/31/2017 (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)	09/29/14	8,122,500	8,158,329	8,455,441
		Revolving Line of Credit, due 12/31/17 (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)		775,000	775,000	775,000
Novelty Manufacturer/Distributor						
PD Products, LLC	5.1	%*	10/04/13	4,652,765	4,551,517	4,652,765

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Senior Secured Term Loan, due  
10/04/2018  
(14.50%; LIBOR +10.50% with  
1.50% LIBOR floor/2.50% PIK)

Other Nondepository Credit Intermediation

WBL SPE I, LLC	6.6	%*	Senior Secured Term Loan, due 09/30/2016 (15.00% Cash)	09/30/13	5,950,068	5,930,683	5,950,068
WBL SPE II, LLC	5.0	%*	Senior Secured Term Loan, due 12/23/2016 (14.50% Cash)	09/30/14	4,537,259	4,495,007	4,495,007
World Business Lenders, LLC	0.3	%*	Common Equity (0.4% of fully diluted common equity)	12/23/13	—	200,000	265,082

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (3)	Fair Value
Pet Food Retail Stores					
CP Holding Co., Inc. (Choice Pet)	5.9 %* Senior Secured Term Loan, due 02/28/2018 (16.25%; 12.00% Cash/4.25% PIK)	05/30/13	5,358,720	5,269,249	5,358,720
Radio Station Operator					
Multicultural Radio Broadcasting, Inc.	5.5 %* Senior Secured Term Loan (Last Out), due 06/27/2019 (11.50%; LIBOR +10.50% with 1.00% LIBOR floor)	09/10/14	4,950,050	4,950,050	4,950,050
Real Estate Brokerage Services					
Americana Holdings LLC	5.4 %* Junior Secured Term Loan, due 09/15/2018 (13.00% Cash)	09/16/13	3,827,726	3,266,098	3,827,726
	Revenue Linked Security (7)		—	914,692	1,039,468
Rental Car					
Fox Rent A Car, Inc.	11.0 %* Junior Secured Term Loan, due 10/31/2019 (12.18%; LIBOR +12.00% with no LIBOR floor)	10/31/14	10,000,000	9,910,044	9,994,330
Safety Consulting Services					
Safety Services Acquisition Corp.	6.7 %* Junior Secured Subordinated Debt, due 07/5/2017 (15.0%; 12.50% Cash/2.50% PIK)	04/05/12	5,786,682	5,721,075	5,786,682
	Preferred Equity (0.64% of fully diluted common equity)		—	100,000	228,749
Software Publishing					
Optimal Blue, LLC	6.6 %* Junior Secured Subordinated Debt, due 03/18/2019 (14.50%; 12.50% Cash/2.00% PIK)	12/18/13	5,415,260	5,375,404	5,415,260

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

		Common Equity (0.391% of fully diluted common equity)		—	100,000	516,756
Mercury Network, LLC	2.2	%*	Senior Secured Term Loan, due 04/24/2020 (10.25%; LIBOR +9.25% with 1.00% LIBOR floor)	05/12/15	1,913,043	1,875,789 1,875,789
		Common equity (0.59% of fully diluted common equity)		—	86,957	86,957

7

---



Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (3)	Fair Value
<b>Specialty Advertising</b>					
Brite Media LLC	6.5 %* Senior Secured Term Loan, due 04/24/2019 (10.25%; LIBOR +9.50% with 0.75% LIBOR floor)	(6) 04/24/14	5,700,000	5,629,718	5,700,000
	Revolving Line of Credit, due 04/24/2018 (10.25%; LIBOR +9.50% with 0.75% LIBOR floor)		—	—	—
	Common Equity (1.07% fully diluted common equity)		—	100,000	208,865
<b>Structured Finance</b>					
Shinnecock CLO 2006-1, Ltd.	2.3 %* CLO Subordinated Notes, due 07/15/2018 (15.36% effective yield)	03/06/14	—	2,051,949	2,104,209
<b>Sweetener Supplier</b>					
Flavors Holdings, Inc.	4.3 %* Junior Secured Term Loan, due 10/4/2021 (11.00%; LIBOR +10.00% with 1.00% LIBOR floor)	10/07/14	4,000,000	3,856,004	3,880,000
<b>Technology - Software &amp; Services</b>					
Applied Systems, Inc.	0.5 %* Junior Secured Term Loan, due 01/24/2022 (7.50%; LIBOR + 6.50% with 1.00% LIBOR floor)	01/15/14	490,141	486,909	492,592
GK Holdings, Inc. (Global Knowledge)	3.3 %* Junior Secured Term Loan, due 1/31/2022 (10.50%; LIBOR +9.50% with 1.00% LIBOR floor)	01/30/15	3,000,000	2,942,439	2,942,439
<b>Transaction Processing</b>					
SourceHOV LLC	4.0 %* Junior Secured Subordinated Debt, due 4/30/2020 (11.50%; LIBOR + 10.50% with 1.00% LIBOR floor)	10/29/14	4,000,000	3,854,084	3,640,000

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Urgent Care Facility  
Operator

Infinite Aegis Group, LLC	9.8	%*	Revolving Line of Credit, 07/31/2017 (12.19%; LIBOR + 12.00% with 0.19% LIBOR floor)	03/10/15	1,050,000	1,050,000	1,050,000	
			Senior Secured Term Loan (First Out), due 07/31/2017 (15.19%; LIBOR + 12.00% with 0.19% LIBOR floor/3.00% PIK)	03/10/15	3,446,523	3,446,523	3,446,523	
			Senior Secured Term Loan (Last Out), due 07/31/2017 (18.19%; LIBOR + 14.65% with 0.19% LIBOR floor/3.00% PIK/0.35% Fee Letter)	08/01/13	4,490,139	4,398,453	4,376,895	
			Common Equity Warrants (3% of fully diluted common equity)		—	77,522	—	
Total Investments in Non-controlled, Non-affiliated Portfolio Companies						124,445,132	125,019,473	126,956,777

8

---

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (3)	Fair Value
Investments in Affiliated Portfolio Companies					
Novelty Shops					
Peekay Acquisition, LLC (Christals)	2.2 %*	Senior Secured Term Loan (Last Out), due 12/27/2015 (18.00%; 15.00% Cash/3.00% Accommodation Fee paid in Cash) (9)	12/31/12 2,000,000	1,910,279	1,947,170
		Common Equity (Peekay Boutiques, Inc.) (5.99% of fully diluted common equity) (10)	—	105,000	—
Seafood Product Preparation and Packaging					
Solex Fine Foods, LLC (non-accrual)	1.1 %*	Senior Secured Term Loan (Last Out), due 12/28/2016 (18.70%; LIBOR +12.49% Cash/3.15% PIK/2.87% Supplemental PIK) (12)	(11) 12/31/12 1,810,424	1,644,045	1,000,000
		Common Equity (6.57% of fully diluted common equity)		290,284	—
		Common Equity Warrants (6.4% of fully diluted common equity)		151,514	—
Total Investments in Affiliated Portfolio Companies			3,810,424	4,101,122	2,947,170
Total Investments as of 6.30.15			143.5 %*	\$ 128,255,556	\$ 129,120,595 \$ 129,903,947

\* Value as a percentage of our net assets

(1) Debt investments, the CLO subordinated notes and the revenue linked security are income producing investments. Common equity options, residual values and warrants are non-income producing investments. All investments other than Atrium Innovations, Inc., LNB 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. The Company's non-qualifying assets, on a fair value basis, comprise 12.9% of the Company's total assets.

(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.

- (3) Gross unrealized appreciation, gross unrealized depreciation, and net unrealized depreciation for federal income tax purposes totaled \$2.8 million, \$1.3 million, and \$1.5 million, respectively. The tax cost of investments is \$128.4 million.
- (4) "Residual value" represents the value of the Company's share in the collateral securing the loan. On May 27, 2015, the Company's investment in CRS Reprocessing, LLC ("CRS") was restructured in a manner that strengthened the credit profile of the borrower. The restructured investment carries a fixed interest rate of 5% and has a principal amount of \$7.0 million, which includes certain previously unpaid interest. The maturity date of the restructured investment remains unchanged at September 30, 2016. CRS was taken off non-accrual during the three months ended June 30, 2015 and interest income on the restructured loan is currently being accrued.
- (5) Represents an unfunded commitment. See Note 8 for further discussion.
- (6) The "Revenue Linked Security" entitles the Company to payments based on the portfolio company's revenue growth above certain thresholds.
- (7) The "Fee Letter" represents an agreement with the borrower that will pay us an amount at maturity or when the loan is paid off that makes our effective coupon over the life of the investment equal to LIBOR +15.00%.
- (8)

(9) The Peekay Acquisition, LLC (Christals) "Accommodation Fee" is a fee that one of the other lenders to Peekay Acquisition, LLC agreed to pay to the Company during the term of the Company's senior secured term loan investment in Peekay Acquisition, LLC. The amount of the fee is equal to the aggregate principal amount of the outstanding term loan held by the Company multiplied by a per annum rate of 3%. This fee is calculated and treated as if it is interest on the outstanding principal amount of the loan.

(10) The Company's common equity investment in Peekay Boutiques, Inc. has been classified as an affiliated investment because the Company owns 5% or more of the outstanding voting securities of Peekay Boutiques, Inc. The Company's senior secured term loan in Peekay Acquisition, LLC has also been classified as an affiliated investment because Peekay Acquisition, LLC is a wholly owned subsidiary of Peekay Boutiques, Inc., but on its own the investment would not constitute an affiliated investment of the Company since the Company does not own 5% or more of the outstanding voting securities of Peekay Acquisition, LLC.

(11) Solex Fine Foods, LLC is on non-accrual status at June 30, 2015. The \$1,810,424 outstanding balance as of June 30, 2015 includes \$59,332 of default interest capitalized since the investment was put on non-accrual status effective November 1, 2014.

(12) The Solex Fine Foods, LLC supplemental PIK accrues each quarter and is determined based on the Senior Debt to EBITDA calculation as of the last day of the immediately preceding quarterly payment period.

See accompanying notes to unaudited financial statements.

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Harvest Capital Credit Corporation  
Schedule of Investments  
(as of December 31, 2014)

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (4)	Fair Value
Investments in Non-controlled, Non-affiliated Portfolio Companies					
Automotive					
FCA US LLC (fka Chrysler Group LLC)	0.5 %* Senior Secured Term Loan, due 05/24/2017 (3.50%; LIBOR +2.75% with 0.75% LIBOR floor)	12/22/2014	498,708	498,708	498,085
Aviation					
Bridgewater Engine Ownership III, LLC	1.5 %* Senior Secured Term Loan, due 07/05/2019 (15.00%; the greater of 14.00% and LIBOR +8.50%, plus additional 1.00% PIK)	10/3/2014	1,406,700	1,392,750	1,392,750
Capital Equipment Reseller					
Lanco Acquisition, LLC	3.8 %* Senior Secured Term Loan A, due 06/12/2018 (11.50%; LIBOR +11.00% with 0.50% LIBOR floor)	6/13/2014	762,000	741,617	761,550
	Senior Secured Term Loan B, due 03/12/2019 (15.00%; 12.50% Cash/2.50% PIK)		2,327,326	2,245,485	2,316,047
	Revolving Line of Credit, 06/12/2017 (8.50%; LIBOR +8.00% with 0.50% LIBOR floor)		350,000	350,000	348,796
	Common Equity Warrants (12% of fully diluted common equity)		—	42,000	—
Dietary Supplements					
Atrium Innovations, Inc.	1.1 %* Senior Secured Term Loan, due 02/16/2021 (4.25%; LIBOR +3.25% with 1.00% LIBOR floor)	1/29/2014	992,500	993,056	965,206
Distributor - Tobacco Products					

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

North Atlantic Trading Company, Inc.	5.4	%*	Junior Secured Term Loan, due 07/13/2020 (11.50% LIBOR +10.25% with 1.25% LIBOR floor)	1/13/2014	5,000,000	4,972,578	4,950,000
--------------------------------------	-----	----	---	-----------	-----------	-----------	-----------

Document and Information Solutions

Novitex Acquisition, LLC	7.6	%*	Junior Secured Term Loan, due 07/7/2021 (11.75%; LIBOR + 10.50% with 1.25% LIBOR floor)	7/7/2014	7,000,000	6,933,243	6,933,243
--------------------------	-----	----	--	----------	-----------	-----------	-----------

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company		Investment (1) (2)	Origination Date	Outstanding Principal	Cost (4)	Fair Value
Global Information Technology Co.						
Dell International LLC	0.6	%* Senior Secured Term Loan, due 04/29/2020 (4.50%; LIBOR +3.50% with 1.00% LIBOR floor)	12/22/2014	500,000	500,000	500,006
Heavy and Civil Engineering and Construction						
LNB Construction, Inc.	4.2	%* Junior Secured Subordinated Debt, due 8/14/2015 (20.00%; 17.00% Cash/3.00% PIK)	8/21/2012	3,655,053	3,434,038	3,655,053
		Options to Purchase Common Equity (21.93% of fully diluted common equity)		—	193,751	200,000
Industrial Fluid Filtration Services						
CRS Reprocessing, LLC (3)	5.9	%* Junior Secured Subordinated Debt, due 09/30/2015 (15.00%; 12.00% Cash/3.00% PIK)	10/30/2013	36,635,718	6,104,841	5,399,804
Industrial Machinery Manufacturing						
Douglas Machines Corp.	5	%* Senior Secured Term Loan, due 04/6/2017 (13.50% Cash)	5/7/2014	4,400,133	4,315,272	4,400,133
		Revolving Line of Credit (9.70%; LIBOR +9.50% with 0.20% LIBOR floor)		—	—	—
		Common Equity Warrants (2.0% of fully diluted common equity)		—	12,500	143,388
Metal Fabricating & Finishing						
Northeast Metal Works, LLC	9.9	%* Senior Secured Term Loan, due 12/31/2017 (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)	9/29/2014	8,333,750	8,304,889	8,304,889
		Revolving Line of Credit (14.20%; LIBOR +14.00% with 0.20% LIBOR floor)		700,000	700,000	700,000



Novelty Manufacturer/Distributor

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	4,687,819	4,608,385	4,687,819
------------------	-----	----	--	-----------	-----------	-----------	-----------

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company		Investment (1) (2)	Origination Date	Outstanding Principal	Cost (4)	Fair Value
Other Nondepository Credit Intermediation						
WBL SPE I, LLC	6.6	%* Senior Secured Term Loan, due 09/30/2016 (15.00% Cash)	9/30/2013	6,000,000	5,967,866	6,000,000
WBL SPE II, LLC	3.4	%* Senior Secured Term Loan, due 12/23/2016 (15.00% Cash)	9/30/2014	3,086,205	3,066,461	3,066,461
World Business Lenders, LLC	0.2	%* Common Equity (0.4% of fully diluted common equity)	12/23/2013	—	200,000	210,920
Pet Food Retail Stores						
CP Holding Co., Inc. (Choice Pet)	5.8	%* Senior Secured Term Loan, due 02/28/2018 (16.25%; 12.00% Cash/4.25% PIK)	5/30/2013	5,246,023	5,142,642	5,246,023
Radio Station Operator						
Multicultural Radio Broadcasting, Inc.	5.4	%* Senior Secured Term Loan (Last Out), due 06/27/2019 (11.50%; LIBOR +10.50% with 1.00% LIBOR floor)	9/10/2014	4,950,050	4,950,050	4,950,050
Real Estate Brokerage Services						
Americana Holdings LLC	5.5	%* Junior Secured Term Loan, due 09/15/2018 (13.00% Cash)	9/16/2013	3,933,550	3,271,370	3,895,678
		Revenue Linked Security		—	876,923	1,111,001
Rental Car						
Fox Rent A Car, Inc.	10.9	%* Junior Secured Term Loan, due 10/31/2019 (12.16%; LIBOR +12.00% with no LIBOR floor)	10/31/2014	10,000,000	9,902,434	9,902,434
Safety Consulting Services	6.5	%*	4/5/2012	5,714,622	5,636,866	5,714,622

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Safety Services  
Acquisition Corp.

Junior Secured Subordinated Debt,  
due 07/5/2017  
(15.0%; 12.50% Cash/2.50% PIK)

Preferred Equity  
(0.64% of fully diluted common  
equity)

— 100,000 208,000

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (4)	Fair Value
Software Publishing					
Optimal Blue, LLC	6.5 %* Junior Secured Subordinated Debt, due 03/18/2019 (14.50%; 12.50% Cash/2.00% PIK)	12/18/2013	5,361,216	5,317,620	5,361,216
	Common Equity (0.391% of fully diluted common equity)		—	100,000	511,362
Specialty Advertising					
Brite Media LLC	7.1 %* Senior Secured Term Loan, due 04/24/2019 (10.25%; LIBOR +9.50% with 0.75% LIBOR floor)	4/24/2014	5,850,000	5,775,575	5,850,000
	Revolving Line of Credit, due 04/24/2018 (10.25%; LIBOR +9.50% with 0.75% LIBOR floor)		500,000	500,000	500,000
	Common Equity (1.07% fully diluted common equity)		—	100,000	102,000
Structured Finance					
Shinnecock CLO 2006-1, Ltd.	2.5 %* CLO Subordinated Notes, due 07/15/2018 (15.03% effective yield)	3/6/2014		2,234,210	2,299,854
Sweetener Supplier					
Flavors Holdings, Inc.	3.2 %* Junior Secured Term Loan, due 10/4/2021 (11.00%; LIBOR +10.00% with 1.00% LIBOR floor)	10/7/2014	3,000,000	2,882,752	2,882,752
Technology - Software					
Applied Systems, Inc.	0.5 %* Junior Secured Term Loan, due 01/24/2022 (7.50%; LIBOR + 6.50% with 1.00% LIBOR floor)	1/15/2014	500,000	496,570	495,834
Transaction Processing					

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

SourceHOV LLC	4.2	%*	Junior Secured Subordinated Debt, due 4/30/2020 (11.50%; LIBOR + 10.50% with 1.00% LIBOR floor)	10/29/2014	4,000,000	3,841,733	3,840,000
Urgent Care Facility Operator							
Infinite Aegis Group, LLC	4.6	%*	Senior Secured Term Loan, due 07/31/2017 (18.19%; LIBOR + 14.69% with 0.19% LIBOR floor/3.00% PIK/0.31% Fee Letter)	8/1/2013	4,425,338	4,318,006	4,203,822
			Common Equity Warrants (3% of fully diluted common equity)		—	77,522	—
Total Investments in Non-controlled, Non-affiliated Portfolio Companies					109,816,711	111,101,709	112,508,798

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Portfolio Company	Investment (1) (2)	Origination Date	Outstanding Principal	Cost (4)	Fair Value
Investments in Affiliated Portfolio Companies					
Novelty Shops					
Peekay Acquisition, LLC (Christals)	2.2 %*	Senior Secured Term Loan (Last Out), due 12/27/2015 (18.00%; 15.00% Cash/3.00% Accommodation Fee paid in Cash)	12/31/2012 2,000,000	1,829,065	1,977,630
		Common Equity (Dico, Inc) (5.99% of fully diluted common equity)	—	105,000	—
Seafood Product Preparation and Packaging					
Solex Fine Foods, LLC (3)	1.5 %*	Senior Secured Term Loan (Last Out), due 12/28/2016 (18.80%; LIBOR +12.49% Cash/3.22% PIK/2.93% Supplemental PIK)	12/31/2012 1,760,578	1,644,045	1,348,000
		Common Equity (6.57% of fully diluted common equity)		290,284	—
		Common Equity Warrants (6.4% of fully diluted common equity)		151,514	—
Total Investments in Affiliated Portfolio Companies			3,760,578	4,019,908	3,325,630
Total Investments as of 12/31/2014			127.5 %*	\$ 113,577,289	\$ 115,121,617
				\$ 115,834,428	

\* Value as a percentage of our net assets

Debt investments, the CLO subordinated notes and the revenue linked security are income producing. Common equity options, residual values and warrants are non-income producing. All investments other than Atrium

(1) Innovations, Inc., LNB 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 and Solex Find Foods, LLC were on non-accrual status at December 31, 2014.

(4)

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Gross unrealized appreciation, gross unrealized depreciation, and net unrealized appreciation for federal income tax purposes totaled \$2.4 million, \$1.8 million, and \$0.6 million, respectively. The tax cost of investments is \$115.2 million.

Harvest Capital Credit Corporation  
Notes to Unaudited Financial Statements

Note 1. Organization

Harvest Capital Credit Corporation (“HCAP” or the “Company”) 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 acquired HCC LLC on May 2, 2013, in connection with HCAP's initial public offering. 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”). As an investment company, we follow accounting and reporting guidance as set forth in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 946, Financial Services- Investment Companies.

Note 2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and in accordance with the rules and regulations of the SEC and Regulation S-X. In the opinion of management, all adjustments of a normal recurring nature considered necessary for the fair statement of the Company's financial statements have been made. Certain prior period amounts have been reclassified to reflect current period classification.

In preparing the financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the statement of assets and liabilities and income and expenses for the period. Actual results could differ from those estimates.

Paid in kind income collected has been broken out on the Statement of Cash Flows for more complete disclosure of our paid in kind activity. These amounts were previously included in the proceeds from principal payments.

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 ASC 946, 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 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.

#### Excise Tax

The Company estimates excise tax based on timely information available. As of December 31, 2014, the Company estimated excise tax for the calendar year of 2014 to be \$43,727. Based on recent tax information made available to the Company, U.S. federal excise tax incurred was \$7,863 for calendar year 2014. As of June 30, 2015, the Company reversed \$35,864 of excise tax accrual recorded in 2014 to reflect the actual \$7,863 tax incurred for calendar year 2014.

#### Investment Date

The Company records investment purchases and sales based on the trade date. For instances when the trade date and funding date differ, the Company captures the open trades in the receivable for securities sold or payable for securities purchased on the Statements of Assets and Liabilities.

#### 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 income.

On May 27, 2015, the Company's investment in CRS Reprocessing, LLC ("CRS") was restructured in a manner that strengthened the credit profile of the borrower. The restructured investment carries a fixed interest rate of 5% and has a principal amount of \$7.0 million, which includes certain previously unpaid interest. The maturity date of the restructured investment remains unchanged at September 30, 2016. CRS was taken off non-accrual during the three months ended June 30, 2015 and interest income on the restructured loan is currently being accrued.

### 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 another person. Twenty-eight and twenty-seven of the Company's investments were classified as non-control/non-affiliated investments as of June 30, 2015 and December 31,

2014, respectively. Two of the Company's investments were classified as affiliated as of June 30, 2015 and December 31, 2014, respectively.

As of December 31, 2014, one of our investments, Peekay Acquisitions, LLC and its parent Peekay Boutiques, Inc. (f/k/a Dico, Inc.), was categorized as a non-affiliated investment, even though the Company became the owner of 5.99% of Peekay Boutiques, Inc.'s common stock effective on December 31, 2014. This investment has been re-categorized as an affiliate investment as of December 31, 2014 and for the periods subsequent to December 31, 2014 in this Form 10-Q.

#### 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.

During the quarter ended December 31, 2014, we made certain changes to our valuation process to increase the role of an independent external valuation firm in the review and valuation of our Level 3 assets. The fair value measurement of Level 3 assets involves the use of significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability. Before these changes to our valuation process, an independent external valuation firm reviewed all Level 3 assets at least annually. After implementation of the changes to our valuation process, an independent external valuation firm reviews all material Level 3 assets either quarterly or annually depending on the investment rating, or performance, of the investment.

The following is a description of our valuation process, as in effect after implementing these changes during the quarter ended December 31, 2014. Investments are measured at fair value as determined in good faith by our

management team, reviewed by the audit committee of the board of directors (independent directors), and ultimately approved by our board of directors, based on, among other factors, consistently applied valuation procedures on each measurement date.

In the case of investments that are Level 3 assets and have an investment rating of 2 through 5 (with performance ranging from within expectations to substantially below expectations), we engage an independent external valuation firm to review all such material investments quarterly. In the case of investments that are Level 3 assets and have an investment rating of 3 through 5, our management or the investment professionals of our investment adviser prepare an internal valuation analysis (in the form of a portfolio monitoring report or “PMR”), which is considered in addition to the review of the independent external valuation firm. In the case investments that are Level 3 assets and have an investment rating of 1, we engage an independent external valuation

firm to review all material investments, at least annually. In quarters where an external valuation is not prepared for such investments, our management or the investment professionals of our investment adviser prepare a PMR for such investments. In the case of investments that are Level 1 or 2 assets, no independent external valuation firm is engaged due to the availability of quotes in markets (which may or may not be active) for such investments or similar assets.

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

Our valuation process begins with (i) an internally prepared PMR, (ii) an external valuation report prepared by an independent valuation firm, or both (i) and (ii), depending on the investment's rating and whether it is categorized as a Level 1, 2 or 3 asset.

Preliminary valuation conclusions are documented and discussed with our senior management.

The audit committee of our board of directors reviews and discusses the preliminary valuations.

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 senior management, the independent valuation firm (if reviewed in such quarter), 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 Offering Costs

Deferred offering costs are made up of deferred offering costs related to the preparation and filing of the Company's shelf registration statement on Form N-2 in November 2014 and the expenses related to the Company's unsecured notes issued in January 2015. The deferred offering costs consist of underwriting fees, legal fees and other direct costs incurred by the Company in conjunction with preparation and filing of the Company's shelf registration statement on Form N-2 and are recognized as assets and are amortized as deferred offering expense over the term of the applicable offering. The balance of deferred offering costs as of June 30, 2015 and December 31, 2014 was \$1,083,952 and \$119,640, respectively. The amortization expense relating to deferred debt offering costs during the three months ended June 30, 2015 and June 30, 2014 was \$45,007 and \$0, respectively. The amortization expense relating to deferred debt offering costs during the six months ended June 30, 2015 and June 30, 2014 was \$74,520 and \$0, respectively.

#### Deferred Financing Costs

Deferred financing costs are made up of deferred debt issuance costs associated with the Company's revolving line of credit. 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 balance of deferred financing costs as of June 30, 2015 and December 31, 2014 was \$880,749 and \$1,012,862, respectively and relates to deferred debt issuance costs. The amortization expense relating to deferred debt financing costs during the three months ended June 30, 2015 and June 30, 2014 was \$66,057 and \$64,708, respectively. The amortization expense relating to deferred debt financing costs during the six months ended



June 30, 2015 and June 30, 2014 was \$132,114 and \$125,937, respectively.

Payable for Securities Purchased

Payable for Securities Purchased as of June 30, 2015 consisted of \$967,500 for an open trade on Flavors Holdings, Inc. that had not closed as of June 30, 2015. Payable for Securities Purchased as of December 31, 2014 consisted of \$498,708 for an open trade on FCA US LLC (fka Chrysler Group LLC) and \$500,000 for an open trade on Dell International LLC that had not closed as of December 31, 2014.

## Other Liabilities

Other liabilities as of June 30, 2015 consisted of \$17,352 in other miscellaneous accrued expenses. Other liabilities as of December 31, 2014 consisted of \$39,933 of 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.

During the three months ended June 30, 2015, the Company declared dividends totaling \$0.34 per share. During the six months ended June 30, 2015, the Company declared dividends totaling \$0.68 per share. During the three months ended June 30, 2014, the Company declared dividends totaling \$0.34 per share. During the six months ended June 30, 2014, the Company declared dividends totaling \$0.68 per share.

## Income Taxes

Beginning with its first taxable year ending December 31, 2014, the Company elected to be treated, and intends to qualify annually thereafter, as a RIC under Subchapter M of the Code. To qualify as a RIC, 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.

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. 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 June 30, 2015. 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.

#### Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Cost, which simplifies the presentation of debt issuance costs. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires a retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the impact to our financial statements.

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, 2017, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is not permitted but you can adopt as of the original effective date of December 15, 2016. The Company is currently evaluating the impact to our financial statements.

### Note 3. Borrowings

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% (with a 0.50% LIBOR floor) 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. In addition, the Loan Agreement contains a covenant that limits the amount of our unsecured longer-term indebtedness (as defined in the Loan Agreement), which includes HCAP's Notes, to 50% of the maximum borrowing amount under the Credit Facility. 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 June 30, 2015, the outstanding balance on the Credit Facility was \$14.8 million. As of December 31, 2014, the outstanding balance on the Credit Facility was \$26.1 million. As of June 30, 2015 and December 31, 2014, the Company was in compliance with its debt covenants.

On January 27, 2015, the Company closed the public offering of \$25.0 million in aggregate principal amount of its 7.00% Notes due 2020 (the "Notes"). On February 4, 2015, the Company closed on an additional \$2.5 million in aggregate principal amount of Notes to cover the over-allotment option exercised by the underwriters. The total net proceeds to the Company from the Notes, after deducting underwriting discounts of \$750,000 and offering expenses of \$318,345, were \$26.4 million.

The Notes mature on January 16, 2020 and bear interest at a rate of 7.00%. The Notes are unsecured obligations of the Company and rank pari passu with the Company's future unsecured indebtedness; senior to any of the Company's future indebtedness that expressly provides it is subordinated to the Notes; effectively subordinated to all of the existing and future secured indebtedness of the Company, to the extent of the value of the assets securing such indebtedness, including borrowings under the Credit Facility; and structurally subordinated to all existing and future indebtedness and other obligations of any subsidiaries, financing vehicles, or similar facilities the Company may form in the future, with respect to claims on the assets of any such subsidiaries, financing vehicles, or similar facilities. The

Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after January 16, 2017. Interest on the Notes is payable quarterly on January 16, April 16, July 16, and October 16 of each year, beginning April 16, 2015. The Notes are listed on the NASDAQ Global Market under the trading symbol "HCAPL." The Company may from time to time repurchase Notes in accordance with the 1940 Act and the rules promulgated thereunder. As of June 30, 2015, the outstanding balance of the Notes was \$27.5 million.

The indenture governing the Notes (the "Notes Indenture") contains certain covenants, including covenants (i) requiring the Company's compliance with the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act, whether or not the Company continues to be subject to such provisions of the 1940 Act; (ii) requiring the Company's compliance, under certain circumstances, with a modified version of the requirements set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, whether or not the Company continues to be subject to such provisions of the 1940 Act,

prohibiting the declaration of any cash dividend or distribution upon any class of the Company's capital stock (except to the extent necessary for the Company to maintain its status as a RIC under Subchapter M of the Code), or purchasing any such capital stock, if the Company's asset coverage, as defined in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution, or purchase; and (iii) requiring the Company to provide financial information to the holders of the Notes and the Trustee if the Company ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the Notes Indenture.

#### 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 32.6% and 34.4% of total debt investments outstanding as of June 30, 2015 and December 31, 2014, 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 30.9% and 29.7% of total loan interest and fee income for the three months ended June 30, 2015 and June 30, 2014, respectively. Interest income from the five largest debt investments accounted for approximately 29.7% and 28.8% of total loan interest and fee income for the six months ended June 30, 2015 and June 30, 2014, respectively.

#### Note 5. Shareholders' Equity

The following tables summarize 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 quarters ended June 30, 2015 and June 30, 2014.

	2015		2014	
	Shares Issued	Proceeds	Shares Issued	Proceeds
Total dividend reinvestment plan for the three months ended June 30	8,901	\$114,824	19,562	\$272,237
Total dividend reinvestment plan for the six months ended June 30	30,537	\$376,780	39,742	\$561,442

As of June 30, 2015, the Company had no warrants outstanding.

#### 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: Cash is a Level 1 asset with readily observable market inputs. The Company determined that the historical cost carrying value is a reasonable estimate of fair value.

## Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Unsecured notes: The Notes are a Level 2 financial instrument with readily observable market inputs from other comparable unsecured notes in the marketplace. The Company believes the interest rate on the Notes is 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 June 30, 2015 and December 31, 2014, unfunded commitments totaled \$5.6 million and \$3.6 million, respectively, and their estimated fair values on such dates were \$5.6 million and \$3.6 million, respectively.

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

There are no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2015 or December 31, 2014.

There were no transfers from levels of the fair value hierarchy during the six months ended June 30, 2015 and one transfer of a debt investment from Level 3 to Level 2 of the fair value hierarchy during the year ended December 31, 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 June 30, 2015 and December 31, 2014, respectively:

	Fair Values as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Senior Secured (1)	\$—	\$966,516	\$67,240,760	\$68,207,276
Junior Secured	—	9,157,592	47,733,649	56,891,241
CLO Equity	—	—	2,104,209	2,104,209
Equity	—	—	1,661,753	1,661,753
Revenue-Linked Security	—	—	1,039,468	1,039,468
	\$—	\$10,124,108	\$119,779,839	\$129,903,947
	Fair Values as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Senior Secured (1)	\$—	\$1,963,297	\$56,053,970	\$58,017,267
Junior Secured	—	9,285,834	43,744,802	53,030,636
CLO Equity	—	—	2,299,854	2,299,854
Equity	—	—	1,375,670	1,375,670
Revenue-Linked Security	—	—	1,111,001	1,111,001
	\$—	\$11,249,131	\$104,585,297	\$115,834,428

(1) Senior secured category includes both first out and last out loans. The Company's last out senior secured loans are identified on the Schedule of Investments.





Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

The following table provides quantitative information related to the significant unobservable inputs used to fair value the Company's Level 3 investments as of June 30, 2015 and December 31, 2014, respectively, and indicates the valuation techniques utilized by the Company to determine the fair value:

Type of Investment	Fair Value at June 30, 2015	Valuation Technique (1)	Significant Unobservable Input	Range	Weighted Average
Senior Secured (2)	\$67,240,760	Bond Yield	Risk adjusted discount factor	3.5% - 23.4%	10.3%
		Market	EBITDA multiple	3.8x - 8.9x	5.7x
		Income	Weighted average cost of capital	8.5% - 18.0%	15.2%
Junior Secured	\$47,733,649	Bond Yield	Risk adjusted discount factor	4.2% - 13.8%	8.7%
		Market	EBITDA multiple	1.8x - 22.0x	7.1x
		Income	Weighted average cost of capital	12.0% - 20.0%	13.4%
Equity	\$1,661,753	Market	EBITDA multiple	2.4x - 22.0x	11.3x
		Income	Weighted average cost of capital	9.5% - 20.0%	15.2%
CLO equity	\$2,104,209	Bond Yield	Risk adjusted discount factor	15.3%	15.3%
Revenue-Linked security	\$1,039,468	Bond Yield	Risk adjusted discount factor	18.8%	18.8%
Type of Investment	Fair Value at December 31, 2014	Valuation Technique (1)	Significant Unobservable Input	Range	Weighted Average
Senior Secured (2)	\$56,053,970	Bond Yield	Risk adjusted discount factor	3.9% - 22.0%	12.3%
		Market	EBITDA multiple	3.0x - 8.1x	5.5x
		Income	Weighted average cost of capital	7.0% - 19.0%	14.2%
Junior Secured	\$43,744,802	Bond Yield	Risk adjusted discount factor	3.3% - 28.0%	11.3%
		Market	EBITDA multiple	3.7x - 26.7x	7.8x

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

		Income	Weighted average cost of capital	11.0% - 25.0%	15.6%
Equity	\$1,375,670	Market	EBITDA multiple	2.9x - 26.7x	9.2x
		Income	Weighted average cost of capital	3.9% - 20.9%	12.3%
CLO equity	\$2,299,854	Bond Yield	Risk adjusted discount factor	15.3%	15.3%
Revenue-Linked security	\$1,111,001	Bond Yield	Risk adjusted discount factor	16.4%	16.4%

25

---

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.

- (1) 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 revenue-linked 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.

- (2) Senior secured category includes both first out and last out loans. The Company's last out senior secured loans are identified on the Schedule of Investments.

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

	Six Months ended June 30, 2015					
	Senior Secured (1)	Junior Secured	CLO Equity	Equity	Revenue-Linked Security	Total Level 3 Assets
Fair value of portfolio, beginning of period	\$56,053,970	\$43,744,802	\$2,299,854	\$1,375,670	\$ 1,111,001	\$104,585,297
New investments	16,076,281	3,940,000	—	198,076	—	20,214,357
Principal payments received	(5,094,926 )	(211,412 )	(182,261 )	—	(69,916 )	(5,558,515 )
Loan origination fees received	(344,090 )	(46,862 )	—	—	—	(390,952 )
Payment in kind interest earned	338,082	175,351	—	—	107,685	621,118
Accretion of deferred loan origination fees/discounts	331,361	441,442	—	—	—	772,803
Net realized gains on investments	—	(660,518 )	—	—	—	(660,518 )
Change in unrealized appreciation (depreciation) on	(119,918 )	350,846	(13,384 )	88,007	(109,302 )	196,249

investments (2)

Fair value of portfolio, end of period	\$67,240,760	\$47,733,649	\$2,104,209	\$1,661,753	\$ 1,039,468	\$119,779,839
---	--------------	--------------	-------------	-------------	--------------	---------------

(1 ) Senior secured category includes both first out and last out loans. The Company's last out senior secured loans are identified on the Schedule of Investments.

The net change in unrealized appreciation/depreciation of Level 3 investments held at June 30, 2015, was  
(2 ) \$(508,783). Net realized gain and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

26

---

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

	Year ended December 31, 2014					
	Senior Secured (1)	Junior Secured	CLO Equity	Equity	Revenue-Linked Security	Total Level 3 Assets
Fair value of portfolio, beginning of period	\$29,274,987	\$38,620,670	\$—	\$1,143,733	\$ 758,061	\$69,797,451
New investments	34,288,065	23,350,000	2,608,830	142,000	—	60,388,895
Principal payments received	(11,615,770 )	(11,500,761 )	(374,620 )	(854,473 )	(91,814 )	(24,437,438 )
Loan origination fees received	(562,675 )	(804,760 )	—	—	—	(1,367,435 )
Payment in kind interest earned	541,901	657,454	—	—	210,676	1,410,031
Accretion of deferred loan origination fees/discounts	884,335	648,380	—	—	—	1,532,715
Transfer (to) from level 2 (2)	(1,004,203 )	(3,030,000 )	—	—	—	(4,034,203 )
Transfer (to) from investment type	4,220,717	(4,220,717 )	—	—	—	—
Net realized gains on investments	—	—	—	662,709	—	662,709
Change in unrealized appreciation (depreciation) on investments (3)	26,613	24,536	65,644	281,701	234,078	632,572
Fair value of portfolio, end of period	\$56,053,970	\$43,744,802	\$2,299,854	\$1,375,670	\$ 1,111,001	\$104,585,297

(1 ) Senior secured category includes both First Out and Last Out. Please refer to Schedule of Investments.

(2 ) The Company uses the fair value of investments at the end of the period when transferring investments between levels of the fair value hierarchy.

(3 ) The net change in unrealized appreciation/depreciation of Level 3 investments held at December 31, 2014, was \$580,649. Net realized gain and net change in unrealized appreciation/depreciation are reflected on the Statement of Operations.

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. (now JMP Group LLC) ("JMP Group"), a full-service investment banking and asset management firm. JMP Group currently holds an equity interest in us and our investment adviser. JMP Group conducts its primary business activities through three wholly-owned subsidiaries: (i) Harvest Capital Strategies, LLC ("HCS"), 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 ("JMP Credit Advisors"), which manages

approximately \$1.1 billion in credit assets of collateralized loan obligation funds.

In conjunction with our initial public offering in May 2013, HCAP entered into an investment advisory and management agreement with HCAP Advisors LLC ("HCAP Advisors"), which is a majority owned subsidiary of JMP Group. Under the 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 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 for the three months and six months ended June 30, 2015 totaled \$543,946 and \$868,711, respectively. Incentive fee expense, net of the waiver, for the three months and six months ended June 30, 2014 totaled \$598,357 and \$633,845, respectively. The capital gains incentive fee is determined and paid annually with respect to cumulative realized capital gains (but not unrealized capital gains) to the extent such cumulative realized capital gains exceed cumulative realized and unrealized capital losses through the end of such fiscal year (less the aggregate amount of any previously paid capital gain incentive fee). The Company also records an expense accrual relating to the capital gains incentive fee payable by the Company to its investment adviser when (i) the cumulative realized and unrealized gains on its investments exceed all cumulative realized and unrealized capital losses on its investments and (ii) the capital gains incentive fee that would be payable exceeds the aggregate amount of any previously paid capital gain incentive fee 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. Any decrease in unrealized appreciation in subsequent periods will result in the reversal of some or all of such previously recorded expense accrual. 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 is only based on cumulative realized capital gains, including realized capital gains for such period, but not unrealized capital gains. The Company recorded net unrealized appreciation of \$1,814,698 for the three months ended June 30, 2015. The Company recorded net unrealized depreciation of \$70,541 for the six months ended June 30, 2015.

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 six months ended June 30, 2014, but for the 9% minimum dividend yield waiver provision described above.

Total base management fees and incentive management fees expense was \$1,198,851 and \$1,037,701 for the three months ended June 30, 2015 and June 30, 2014, respectively. Total base management fees and incentive management fees expense was \$2,132,948 and \$1,778,873 for the six months ended June 30, 2015 and June 30, 2014, respectively. Total base management fees and incentive management fees expense, net of fees waived under the waiver agreement, was \$2,132,948 and \$1,458,046 for the six months ended June 30, 2015 and June 30, 2014, respectively. Accrued base management fees and incentive management fees were \$1,198,851 and \$1,385,389 as of June 30, 2015 and December 31, 2014, respectively.

In conjunction with our initial public offering in May 2013, HCAP entered into an administration agreement with JMP Credit Advisors pursuant to which JMP Credit Advisors provides administrative services to HCAP and furnishes us with office facilities, equipment, and clerical, bookkeeping, and record keeping services. Payments under the administration agreement are equal to an amount based upon our allocable portion of the administrator's overhead in



performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs, except that payments required to be made by HCAP to JMP Credit Advisors under the agreement were capped such that amounts payable to JMP Credit Advisors 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 negotiated a new cap with JMP Credit Advisors of \$150,000 for each of the quarters ending June 30, September 30, and December 31, 2014. On March 5, 2015, the Company negotiated a new cap with JMP Credit Advisors on amounts payable by the Company under the administration agreement during the 2015 fiscal and calendar year. The new cap sets the maximum amount that will be payable by the Company on both a quarterly and annual basis. The cap for each quarter is as follows: (i) for the quarter ended March 31, 2015, the cap is \$150,000; (ii) for the quarter ended June 30, 2015, the cap will be equal to the sum of (a) \$150,000 plus (b) 0.25% of the increase in the Company's portfolio assets from December 31, 2014, to March 31, 2015; (iii) for the quarter ended September 30, 2015, the cap will be equal to the sum of (a) \$150,000 plus (b) 0.25% of the increase in the Company's portfolio assets from December

31, 2014, to June 30, 2015; and (iv) for the quarter ended December 31, 2015, the cap will be equal to the sum of (a) \$150,000 plus (b) 0.25% of the increase in the Company's portfolio assets from December 31, 2014, to September 30, 2015. The overall cap for the year is \$800,000, so notwithstanding any given quarterly cap, the amounts payable for all four quarters will not exceed \$800,000. Total administrative services expense was \$173,931 and \$136,326 for the three months ended June 30, 2015 and the three months ended June 30, 2014, respectively. Total administrative services expense was \$323,931 and \$205,077 for the six months ended June 30, 2015 and the six months ended June 30, 2014, respectively. Accrued administrative services fees were \$173,931 and \$150,001 as of June 30, 2015 and December 31, 2014, respectively.

In connection with HCAP's acquisition of HCC LLC in conjunction with our initial public offering, the Company succeeded to all of the assets and liabilities of HCC LLC, including a potential obligation to pay HCS, the investment adviser to HCC LLC, 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 after the merger.

In connection with the Company's offering of its Notes in January 2015, JMP Securities LLC was one of the co-managing underwriters and received an estimated \$61,900 of compensation for its services. In the future, JMP Securities LLC or its affiliates may provide the Company with various financial advisory and investment banking services, for which they would receive customary compensation.

#### Note 8: Commitments and Contingencies

At June 30, 2015, the Company had a total of \$5.6 million in unfunded commitments comprised of \$2.5 million of unfunded revolving line of credit commitments on four of the Company's debt investments, \$2.1 million of an unfunded delayed draw term loan that expires on July 2, 2015, and \$1.0 million for a loan that had not closed as of June 30, 2015. At December 31, 2014, the Company had a total of \$3.6 million in unfunded commitments comprised of \$2.1 million of unfunded revolving line of credit commitments on four of the Company's debt investments, \$0.5 million of an unfunded delayed draw term loan that expires on December 31, 2016, and \$1.0 million for two loans that had not closed as of December 31, 2014. The following table summarizes the Company's unfunded commitments and extended fair value as of June 30, 2015 and December 31, 2014:

	As of June 30, 2015		As of December 31, 2014	
	Unfunded Commitment	Extended Fair Value of unfunded commitment	Unfunded Commitment	Extended Fair Value of unfunded commitment
Brite Media LLC	\$666,667	\$666,667	\$166,667	\$166,667
Douglas Machines Corp.	1,500,000	1,500,000	1,500,000	1,500,000
Lanco Acquisition, LLC	350,000	343,810	350,000	348,684
Northeast Metal Works LLC	25,000	25,935	100,000	99,681
Unfunded Revolver	2,541,667	2,536,412	2,116,667	2,115,032
WBL SPE I, LLC	2,049,932	2,049,932	—	—
WBL SPE II, LLC	—	—	445,000	442,153
Delayed Draw	2,049,932	2,049,932	445,000	442,153
Dell International LLC	—	—	500,000	500,006

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

FCA US LLC (fka Chrysler Group LLC)	—	—	498,708	498,085
Flavors Holdings, Inc. 2nd lien	1,000,000	970,000	—	—
Payable for securities purchased	1,000,000	970,000	998,708	998,091
Total	\$5,591,599	\$5,556,344	\$3,560,375	\$3,555,276

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.

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

In accordance with the provision of ASC 260, "Earnings per Share," 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 June 30, 2015 because there were no outstanding warrants. There were no potentially dilutive common shares issued as of December 31, 2014 because the strike price of the Company's outstanding warrants exceeded the closing price of the Company's common stock for the respective period.

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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net increase (decrease) in net assets resulting from operations	\$3,191,309	\$2,391,998	\$3,474,839	\$4,635,480
Weighted average shares outstanding (basic and diluted)	6,248,539	6,176,245	6,238,844	6,166,236
Net increase (decrease) in net assets resulting from operations per share (basic and diluted)	\$0.51	\$0.39	\$0.56	\$0.75

Note 10. Taxable/Distributable Income and Dividend Distributions

To qualify for RIC tax treatment, we must, among other things, distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. We may, in the future, make actual distributions to our stockholders of our net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. The Company incurred a U.S. federal excise tax of \$7,863 for calendar year 2014.

We have adopted an "opt out" dividend reinvestment plan, or "DRIP," for our common stockholders. As a result, if we make cash distributions, then stockholders' cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions.



## Note 11: Financial Highlights

The following is a schedule of financial highlights for the three and six months ended June 30, 2015, and June 30, 2014, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Per share data:				
Net asset value at beginning of period	\$14.30	\$14.48	\$14.60	\$14.45
Net investment income (1)	0.33	0.29	0.65	0.63
Realized losses on investments (1)	(0.11)	—	(0.11)	—
Net unrealized (depreciation) appreciation on investments (1)	0.29	0.09	0.01	0.12
Net increase in net assets from operations	0.51	0.38	0.55	0.75
Distributions from net investment income (2)	(0.34)	(0.34)	(0.68)	(0.68)
Distributions from capital gains (2)	—	—	—	—
Return of capital (2)	—	—	—	—
Total Distributions	(0.34)	(0.34)	(0.68)	(0.68)
Effect of shares issued, net of offering expenses	—	—	—	—
Net asset value at end of period	\$14.47	\$14.52	\$14.47	\$14.52
Net assets at end of period	90,513,175	89,865,048	90,513,175	89,865,048
Shares outstanding at end of period	6,253,210	6,187,969	6,253,210	6,187,969
Weighted average shares outstanding (basic and diluted)	6,248,539	6,176,245	6,238,844	6,166,236
Per share closing price at end of period	\$14.04	\$14.87	\$14.04	\$14.87
Ratios and Supplemental data:				
Total Return (not annualized) (3)	3.83	% 2.73	% 4.57	% 5.38
Market Price Total Return (not annualized) (4)	10.99	% 2.38	% 28.37	% 3.83
Average Net Assets	\$89,601,448	\$89,487,968	\$90,152,886	\$89,249,524
Ratio of expenses to average Net assets (annualized)	11.69	% 7.62	% 10.47	% 5.99
Ratio of net investment income to average Net assets (annualized)	9.16	% 8.11	% 9.01	% 8.69

(1) Based on weighted average number of common shares outstanding for the period.

Distributions for the three months and six months ended June 30, 2015 were in excess of net investment income in the amount of \$57,295 and \$147,424, respectively. Distributions for the three months and six months ended June 30, 2014 were in excess of net investment income in the amount of \$270,767 and \$282,012. See Dividends and Distributions Policy in Note 2.

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

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

(5) Had our investment adviser not agreed to waive its incentive fee for the period from our initial public offering 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 72 basis points, respectively on an annualized basis.

Note 12: Subsequent Events

On July 1, 2015, the Company made a \$4.0 million junior secured term loan investment in Language Line, LLC. The investment carries an interest rate of LIBOR +9.75% with a 1.00% LIBOR floor.

On July 2, 2015, the Company received a full repayment at par on its \$3.6 million debt investment in LNB Construction, Inc. The Company also received \$50 thousand in cash and a non-interest bearing note for another \$50 thousand for its warrant holdings. The Company generated a gross internal rate of return ("IRR") of 28% on this exit. IRR is the rate of return that makes the net present value of all cash flows into or from the investment equal to zero, and is calculated based on the amount of each cash flow received or invested by the Company and the day it was invested or received.

On August 5, 2015, the Company made a \$7.5 million junior secured term loan investment in Bradford Soap International, Inc. The investment carries an interest rate of LIBOR +9.25%.

On August 5, 2015, the Company declared monthly distributions of \$0.1125 per share payable on each of August 27, 2015, September 24, 2015, and October 22, 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," "predict" 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 consolidated 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 in a merger whereby the outstanding limited liability company membership interests of Harvest Capital Credit LLC were converted into shares of our common stock and we assumed and succeeded to all of Harvest Capital Credit LLC's assets and liabilities, including its entire portfolio of investments. We issued 2,246,699 shares of our common stock for all of Harvest Capital Credit LLC's 2,266,974 outstanding membership interests in connection with the merger. Harvest Capital Credit 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 Harvest Capital Credit LLC, which are our historical financial statements as a result of the merger.

As used herein, the terms "we", "us" and the "Company" refer to Harvest Capital Credit 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, senior debt, and to a lesser extent, 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 BDC under the Investment Company 1940 Act, 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 (the "Code"). To maintain our qualification as a RIC, 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 U.S. federal income taxes on any income we distribute to our stockholders.

## Portfolio

### Portfolio Composition

As of June 30, 2015, we had \$129.9 million (at fair value) invested in 30 companies. As of June 30, 2015, our portfolio was comprised of approximately 52.5% senior secured term loans (including last-out loans), 43.8% junior secured term loans, 1.3% equity investments, 1.6% CLO equity investments and 0.8% in a revenue-linked security.

## Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

As of December 31, 2014, we had \$115.8 million (at fair value) invested in 29 companies. As of December 31, 2014, our portfolio was comprised of approximately 50% senior secured term loans, 45.8% junior secured term loans, 1.2% equity investments, 2.0% CLO equity investments and 1% in a revenue-linked security.

We originate and invest primarily in privately-held middle-market companies (typically those with less than \$15.0 million of EBITDA) through first lien and second lien debt, oftentimes with a corresponding equity investment component. The composition of our investments as of June 30, 2015 and December 31, 2014 was as follows:

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

	As of June 30, 2015		As of December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Senior Secured (1)	\$68,146,826	\$68,207,276	\$57,843,872	\$58,017,267
Junior Secured	56,436,481	56,891,241	52,794,041	53,030,636
Equity	1,570,647	1,661,753	1,372,571	1,375,670
CLO Equity	2,051,949	2,104,209	2,234,210	2,299,854
Revenue-Linked Securities	914,692	1,039,468	876,923	1,111,001
Total Investments	\$129,120,595	\$129,903,947	\$115,121,617	\$115,834,428

(1) Senior secured category includes both first out and last out loans. The Company's last out senior secured loans are identified on the Schedule of Investments.

At June 30, 2015, our average portfolio company debt investment at amortized cost and fair value was approximately \$4.5 million and \$4.5 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately \$9.9 million and \$10.0 million, respectively. At December 31, 2014, our average portfolio company debt investment at amortized cost and fair value was approximately \$4.1 million and \$4.1 million, respectively, and our largest portfolio company investment by amortized cost and fair value was approximately \$9.9 million and \$9.9 million, respectively.

At June 30, 2015, 63.0% of our debt investments bore interest based on floating rates (some of which were subject to interest rate floors), such as LIBOR, and 37.0% bore interest at fixed rates. At December 31, 2014, 59.7% of our debt investments bore interest based on floating rates (some of which were subject to interest rate floors), such as LIBOR, and 40.3% bore interest at fixed rates.

The weighted average yield on all of our debt investments and other income producing investments, excluding Shinnecock CLO 2006-1 Ltd. and equity components of the investment portfolio, as of June 30, 2015 and December 31, 2014 was approximately 15.2% and 15.1%, respectively. The weighted average yield was computed using the effective interest rates for such investments, including cash and PIK interest as well as the accretion of deferred fees.

For investments that have a PIK interest component, PIK interest is accrued each period but generally not collected until the debt investment is sold or paid off. A roll forward of PIK interest accruals and collections for the three and six months ended June 30, 2015 and June 30, 2014 is summarized in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
PIK, beginning of period	\$1,811,519	\$1,643,734	\$1,524,126	\$1,256,939
Accrual	314,992	420,929	621,118	818,330
Payments	(51,117)	(411,945)	(69,850)	(422,551)
PIK, end of period	\$2,075,394	\$1,652,718	\$2,075,394	\$1,652,718

#### Investment Activity

During the three months ended June 30, 2015, we closed \$4.8 million of investments in one new portfolio company and two of our existing portfolio companies. During the three months ended June 30, 2014, we closed \$19.9 million of investments in two new portfolio companies and one of our existing portfolio companies.

During the six months ended June 30, 2015, we closed \$19.1 million of investments in three new portfolio companies and four of our existing portfolio companies. During the six months ended June 30, 2014, we closed \$31.2 million of investments in eight new portfolio companies and one of our existing portfolio companies.



During the three months ended June 30, 2015, we did not have any investment payoffs or sales. We received \$1.2 million in principal repayments due to scheduled amortization and prepayments. During the three months ended June 30, 2014, we received a \$4.3 million payoff at par for one portfolio company investment and sold two portfolio company investments at \$4.6 million.

During the six months ended June 30, 2015, we sold two investments at \$1.0 million. Additionally, we received \$4.1 million in principal repayments due to scheduled amortization and prepayments. During the six months ended June 30, 2014, we received a \$4.3 million payoff at par for one portfolio company investment and sold two portfolio company investments at \$4.6 million.

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 work out. 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 work out. 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 debt investments at fair value (in millions):

Investment Rating	As of June 30, 2015			As of December 31, 2014		
	Fair Value	% of Total Portfolio	Number of Debt Investments	Fair Value	% of Total Portfolio	Number of Debt Investments
1	\$39.2	31.3	% 8	\$24.5	22.1	% 5
2	59.9	47.9	% 14	73.6	66.3	% 18
3	19.5	15.6	% 4	6.2	5.6	% 2
4	5.5	4.4	% 1	5.4	4.9	% 1
5	1.0	0.8	% 1	1.3	1.1	% 1
	\$125.1	100.0	% 28	\$111.0	100.0	% 27

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

We do not accrue interest on loans and debt securities if we doubt our ability to collect such interest. Generally, we will place the loan on non-accrual for such investments in which interest has not been paid for greater than 90 days. As of June 30, 2015, we had one loan on non-accrual status which comprised approximately 1.3% of our portfolio at cost. As of December 31,

36

---



2014, we had two loans on non-accrual status which comprised approximately 6.7% of our portfolio at cost. This may be a higher percentage of the portfolio at cost than the BDC industry average. The continued failure by a borrower under these loans to pay interest and repay principal, and the failure by other borrowers to make such payments, could have a material adverse effect on our financial condition and results of operation.

## Results of Operations

An important measure of our financial performance is the 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 unrealized change in the fair value of our investment portfolio.

## Comparison of the Three Months and Six Months Ended June 30, 2015 and June 30, 2014

### 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, commitment, loan origination, structuring or due diligence fees and consulting fees.

Investment income for the three months ended June 30, 2015 totaled \$4.7 million, compared to investment income of \$3.5 million for the three months ended June 30, 2014. Investment income for the three months ended June 30, 2015 was comprised of \$3.9 million in cash interest, \$0.3 million in PIK interest and \$0.4 million in fees earned on the investment portfolio. Investment income for the three months ended June 30, 2014 was comprised of \$2.8 million in cash interest, \$0.4 million in PIK interest and \$0.2 million in fees earned on the investment portfolio. The increase in investment income in the three months ended June 30, 2015 is primarily attributable to a larger investment portfolio during the period, as compared to the three months ended June 30, 2014.

Investment income for the six months ended June 30, 2015 totaled \$8.8 million, compared to investment income of \$6.6 million for the six months ended June 30, 2014. Investment income for the six months ended June 30, 2015 was comprised of \$7.3 million in cash interest, \$0.6 million in PIK interest and \$0.8 million in fees earned on the investment portfolio. Investment income for the six months ended June 30, 2014 was comprised of \$5.2 million in cash interest, 0.8 million in PIK interest, \$0.4 million in fees earned on the investment portfolio and \$0.1 million in other income. The increase in investment income in the six months ended June 30, 2015 is primarily attributable to a larger investment portfolio during the period, as compared to the six months ended June 30, 2014.

### Expenses

## Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

Our primary operating expenses include the payment of fees to HCAP Advisors LLC ("HCAP Advisors") under the investment advisory and management agreement, our allocable portion of overhead expenses under the administration agreement with JMP Credit Advisors, 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 fees;
- professional fees and expenses associated with independent audits and outside legal costs;
- 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;
- 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 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 totaled \$2.7 million for the three months ended June 30, 2015, compared to \$1.7 million for the three months ended June 30, 2014. Operating expenses in both periods consisted of interest expense, base and incentive management fees, administrator expenses, interest and related fees, professional fees, valuation fees, insurance expenses, directors' fees, and other general and administrative expenses. The increase in operating expenses was due to a \$0.2 million increase in base management fees discussed below, \$0.7 million increase in interest expense, and \$0.1 million increase in administrative expenses for the three months ended June 30, 2015, compared to the three months ended June 30, 2014. Interest expense increased \$0.7 million in the three months ended June 30, 2015, compared to June 30, 2014 due to higher outstanding indebtedness in the three months ended June 30, 2015.

Operating expenses (net of fees waived by HCAP Advisors through March 31, 2014, pursuant to the waiver agreement, as applicable) totaled \$4.8 million for the six months ended June 30, 2015, compared to \$2.7 million for the six months ended June 30, 2014. Operating expenses in both periods consisted of interest expense, base and incentive management fees, administrator expenses, interest and related fees, professional fees, valuation fees, insurance expenses, directors' fees, and other general and administrative expenses. The increase in operating expenses was due to a \$0.4 million increase in base management fees discussed below, \$1.1 million increase in interest expense, and \$0.1 million increase in administrative expenses for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Interest expense increased \$1.1 million in the six months ended June 30, 2015, compared to June 30, 2014 due to higher outstanding indebtedness in the six months ended June 30, 2015.

We recorded an administrative services expense of \$0.2 million for the three months ended June 30, 2015, compared to \$0.1 million for the three months ended June 30, 2014. We recorded an administrative services expense of \$0.3 million for the six months ended June 30, 2015, compared to \$0.2 million for the six months ended June 30, 2014. On March 5, 2015, the Company negotiated a new cap with JMP Credit Advisors on amounts payable by the Company under the administration agreement during the 2015 fiscal and calendar year. The new cap sets the maximum amount that will be payable by the Company on both a quarterly and annual basis. The cap for each quarter is as follows: (i) for the quarter ended March 31, 2015, the cap is \$150,000; (ii) for the quarter ended June 30, 2015, the cap will be equal to the sum of (a) \$150,000 plus (b) 0.25% of the increase in the Company's portfolio assets from December 31, 2014, to March 31, 2015; (iii) for the quarter ended September 30, 2015, the cap will be equal to the sum of (a) \$150,000 plus (b) 0.25% of the increase in the Company's portfolio assets from December 31, 2014, to June 30, 2015; and (iv) for the quarter ended December 31, 2015, the cap will be equal to the sum of (a) \$150,000 plus (b) 0.25% of the increase in the Company's portfolio assets from December 31, 2014, to September 30, 2015. The overall cap for the year is \$800,000, so notwithstanding any given quarterly cap, the amounts payable for all four quarters will not exceed \$800,000. The \$0.2 million expensed in the three months ended June 30, 2015 was an increase over the \$0.1

Edgar Filing: Harvest Capital Credit Corp - Form 10-Q

million expensed in the three months ended June 30, 2014 due to an annual cap of \$275,000 being in place from April 29, 2013 through April 29, 2014, and the cap of \$150,000 being in place for the three months ended June 30, 2014. The \$0.3 million expensed in the six months ended June 30,

38

---

2015 was an increase over the \$0.2 million expensed in the six months ended June 30, 2014 due to an annual cap of \$275,000 being in place from April 29, 2013 through April 29, 2014, and the cap of \$150,000 being in place for the six months ended June 30, 2014..

The base management fee for the three months ended June 30, 2015 was \$0.7 million, compared to \$0.4 million for the three months ended June 30, 2014. The increase in the base management fee is attributable to increased gross investments during the three months ended June 30, 2015, as compared to the three months ended June 30, 2014. Incentive management fees for the three months ended June 30, 2015 were \$0.5 million, compared to \$0.6 million for the three months ended June 30, 2014. See the discussion below for more information on our base and incentive fee expenses.

The base management fee for the six months ended June 30, 2015 was \$1.3 million, compared to \$0.8 million for the six months ended June 30, 2014. The increase in the base management fee is attributable to increased gross investments during the six months ended June 30, 2015, as compared to the six months ended June 30, 2014. Incentive management fees (net of fees waived by HCAP Advisors through March 31, 2014, pursuant to the waiver agreement, as applicable) for the six months ended June 30, 2015 were \$0.9 million, compared to \$0.6 million for the six months ended June 30, 2014. The increase in incentive management fees is attributable to the fee waiver of \$0.3 million during the six months ended June 30, 2014. See the discussion below for more information on our base and incentive fee expenses.

In connection with our initial public offering in May 2013, HCAP Advisors, our investment adviser, agreed to permanently waive all or such portion of the incentive fee that it would have otherwise collected 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 was based upon our initial public offering price of \$15 times the number of shares of our common stock outstanding plus the number of shares of common stock issued pursuant to our dividend reinvestment plan during the waiver period. Incentive fees waived under the waiver agreement totaled \$320,827 and were all in the quarter ended March 31, 2014. The capital gains incentive fee is determined and paid annually with respect to cumulative realized capital gains (but not unrealized capital gains) to the extent such cumulative realized capital gains exceed cumulative realized and unrealized capital losses through the end of such fiscal year (less the aggregate amount of any previously paid capital gain incentive fee). The Company also records an expense accrual relating to the capital gains incentive fee payable by the Company to its investment adviser when (i) the cumulative realized and unrealized gains on its investments exceed all cumulative realized and unrealized capital losses on its investments and (ii) the capital gains incentive fee that would be payable exceeds the aggregate amount of any previously paid capital gain incentive fee 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. Any decrease in unrealized appreciation in subsequent periods will result in the reversal of some or all of such previously recorded expense accrual. 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 is only based on cumulative realized capital gains, including realized capital gains for such period, but not unrealized capital gain. The Company recorded net unrealized appreciation of \$1,814,698 and \$70,541 for the three and six months ended June 30, 2015, respectively.

#### Net Investment Income

For the three months and six months ended June 30, 2015, net investment income was \$2.1 million and \$4.1 million, respectively, compared to \$1.8 million and \$3.9 million for the three months and six months ended June 30, 2014. For the three months and six months ended June 30, 2015, net investment income per share was \$0.33 and \$0.65, respectively, compared to \$0.29 and \$0.63 for the three months and six months ended June 30, 2014.

#### 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 income.

We recognized \$674,880 and \$659,061 in realized losses on our investments for the three months and six months ended June 30, 2015, respectively, and \$3,117 in realized gains on our investments in both the three months and six months ended June 30, 2014.

#### Net Change in Unrealized (Depreciation) Appreciation 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 \$1.8 million and \$0.1 million for the three months and six months ended June 30, 2015, respectively, and \$0.6 million and \$0.8 million for the three months and six months ended June 30, 2014, respectively.

#### Net Increase in Net Assets Resulting from Operations

The net increase in net assets resulting from operations was \$3.2 million and \$3.5 million for the three months and six months ended June 30, 2015, respectively, compared to \$2.4 million and \$4.6 million for the three month and six months ended June 30, 2014, respectively. The \$0.8 million increase in net assets for the three months ended June 30, 2015, compared to the three months ended June 30, 2014 is primarily attributable to a \$1.2 million increase in the change in net unrealized appreciation on investments for the three months ended June 30, 2015, as compared to the the three months ended June 30, 2014.

The \$1.2 million decrease in net assets for the six months ended June 30, 2015, compared to the six months ended June 30, 2014 is primarily attributable to \$0.7 million in realized losses on investments and a \$0.7 million decrease in the change in unrealized appreciation on investments for the six months ended June 30, 2015, as compared to the six months ended June 30, 2014.

#### Financial Condition, Liquidity and Capital Resources

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

Our operating activities used cash of \$10.9 million and \$16.0 million for the six months ended June 30, 2015 and June 30, 2014, respectively, primarily in connection with the funding of new investments. Our financing activities provided cash of \$11.3 million and used cash of \$0.1 million, respectively, for the six months ended June 30, 2015 and June 30, 2014. Our financing activity proceeds for the six months ended June 30, 2015 were primarily in connection with dividends paid to shareholders and net borrowings on our Credit Facility and proceeds from the issuance of the Notes (defined below). Our financing activity proceeds for the six months ended June 30, 2014 were primarily in connection with dividends paid to shareholders.

Our liquidity and capital resources are derived from our Credit Facility (defined below), proceeds received from our initial public offering, proceeds received from the public offering of our Notes in January 2015, and cash flows from operations, including investment sales and repayments. 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 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 more than 90% 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. The amount of leverage that we employ 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.

As of June 30, 2015, we had cash of \$2.6 million and \$40.2 million undrawn on our \$55.0 million credit facility. As of December 31, 2014, we had \$2.9 million in cash and \$28.9 million undrawn on our \$55.0 million credit facility.

#### 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 final maturity date of 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% (with a 0.50% LIBOR floor) 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. In addition, the Loan Agreement contains a covenant that limits the amount of our unsecured longer-term indebtedness (as defined in the Loan Agreement), which includes our Notes, to 50% of the maximum borrowing amount under the Credit Facility. 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 June 30, 2015 and December 31, 2014, the outstanding balance on the Credit Facility was \$14.8 million and \$26.1 million, respectively.

#### Notes Offering

On January 27, 2015, the Company closed the public offering of \$25.0 million in aggregate principal amount of its 7.00% Notes due 2020 (the "Notes"). On February 4, 2015, the Company closed on an additional \$2.5 million in aggregate principal amount of Notes to cover the over-allotment option exercised by the underwriters. The total net proceeds to the Company from the Notes, after deducting underwriting discounts of \$750,000 and estimated offering expenses of \$318,345, were \$26.4 million.

The Notes will mature on January 16, 2020 and bear interest at a rate of 7.00%. The Notes are unsecured obligations of the Company and rank pari passu with the Company's future unsecured indebtedness; senior to any of the Company's future indebtedness that expressly provides it is subordinated to the Notes; effectively subordinated to all of the existing and future secured indebtedness of the Company, to the extent of the value of the assets securing such indebtedness, including borrowings under the Credit Facility; and structurally subordinated to all existing and future

indebtedness and other obligations of any subsidiaries, financing vehicles, or similar facilities the Company may form in the future, with respect to claims on the assets of any such subsidiaries, financing vehicles, or similar facilities. The Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after January 16, 2017. Interest on the Notes is payable quarterly on January 16, April 16, July 16, and October 16 of each year, beginning April 16, 2015. The Notes are listed on the NASDAQ Global Market under the trading symbol "HCAPL." The Company may from time to time repurchase Notes in accordance with the 1940 Act and the rules promulgated thereunder. As of June 30, 2015, the outstanding balance of the Notes was \$27.5 million.

The indenture governing the Notes (the "Notes Indenture") contains certain covenants, including covenants (i) requiring the Company's compliance with the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act, whether or not the Company continues to be subject to such provisions of the 1940 Act; (ii) requiring the Company's

compliance, under certain circumstances, with a modified version of the requirements set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, whether or not the Company continues to be subject to such provisions of the 1940 Act, prohibiting the declaration of any cash dividend or distribution upon any class of the Company's capital stock (except to the extent necessary for the Company to maintain its status as a RIC under Subchapter M of the Code), or purchasing any such capital stock, if the Company's asset coverage, as defined in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution, or purchase; and (iii) requiring the Company to provide financial information to the holders of the Notes and the Trustee if the Company ceases to be subject to the reporting requirements of the Securities Exchange Act of 1934. These covenants are subject to limitations and exceptions that are described in the Notes Indenture.

#### 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 June 30, 2015, our only off-balance sheet arrangements consisted of \$2.5 million of unfunded revolving line of credit commitments to four of our debt investments, and \$2.1 million of unfunded delayed draw commitments to provide debt financing to one of our portfolio companies. As of December 31, 2014, our only off-balance sheet arrangements consisted of \$0.5 million of unfunded delayed draw commitments to provide debt financing to one of our portfolio companies and \$2.1 million of unfunded revolving line of credit commitments to four 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 maintain our qualification as a RIC, 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 maintain our qualification as a RIC, 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 U.S. 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.

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 July 1, 2015, the Company made a \$4.0 million junior secured term loan investment in Language Line, LLC. The investment carries an interest rate of LIBOR +9.75% with a 1.00% LIBOR floor.

On July 2, 2015, the Company received a full repayment at par on its \$3.6 million debt investment in LNB Construction, Inc. The Company also received \$50 thousand in cash and a non-interest bearing note for another \$50 thousand for its warrant holdings. The Company generated a gross internal rate of return ("IRR") of 28% on this exit. IRR is the rate of return that makes the net present value of all cash flows into or from the investment equal to zero, and is calculated based on the amount of each cash flow received or invested by the Company and the day it was invested or received.

On August 5, 2015, the Company made a \$7.5 million junior secured term loan investment in Bradford Soap International, Inc. The investment carries an interest rate of LIBOR +9.25%.

On August 5, 2015, the Company declared monthly distributions of \$0.1125 per share payable on each of August 27, 2015, September 24, 2015, and October 22, 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 and six months ended June 30, 2015, eighteen of our debt investments, or 63.0%, of the fair value of our debt investments bore interest at floating rates. Fourteen of these floating rate loans have interest rate floors, with the average LIBOR floor at 0.90%, which effectively converts the loans to fixed rate loans in the current interest rate environment. Two of these floating rate loans have terms that are the greater of a fixed rate or LIBOR plus a set rate, the average implied LIBOR floor of these two loans is 6.00%, which effectively converts these loans to fixed rates as well in the current interest rate environment. For the three and six months ended June 30, 2014, sixteen loans, or 52.8%, of the fair value of the portfolio bore interest at floating rates. Eleven of these investments had interest rate floors. In the future, we expect other loans in our portfolio will have floating rates. Assuming that the Statement of Assets and Liabilities as of June 30, 2015 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 net investment income by a maximum of \$0.4 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 June 30, 2015 (the end of the period covered by this report), 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) of the 1934 Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(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 three months ended June 30, 2015 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, 2014. 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 three months ended June 30, 2015, we issued a total of 8,901 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 \$114,824 for the three months ended June 30, 2015.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.



Item 5. Other Information

Not applicable.

45

---

EXHIBIT INDEX

Exhibit

Number Description

- |      |  |
|------|--|
| 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.

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

Date: August 10, 2015

/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)