

THL Credit, Inc.  
Form 10-Q  
May 03, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2012**

**OR**

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

**For the transition period from            to**

**Commission file number 001-33559**

**THL CREDIT, INC.**

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

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<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>27-0344947</b> (I.R.S. Employer Identification No.)
<b>100 Federal St., 31<sup>st</sup> Floor, Boston, MA</b> (Address of Principal Executive Offices)	<b>02110</b> (Zip Code)
<b>Registrant's Telephone Number, Including Area Code: 800-454-4424</b>	

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, as amended, 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-Accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding at May 3, 2012 was 20,220,201.

**Table of Contents**

**THL CREDIT, INC.**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012**

**Table of Contents**

	<b>INDEX</b>	<b>PAGE NO.</b>
PART I.	<b><u>FINANCIAL INFORMATION</u></b>	
Item 1.	<b><u>Financial Statements</u></b>	
	<u>Consolidated Statements of Assets and Liabilities as of March 31, 2012 (unaudited) and December 31, 2011</u>	2
	<u>Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011 (unaudited)</u>	3
	<u>Consolidated Statements of Changes in Net Assets for the three months ended March 31, 2012 and 2011 (unaudited)</u>	4
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011 (unaudited)</u>	5
	<u>Consolidated Schedules of Investments as of March 31, 2012 (unaudited) and December 31, 2011</u>	6
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	14
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4.	<u>Controls and Procedures</u>	44
PART II.	<b><u>OTHER INFORMATION</u></b>	
Item 1.	<u>Legal Proceedings</u>	45
Item 1A.	<u>Risk Factors</u>	45
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3.	<u>Defaults Upon Senior Securities</u>	45
Item 4.	<u>Mine Safety Disclosures</u>	45
Item 5.	<u>Other Information</u>	45
Item 6.	<u>Exhibits</u>	45
	<b><u>SIGNATURES</u></b>	<b>46</b>

**Table of Contents****PART 1. FINANCIAL INFORMATION**

In this Quarterly Report, Company, we, us and our refer to THL Credit, Inc. and its wholly owned subsidiaries unless the context states otherwise.

**Item 1. Financial Statements****THL Credit, Inc. and Subsidiaries****Consolidated Statements of Assets and Liabilities**

	March 31, 2012 (unaudited)	December 31, 2011
<b>Assets:</b>		
Investments at fair value:		
Non-controlled, non-affiliated investments (cost of \$284,074,887 and \$263,100,758, respectively)	\$ 287,490,955	\$ 266,981,836
Non-controlled, affiliated investments (cost of \$12,852 and \$10,864, respectively)	12,852	11,496
<b>Total investments at fair value (cost of \$284,087,739 and \$263,111,622, respectively)</b>	<b>287,503,807</b>	<b>266,993,332</b>
Cash	2,083,151	5,572,753
Deferred financing costs	1,648,854	1,860,484
Interest receivable	2,620,743	1,440,057
Due from affiliate	513,627	511,842
Deferred offering costs	379,687	327,267
Receivable for paydown of investment	258,621	258,621
Prepaid expenses and other assets	256,593	185,075
<b>Total assets</b>	<b>\$ 295,265,083</b>	<b>\$ 277,149,431</b>
<b>Liabilities:</b>		
Loans payable	\$ 24,500,000	\$ 5,000,000
Accrued incentive fees	2,479,259	2,689,030
Base management fees payable	1,039,310	1,013,048
Accrued expenses	798,317	471,481
Accrued administrator expenses		338,569
Due to affiliate		20,597
<b>Total liabilities</b>	<b>28,816,886</b>	<b>9,532,725</b>
<b>Net Assets:</b>		
Preferred stock, par value \$0.001 per share, 100,000,000 preferred shares authorized, no preferred shares issued and outstanding		
Common stock, par value \$0.001 per share, 100,000,000 common shares authorized, 20,220,201 and 20,220,200 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	20,220	20,220
Paid-in capital in excess of par	262,289,364	262,289,351
Net unrealized appreciation on investments	3,416,068	3,881,710
Accumulated undistributed net realized gain		917,830
Accumulated undistributed net investment income	722,545	507,595
<b>Total net assets</b>	<b>266,448,197</b>	<b>267,616,706</b>
<b>Total liabilities and net assets</b>	<b>\$ 295,265,083</b>	<b>\$ 277,149,431</b>

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Net asset value per share	\$	13.18	\$	13.24
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See accompanying notes to these consolidated financial statements.

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Statements of Operations (unaudited)**

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Investment Income:</b>		
From non-controlled, non-affiliated investments:		
Interest income	\$ 10,150,323	\$ 6,879,673
Other income	68,934	98,607
From non-controlled, affiliated investments:		
Other income	530,334	80,182
<b>Total investment income</b>	<b>10,749,591</b>	<b>7,058,462</b>
<b>Expenses:</b>		
Incentive fees	1,426,248	501,753
Base management fees	1,039,310	991,460
Administrator expenses	823,892	568,065
Credit facility interest and fees	452,833	69,583
Amortization of deferred financing costs	211,630	46,933
Professional fees	205,678	221,468
Other general and administrative expenses	177,327	197,006
Directors fees	134,875	134,875
Insurance expenses	105,810	191,608
<b>Total expenses</b>	<b>4,577,603</b>	<b>2,922,751</b>
<b>Net investment income</b>	<b>6,171,988</b>	<b>4,135,711</b>
Net change in unrealized appreciation on:		
Non-controlled, non-affiliated investments	(465,010)	748,375
Non-controlled, affiliated investments	(632)	
<b>Net change in unrealized appreciation</b>	<b>(465,642)</b>	<b>748,375</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 5,706,346</b>	<b>\$ 4,884,086</b>
<b>Net investment income per common share:</b>		
Basic and diluted	\$ 0.31	\$ 0.21
<b>Net increase in net assets resulting from operations per common share:</b>		
Basic and diluted	\$ 0.28	\$ 0.24
<b>Weighted average shares of common stock outstanding:</b>		
Basic and diluted	20,220,200	20,004,824

See accompanying notes to these consolidated financial statements.

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Statements of Changes in Net Assets (unaudited)**

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Increase in net assets from operations:		
Net investment income	\$ 6,171,988	\$ 4,135,711
Net change in unrealized appreciation on investments	(465,642)	748,375
Net increase in net assets resulting from operations	5,706,346	4,884,086
Distributions to stockholders	(6,874,868)	(4,609,197)
Capital share transactions:		
Reinvestment of dividends	13	4,048,573
Net increase in net assets from capital share transactions	13	4,048,573
Total (decrease) increase in net assets	(1,168,509)	4,323,462
Net assets at beginning of period	267,616,706	260,015,769
Net assets at end of period	\$ 266,448,197	\$ 264,339,231
Common shares outstanding at end of period	20,220,201	20,220,197
Capital share activity:		
Shares issued from reinvestment of dividends	1	304,090

See accompanying notes to these consolidated financial statements.

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Statements of Cash Flows (unaudited)**

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 5,706,346	\$ 4,884,086
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in unrealized appreciation on investments	465,642	(748,375)
Purchases of investments	(36,208,738)	(41,815,786)
Proceeds from sale and paydown of investments	16,662,572	9,813,641
Increase in investments due to PIK	(677,086)	(529,137)
Amortization of deferred financing costs	211,630	46,933
Accretion of discounts on investments and other fees	(752,865)	(506,787)
Income from investment in member interest		(330,913)
Increase in interest receivable	(1,180,686)	(390,575)
Increase in receivable for paydown of investment		(258,621)
Increase in receivable due from affiliate	(1,785)	(29,336)
Increase in prepaid expenses and other assets	(71,518)	(3,046)
Increase in accrued expenses	300,435	254,919
Increase in base management fees payable	26,262	12,144
Decrease in accrued administrator expenses	(338,569)	(151,595)
(Decrease) increase in accrued incentive fee	(209,771)	501,753
(Decrease) increase in due to affiliate	(20,597)	5,530
<b>Net cash used for operating activities</b>	<b>(16,088,728)</b>	<b>(29,245,165)</b>
<b>Cash flows from financing activities</b>		
Borrowings under credit facility	25,300,000	
Repayments under credit facility	(5,800,000)	
Deferred offering costs paid	(26,019)	
Distributions paid	(6,874,855)	(3,548,040)
Financing costs paid		(2,515,671)
<b>Net cash provided by (used for) financing activities</b>	<b>12,599,126</b>	<b>(6,063,711)</b>
<b>Net decrease in cash</b>	<b>(3,489,602)</b>	<b>(35,308,876)</b>
Cash, beginning of period	5,572,753	110,140,711
<b>Cash, end of period</b>	<b>\$ 2,083,151</b>	<b>\$ 74,831,835</b>

**Supplemental Disclosure of Cash Flow Information:**

Cash interest paid	\$ 68,047
Non-cash financing activities:	

For the three months ended March 31, 2012 and 2011, 1 share and 304,090 shares, respectively, of common stock were issued in connection with dividend reinvestments of \$13 and \$4,048,573, respectively.

See accompanying notes to these consolidated financial statements.





**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (unaudited)****March 31, 2012**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Initial Acquisition Date	Principal <sup>(2)</sup> No. of Shares / No. of Units	Cost	Fair Value
<b>Non-controlled/non-affiliated investments 107.90% of net asset value</b>					
Airborne Tactical Advantage Company, LLC					
Senior Secured Note, 11.0% cash, due 3/7/16	Aerospace & defense	9/7/11	\$ 4,000,000	\$ 3,826,411	\$ 3,826,411
Class A Warrants <sup>(3)</sup>			511,812	112,599	112,599
Senior Secured Delayed Draw Term Loans, 11.0%, expiration dates of 9/7/12 and 3/7/13 <sup>(4)</sup>					
				3,939,010	3,939,010
C&K Market, Inc.					
Senior Subordinated Note, 14.0% cash, 2.0% PIK, due 11/3/15	Retail & grocery	11/3/10	\$ 13,376,389	12,891,748	12,975,097
Warrant for Class B			156,552	349,000	87,250
				13,240,748	13,062,347
Charming Charlie, Inc.					
Subordinated Term Loan, 14.0% cash, due 7/27/15	Retail & grocery	1/27/11	\$ 7,555,555	7,465,489	7,782,222
				7,465,489	7,782,222
Chuy's Opco, Inc.					
Senior Secured Term Loan, LIBOR + 700 cash, due 5/24/16 <sup>(5)</sup>	Restaurants	5/24/11	\$ 7,470,807	7,406,401	7,470,807
Senior Secured Revolving Loan, LIBOR + 700 cash, expiration date 5/24/16 <sup>(4)(5)</sup>			\$ 915,750	908,085	915,750
Senior Secured Term Loan, LIBOR + 700 cash, expiration date 5/24/16 <sup>(4)(5)</sup>			\$ 370,000	359,779	370,000
				8,674,265	8,756,557
Country Pure Foods, LLC					
Subordinated Term Loan, 12.5% cash, 2.5% PIK, due 2/13/16	Food & beverage	8/13/10	\$ 14,279,661	14,064,338	13,994,067
				14,064,338	13,994,067
CRS Reprocessing, LLC					
Senior Secured Term Loan, LIBOR + 900 cash, due 6/16/15 <sup>(5)</sup>	Manufacturing	6/16/11	\$ 11,533,333	11,341,261	11,341,261
				11,341,261	11,341,261
Express Courier International, Inc.					
Secured Subordinated Term Loan, 11.0% cash, 2.0% PIK, due 7/17/16 <sup>(6)(7)</sup>	Business services	1/17/12	\$ 7,116,970	6,979,826	6,979,826
				6,979,826	6,979,826
Firebirds International, LLC					
Senior Secured Term Loan, LIBOR + 900 cash, due 5/17/16 <sup>(5)</sup>	Restaurants	5/17/11	\$ 8,200,000	8,058,764	8,118,000

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Senior Secured Revolving Loan, LIBOR + 900 cash, expiration  
date 5/17/16<sup>(5)</sup> <sup>(8)</sup> <sup>(9)</sup>

Common stock <sup>(3)</sup>	1,906	190,600	190,600
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8,166,879 8,308,600

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See accompanying notes to these consolidated financial statements.

**Table of Contents**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Initial Acquisition Date	Principal <sup>(2)</sup> No. of Shares / No. of Units	Cost	Fair Value
<b>Food Processing Holdings, LLC</b>					
Senior Subordinated Note, 12.0% cash, 3.0% PIK, due 8/28/17 <sup>(10)(11)</sup>	Food & beverage	2/28/12	\$ 13,537,125	13,403,670	13,403,670
Class A Units <sup>(21)</sup>			162.44	163,268	181,000
Class B Units <sup>(22)</sup>			406.09	408,161	408,161
				13,975,099	13,992,831
<b>Hart InterCivic, Inc.</b>					
Senior Secured Term Loan, LIBOR + 900 cash, due 7/1/16 <sup>(5)</sup>	Election services	7/1/11	\$ 10,500,000	10,314,897	10,314,897
Senior Secured Revolving Loan, LIBOR + 900 cash, expiration date 7/1/16 <sup>(4)(5)(9)</sup>				(50,969)	
				10,263,928	10,314,897
<b>HEALTHCAREfirst, Inc.</b>					
Senior Subordinated Note, 13.5% cash, 3.0% PIK, due 12/4/15 <sup>(13)</sup>	Business services	6/4/10	\$ 13,624,174	13,313,794	13,624,174
				13,313,794	13,624,174
<b>Hickory Farms, Inc.</b>					
Senior Secured Term Loan, LIBOR + 775 cash, due 9/28/12 <sup>(5)</sup>	Food & beverage	6/2/11	\$ 9,463,885	9,463,885	9,463,885
				9,463,885	9,463,885
<b>JDC Healthcare Management, LLC</b>					
Senior Subordinated Note, 12.0% cash, 3.5% PIK, due 6/16/14	Healthcare, dental services	4/20/10	\$ 11,035,460	10,655,397	11,035,460
Member interest <sup>(6)(12)</sup>			1,393	1,393,309	1,476,500
				12,048,706	12,511,960
<b>LCP Capital Fund LLC</b>					
Member interest <sup>(12)(14)(15)(16)</sup>	Financial services	4/20/10	\$ 12,000,000	12,000,000	12,000,000
				12,000,000	12,000,000
<b>MModal MQ Inc. (formerly known as MedQuist, Inc.)</b>					
Senior Subordinated Note, 13.0% cash, due 10/14/16 <sup>(17)(18)</sup>	Business services	9/30/10	\$ 6,000,000	5,851,726	6,180,000
				5,851,726	6,180,000
<b>OEM Group, Inc.</b>					
Senior Secured Note, 12.5% cash, 2.5% PIK, due 10/7/15 <sup>(19)</sup>	Manufacturing	10/7/10	\$ 14,504,739	14,173,937	14,069,597
Warrant for Common					
				14,173,937	14,069,597
<b>Pomeroy IT Solutions, Inc.</b>					
Senior Subordinated Note, 13.0% cash, 2.0% PIK, due 2/11/16	Business services	2/11/11	\$ 13,302,470	13,085,913	13,435,494

*(Continued on next page)*

See accompanying notes to these consolidated financial statements.

**Table of Contents**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Initial Acquisition Date	Principal <sup>(2)</sup> No. of Shares / No. of Units	Cost	Fair Value
Purple Communications, Inc. Senior Secured Term Loan, LIBOR + 775 cash, due 12/3/14 <sup>(5)</sup>	Communications	12/3/10	\$ 11,026,897	10,925,684	11,206,897
				10,925,684	11,206,897
Sheplers, Inc. Senior Secured (2 <sup>nd</sup> lien) Term Loan, LIBOR + 1165 cash, due 12/20/16 <sup>(5)(6)</sup> Mezzanine Loan, 10.0% cash, 7.0% PIK, due 12/20/17 <sup>(6)</sup>	Retail & grocery	12/20/11	\$ 11,426,463 \$ 1,687,017	11,152,622 1,654,762	11,152,622 1,654,762
				12,807,384	12,807,384
Surgery Center Holdings, Inc. Senior Subordinated Note, 12.0% cash, 3.0% PIK, due 8/4/17	Healthcare, ambulatory surgery centers	4/20/10	\$ 18,495,801	18,088,466	18,495,801
Member interest <sup>(3)(12)</sup>			469,673	469,673	1,025,000
				18,558,139	19,520,801
T&D Solutions, LLC Senior Secured Term Loan, 13.0% cash, due 1/29/15	Energy / Utilities	10/14/10	\$ 14,940,808	14,809,238	14,940,808
				14,809,238	14,940,808
Texas Honing, Inc. Senior Secured Term Loan, LIBOR + 850 cash, 2.0% PIK, due 6/22/16 <sup>(5)</sup> Senior Secured Revolving Loan, LIBOR + 1000 cash, expiration date 6/22/16 <sup>(4)(5)</sup>	Energy / Utilities	6/22/11	\$ 12,122,310 \$ 1,800,000	11,911,143 1,766,218	12,122,310 1,800,000
				13,677,361	13,922,310
The Studer Group, L.L.C. Senior Subordinated Notes, 12.0% cash, 2.0% PIK due 3/29/17	Healthcare, consulting	9/29/11	\$ 12,266,811	12,038,317	12,038,317
				12,038,317	12,038,317
Trinity Services Group, Inc. Senior Subordinated Note, 12.0% cash, 1.5% PIK due 9/29/17 <sup>(20)</sup>	Food & beverage	3/29/12	\$ 13,500,000	13,297,710	13,297,710
				13,297,710	13,297,710
Vision Solutions, Inc. Second Lien Term Loan, LIBOR + 800 cash, due 7/23/17 <sup>(5)</sup>	Business services	3/31/11	\$ 10,000,000	9,912,250	10,000,000
				9,912,250	10,000,000
<b>Non-controlled/non-affiliated investments 107.90% of net asset value</b>				<b>\$ 284,074,887</b>	<b>\$ 287,490,955</b>
<b>Non-controlled/affiliated investment 0.00% of net asset value</b>					
THL Credit Greenway Fund LLC					

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Member interest <sup>(12)(16)</sup>	Financial			
	services	1/27/11	12,852	12,852
			12,852	12,852
<b>Total investments</b>	<b>107.90% of net asset value</b>		<b>\$ 284,087,739</b>	<b>\$ 287,503,807</b>

*(Continued on next page)*

See accompanying notes to these consolidated financial statements.

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**Table of Contents**

- (1) All debt investments are income-producing. Equity and member interests are non-income-producing unless otherwise noted.
- (2) Principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.
- (3) Equity ownership may be held in shares or units of companies related to the portfolio company.
- (4) Issuer pays 0.5% unfunded commitment fee on facility.
- (5) Coupon is subject to LIBOR floors ranging from 1.00% 4.25%.
- (6) Interest held by a wholly owned subsidiary of THL Credit, Inc.
- (7) At the option of the issuer on a quarterly basis 13.0% cash, or 2.0% PIK and 11.0% cash.
- (8) Issuer pays 0.25% unfunded commitment fee on revolving loan quarterly.
- (9) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan.
- (10) Interest held in companies related to the portfolio company.
- (11) At the option of the issuer on a quarterly basis 15.0% cash, or 3.0% PIK and 12.0% cash.
- (12) Member interests of limited liability companies are the equity equivalents of the stock of corporations.
- (13) At the option of the issuer on a quarterly basis 16.5% cash, or 3.0% PIK and 13.5% cash.
- (14) The Company's investment in LCP Capital Fund LLC is in the form of membership interests and its contributed capital is maintained in a collateral account held by a custodian and acts as collateral for certain credit default swaps for the Series 2005-1 equity interest. See Note 2 in the Notes to the Consolidated Financial Statements.
- (15) Income producing security with no stated coupon; cash yield for the three months ended March 31, 2012 was approximately 18.94%.
- (16) Non-registered investment company at the time of investment and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (17) At the option of the issuer on a quarterly basis 13.0% cash, or 2.0% PIK and 12.0% cash.
- (18) Publicly-traded company with a market capitalization in excess of \$250 million at the time of investment and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (19) At the option of the issuer on a quarterly basis 15.0% cash, or 2.5% PIK and 12.5% cash.
- (20) At the option of the issuer on a quarterly basis 13.5% cash, or 1.5% PIK and 12.0% cash.
- (21) Initial investment made on 4/20/10.

See accompanying notes to these consolidated financial statements.



**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2011**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Initial Acquisition Date	Principal <sup>(2)</sup> No. of Shares / No. of Units	Cost	Fair Value
<b>Non-controlled/non-affiliated investments 99.77% of net asset value</b>					
Airborne Tactical Advantage Company, LLC					
Senior Secured Note, 11.0% cash, due 3/7/16	Aerospace & defense	9/7/11	\$ 4,000,000	\$ 3,813,884	\$ 3,813,884
Class A Warrants			511,812	112,599	112,599
Senior Secured Delayed Draw Term Loans, 11.0%, expiration dates of 9/7/12 and 3/7/13 <sup>(15)</sup>					
				3,926,483	3,926,483
C&K Market, Inc.					
Senior Subordinated Note, 14.0% cash, 2.0% PIK, due 11/3/15	Retail & grocery	11/3/10	\$ 13,309,104	12,800,455	12,909,831
Warrant for Class B			156,552	349,000	87,250
				13,149,455	12,997,081
Charming Charlie, Inc.					
Subordinated Term Loan, 14.0% cash, due 7/27/15	Retail & grocery	1/27/11	\$ 11,333,333	11,190,332	11,333,333
				11,190,332	11,333,333
Chuy's Opco, Inc.					
Senior Secured Term Loan, LIBOR + 700 cash, due 5/24/16 <sup>(8)</sup>	Restaurants	5/24/11	\$ 7,489,562	7,421,884	7,452,114
Senior Secured Revolving Loan, LIBOR + 700 cash, expiration date 5/24/16 <sup>(8)(15)(17)</sup>			\$ 499,500	491,374	499,500
Senior Secured Term Loan, LIBOR + 700 cash, expiration date 5/24/16 <sup>(8)(15)(17)(18)</sup>				(10,835)	
				7,902,423	7,951,614
Country Pure Foods, LLC					
Subordinated Term Loan, 12.5% cash, 2.5% PIK, due 2/13/16 <sup>(4)</sup>	Food & beverage	8/13/10	\$ 14,189,988	13,964,606	13,906,188
				13,964,606	13,906,188
CRS Reprocessing, LLC					
Senior Secured Term Loan, LIBOR + 900 cash, due 6/16/15 <sup>(8)</sup>	Manufacturing	6/16/11	\$ 11,533,333	11,328,752	11,328,752
				11,328,752	11,328,752
Firebirds International, LLC					
Senior Secured Term Loan, LIBOR + 900 cash, due 5/17/16 <sup>(8)</sup>	Restaurants	5/17/11	\$ 8,200,000	8,052,049	8,118,000
Senior Secured Revolving Loan, LIBOR + 900 cash, expiration date 5/17/16 <sup>(8)(17)(18)</sup>				(87,466)	
Common stock			1,906	190,600	190,600
				8,155,183	8,308,600

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*(Continued on next page)*

See accompanying notes to these consolidated financial statements.

**Table of Contents**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Initial Acquisition Date	Principal <sup>(2)</sup> No. of Shares / No. of Units	Cost	Fair Value
<b>Food Processing Holdings, LLC</b>					
Senior Subordinated Note, 13.5% cash, 3.0% PIK, due 8/10/15 <sup>(4)</sup>	Food & beverage	4/20/10	\$ 12,569,273	12,131,303	12,569,273
Class A Units <sup>(5)</sup>			162.44	163,268	190,000
Class B Units <sup>(5)</sup>			406.09	408,161	408,161
				12,702,732	13,167,434
<b>Hart InterCivic, Inc.</b>					
Senior Secured Term Loan, LIBOR + 900 cash, due 7/1/16 <sup>(8)</sup>	Election services	7/1/11	\$ 10,500,000	10,306,298	10,306,298
Senior Secured Revolving Loan, LIBOR + 900 cash, expiration date 7/1/16 <sup>(8)(15)(17)</sup>				(53,957)	
				10,252,341	10,306,298
<b>HEALTHCAREfirst, Inc.</b>					
Senior Subordinated Note, 13.5% cash, 3.0% PIK, due 12/4/15 <sup>(18)</sup>	Business services	6/4/10	\$ 13,624,174	13,298,742	13,624,174
				13,298,742	13,624,174
<b>Hickory Farms, Inc.</b>					
Senior Secured Term Loan, LIBOR + 775 cash, due 9/28/12 <sup>(8)</sup>	Food & beverage	6/2/11	\$ 9,463,885	9,463,885	9,463,885
				9,463,885	9,463,885
<b>JDC Healthcare Management, LLC</b>					
Senior Subordinated Note, 12.0% cash, 3.5% PIK, due 6/16/14	Healthcare, dental services	4/20/10	\$ 10,938,684	10,523,464	10,938,684
Member interest <sup>(5)(9)</sup>			1,393	1,393,309	1,393,309
				11,916,773	12,331,993
<b>LCP Capital Fund LLC</b>					
Member interest <sup>(3)(5)(7)(10)</sup>	Financial services	4/20/10	\$ 12,000,000	12,000,000	12,000,000
				12,000,000	12,000,000
<b>MModal MQ Inc. (formerly known as MedQuist, Inc.)</b>					
Senior Subordinated Note, 13.0% cash, due 10/14/16 <sup>(11)(12)</sup>	Business services	9/30/10	\$ 6,000,000	5,845,968	6,120,000
				5,845,968	6,120,000
<b>OEM Group, Inc.</b>					
Senior Secured Note, 12.5% cash, 2.5% PIK, due 10/7/15 <sup>(14)</sup>	Manufacturing	10/7/10	\$ 14,413,653	14,065,806	14,125,380
Warrant for Common					120,000
				14,065,806	14,245,380
<b>Pomeroy IT Solutions, Inc.</b>					
Senior Subordinated Note, 13.0% cash, 2.0% PIK, due 2/11/16	Business services	2/11/11	\$ 13,235,557	13,008,862	13,367,912

*(Continued on next page)*

See accompanying notes to these consolidated financial statements.

**Table of Contents**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Initial Acquisition Date	Principal <sup>(2)</sup> No. of Shares / No. of Units	Cost	Fair Value
Purple Communications, Inc. Senior Secured Term Loan, LIBOR + 775 cash, due 12/3/14 <sup>(8)</sup>	Communications	12/3/10	\$ 11,465,517	11,155,137	11,465,517
				11,155,137	11,465,517
Sheplers, Inc. Senior Secured (2 <sup>nd</sup> lien) Term Loan, LIBOR + 1165 cash, due 12/20/16 <sup>(8)(9)</sup>	Retail & grocery	12/20/11	\$ 11,426,463	11,142,051	11,142,051
Mezzanine Loan, 10.0% cash, 7.0% PIK, due 12/20/17 <sup>(9)</sup>			\$ 1,677,067	1,643,697	1,643,697
				12,785,748	12,785,748
Surgery Center Holdings, Inc. Senior Subordinated Note, 12.0% cash, 3.0% PIK, due 8/4/17	Healthcare, ambulatory surgery centers	4/20/10	\$ 18,358,861	17,939,323	18,358,861
Member interest <sup>(5)(6)</sup>			469,673	469,673	1,025,000
				18,408,996	19,383,861
T&D Solutions, LLC Senior Secured Term Loan, 13.0% cash, due 1/29/15 <sup>(13)</sup>	Energy / Utilities	10/14/10	\$ 14,978,952	14,837,337	14,978,952
				14,837,337	14,978,952
Texas Honing, Inc. Senior Secured Term Loan, LIBOR + 850 cash, 2.0% PIK, due 6/22/16 <sup>(8)</sup>	Energy / Utilities	6/22/11	\$ 12,061,333	11,840,577	12,061,333
Senior Secured Revolving Loan, LIBOR + 1000 cash, expiration date 6/22/16 <sup>(8)(16)(17)</sup>				(35,774)	
				11,804,803	12,061,333
The Studer Group, LLC Senior Subordinated Notes, 12.0% cash, 2.0% PIK due 3/29/17	Healthcare, consulting	9/29/11	\$ 12,263,422	12,027,298	12,027,298
				12,027,298	12,027,298
Vision Solutions, Inc. Second Lien Term Loan, LIBOR + 800 cash, due 7/23/17 <sup>(8)</sup>	Business services	3/31/11	\$ 10,000,000	9,909,096	9,900,000
				9,909,096	9,900,000
<b>Non-controlled/ non-affiliated investments 99.77% of net asset value</b>				<b>\$ 263,100,758</b>	<b>\$ 266,981,836</b>
<b>Non-controlled/ affiliated investment 0.00% of net asset value</b>					
THL Credit Greenway Fund LLC Member interest <sup>(5)(10)</sup>	Financial services	1/27/11		10,864	11,496
				10,864	11,496
<b>Total investments 99.77% of net asset value</b>				<b>\$ 263,111,622</b>	<b>\$ 266,993,332</b>

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See accompanying notes to these consolidated financial statements.

**Table of Contents**

- (1) All debt investments are income producing. Equity and member interests are non-income producing unless otherwise noted.
- (2) Principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.
- (3) The Company's investment in LCP Capital Fund, LLC is in the form of membership interests and its contributed capital is maintained in a collateral account held by a custodian and acts as collateral for certain credit default swaps for the Series 2005-1 equity interest. See Note 2 in the Notes to the Consolidated Financial Statements.
- (4) Interest held in companies related to the portfolio company.
- (5) Member interests of limited liability companies are the equity equivalents of the stock of corporations.
- (6) Equity ownership may be held in shares or units of companies related to the portfolio company.
- (7) Income producing security.
- (8) Coupon is subject to LIBOR floors ranging from 1.00% 4.25%.
- (9) Interest held by a wholly-owned subsidiary of THL Credit, Inc.
- (10) Non-registered investment company at the time of investment and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (11) 13.0% cash, or 2.0% PIK and 12.0% cash, at the option of the issuer on a quarterly basis.
- (12) Publicly-traded company with a market capitalization in excess of \$250 million at the time of investment and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (13) Stated coupon adjusted to achieve a combined yield of 13% for Revolving Loan and Term Loan.
- (14) At the option of the issuer on a quarterly basis 15.0% cash, or 2.5% PIK and 12.5% cash.
- (15) Issuer pays 0.5% unfunded commitment fee on facility quarterly.
- (16) Issuer pays 0.25% unfunded commitment fee on revolving loan quarterly.
- (17) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan.
- (18) 16.5% cash, or 3.0% PIK and 13.5% cash, at the option of the issuer on a quarterly basis.

See accompanying notes to these consolidated financial statements.

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**Table of Contents**

**THL Credit, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2012**

**1. Organization**

THL Credit, Inc., or the Company, was organized as a Delaware corporation on May 26, 2009. The Company has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, or 1940 Act. The Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, or the Code, as amended. In 2009, the Company was treated for tax purposes as a corporation. The Company's investment objective is to generate both current income and capital appreciation, primarily through privately negotiated investments in debt and equity securities of middle-market companies.

The Company was initially funded on July 23, 2009, issuing 6,700 shares of common stock at an aggregate purchase price of \$100,500 to THL Credit Opportunities, L.P., an affiliate of THL Credit Advisors LLC, or the Advisor. While the Company incurred certain costs in connection with an anticipated initial public offering, which ultimately would have been borne by the Advisor had the offering not closed, the Company did not formally commence principal operations until the completion of the offering on April 21, 2010, as described below.

On April 20, 2010, in anticipation of completing an initial public offering and formally commencing principal operations, the Company entered into a purchase and sale agreement with THL Credit Opportunities, L.P. and THL Credit Partners BDC Holdings, L.P., or BDC Holdings, an affiliate of the Company, to effectuate the sale by THL Credit Opportunities, L.P. to the Company of certain securities valued at \$62,107,449, as determined by the Company's board of directors, and on the same day issued 4,140,496 shares of common stock to BDC Holdings valued at \$15.00 per share, pursuant to such agreement, in exchange for the aforementioned securities. Subsequently, the Company filed an election to be regulated as a BDC.

On April 21, 2010, the Company completed its initial public offering, formally commencing principal operations, and sold 9,000,000 shares of its common stock through a group of underwriters at a price of \$13.00 per share, less an underwriting discount and commissions totaling \$0.8125 per share. Concurrently, the Company sold 6,307,692 shares of its common stock to BDC Holdings at \$13.00 per share, the sale of which was not subject to an underwriting discount and commission. On April 27, 2010, the Company closed the sale of the aforementioned 15,307,692 shares and received \$191.7 million of net proceeds.

On May 26, 2010, the underwriters exercised their over-allotment option under the underwriting agreement and elected to purchase an additional 337,000 shares of common stock at \$13.00 per share resulting in additional net proceeds of \$4.1 million.

The Company established a wholly owned subsidiary, THL Credit Holdings, Inc., or Credit Holdings, which is structured as a Delaware corporation, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). Credit Holdings is not consolidated for income tax purposes and may incur income tax expense as a result of its ownership of portfolio companies.

The Company has a wholly owned subsidiary, THL Corporate Finance, Inc., which serves as the administrative agent on certain investment transactions.

On April 8, 2011, the Company received a "Greenlight" letter allowing it to file an application to license a small business investment company, or SBIC, with the Investment Division of the Small Business Administration, or the SBA. The application was submitted and formally accepted on September 21, 2011. As of March 31, 2012, the SBIC had not received its license to operate as an SBIC. There can be no assurance that the SBIC will be able to obtain such license or that the Company will be able to capitalize such SBIC with sufficient regulatory capital to borrow the maximum amount available.

THL Credit SBIC, LP, or SBIC LP, and its general partner, THL Credit SBIC GP, LLC, or SBIC GP, were organized in Delaware on August 25, 2011 as a limited partnership and limited liability company, respectively. Both the SBIC LP and SBIC GP are consolidated wholly owned subsidiaries of the Company. The SBIC will be subject to regulation and oversight by the SBA. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. The SBIC LP's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP generally invests with the Company in SBA eligible businesses that meet the investment criteria used by the Company. As of March 31, 2012 and December 31, 2011, the SBIC LP had investments in Express Courier International, Inc. and Sheplers, Inc., with an aggregate amortized cost basis of \$19,787,210, and an investment in Sheplers, Inc., with an



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amortized cost basis of \$12,785,748, respectively, that were pre-approved by the SBA.

The Company manages the day-to-day operations of and provides investment advisory and administrative services to SBIC LP.

## **Table of Contents**

### **2. Significant Accounting Policies**

#### ***Basis of Presentation***

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933, as amended, and the Securities and Exchange Act of 1934, as amended, the Company generally will not consolidate its interest in any company other than in investment company subsidiaries and controlled operating companies substantially all of whose business consists of providing services to the Company.

The accompanying consolidated financial statements of the Company have been presented in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, the unaudited financial results included herein contain all adjustments, consisting solely of normal accruals, considered necessary for the fair presentation of financial statements for interim period included herein. The current period's results of operations are not necessarily indicative of the operating results to be expected for the period ended December 31, 2012. The financial results of our portfolio companies are not consolidated in the financial statements. The accounting records of the Company are maintained in U.S. dollars.

#### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Changes in the economic environment, financial markets, credit worthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ and these differences could be material.

#### ***Cash***

Cash consists of funds held in demand deposit accounts at several financial institutions and, at certain times, balances may exceed the Federal Deposit Insurance Corporation insured limit and is therefore subject to credit risk. There were no cash equivalents as of March 31, 2012 and December 31, 2011.

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

Deferred financing costs consist of fees and expenses paid in connection with the closing of credit facilities and are capitalized at the time of payment. Deferred financing costs are amortized using the straight line method over the term of the credit facility.

#### ***Deferred Offering Costs***

Deferred offering costs consist of fees and expenses incurred in connection with the public offer and sale of the Company's common stock, including legal, accounting, printing fees and other related expenses, as well as costs incurred in connection with the filing of a shelf registration statement.

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

Investments, for which market quotations are readily available, are valued using market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. Debt and equity securities, for which market quotations are not readily available, are valued at fair value as determined in good faith by the Company's board of directors. Because we expect that there will not be a readily available market value for many of the investments in the Company's portfolio, it is expected that many of the Company's portfolio investments' values will be determined in good faith by the Company's board of directors in accordance with a documented valuation policy that has been reviewed and approved by our board of directors in accordance with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

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the Company's quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

preliminary valuation conclusions are then documented and discussed with senior management of the Advisor;

to the extent determined by the audit committee of the Company's board of directors, independent valuation firms engaged by the Company conduct independent appraisals and review the Advisor's preliminary valuations in light of their own independent assessment;

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## Table of Contents

the audit committee of our board of directors reviews the preliminary valuations of the Advisor and independent valuation firms and, if necessary, responds and supplements the valuation recommendation of the independent valuation firm to reflect any comments; and

our board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Advisor, the respective independent valuation firms and the audit committee.

The types of factors that the Company may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. The Company utilizes an income approach to value its debt investments and a combination of income and market approaches to value its equity investments. With respect to unquoted securities, the Company's board of directors, in consultation with the Company's independent third party valuation firm, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. For debt investments, the Company determines the fair value primarily using an income, or yield, approach that analyzes the discounted cash flows of interest and principal for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of each portfolio investments. The Company's estimate of the expected repayment date is generally the legal maturity date of the instrument. The yield analysis considers changes in leverage levels, credit quality, portfolio company performance and other factors.

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future cash flows or earnings to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that the Company may take into account in fair value pricing the Company's investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, the current investment performance rating, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, transaction comparables, our principal market as the reporting entity and enterprise values, among other factors.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Company discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable requires significant judgment by management.

The Company considers whether the volume and level of activity for the asset or liability have significantly decreased and identifies transactions that are not orderly in determining fair value. Accordingly, if the Company determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Valuation techniques such as an income approach might be appropriate to supplement or replace a market approach in those circumstances.

The Company has adopted the authoritative guidance under GAAP for estimating the fair value of investments in investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for Investment Companies. Accordingly, in circumstances in which net asset value per share of an investment is determinative of fair value, the Company estimates the fair value of an investment in an investment company using the net asset value per share of the investment (or its equivalent) without further adjustment, if the net asset value per share of the investment is determined in accordance with the specialized accounting guidance for investment companies as of the reporting entity's measurement date.

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In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ( ASU 2011-04 ), which amends the existing fair value

## **Table of Contents**

guidance within ASC 820-10. The amendments include: (1) application of the concepts of the highest and best use valuation premise only to measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities), (2) an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk, which allows an entity to measure the fair value of the net risk position when several criteria are met, (3) extension of the prohibition of a blockage factor application to all fair value measurements, (4) a model for the fair value measurement of instruments classified within an entity's stockholders' equity which is consistent with the guidance of measuring the fair value for liabilities, (5) additional disclosures for fair value measurements categorized in Level 3 of the fair value hierarchy: (i) quantitative information about unobservable inputs used, (ii) a description of the valuation processes used by the entity and (iii) a qualitative discussion about the sensitivity of the measurements, (6) disclosure of the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed and (7) disclosure of any transfers between Levels 1 and 2 of the fair value hierarchy, not just significant transfers. The provisions of ASU 2011-04 are effective for the Company on January 1, 2012. The adoption of this standard has been reflected in the Company's financial statement disclosures.

### ***Investment Risk***

The value of investments will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuer. During periods of limited liquidity and higher price volatility, the Company's ability to dispose of investments at a price and time that the Company deems advantageous may be impaired. The extent of this exposure is reflected in the carrying value of these financial assets and recorded in the Consolidated Statements of Assets and Liabilities.

Lower-quality debt securities involve greater risk of default or price changes due to changes in the credit quality of the issuer. The value of lower-quality debt securities often fluctuates in response to company, political, or economic developments and can decline significantly over short periods of time or during periods of general or regional economic difficulty. Lower-quality debt securities can be thinly traded or have restrictions on resale, making them difficult to sell at an acceptable price. The default rate for lower-quality debt securities is likely to be higher during economic recessions or periods of high interest rates.

**Table of Contents**

The following is a summary of the industry classification in which the Company invests as of March 31, 2012:

<b>Industry:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Aerospace & defense	\$ 3,939,010	\$ 3,939,010	1.48%
Business services	49,143,509	50,219,494	18.83%
Communications	10,925,684	11,206,897	4.21%
Election services	10,263,928	10,314,897	3.87%
Energy / Utilities	28,486,599	28,863,118	10.83%
Financial services	12,012,852	12,012,852	4.51%
Food & beverage	50,801,032	50,748,493	19.05%
Healthcare, ambulatory surgery centers	18,558,139	19,520,801	7.33%
Healthcare, consulting	12,038,317	12,038,317	4.52%
Healthcare, dental services	12,048,706	12,511,960	4.70%
Manufacturing	25,515,198	25,410,858	9.54%
Restaurants	16,841,144	17,065,157	6.40%
Retail & grocery	33,513,621	33,651,953	12.63%
<b>Total investments</b>	<b>\$ 284,087,739</b>	<b>\$ 287,503,807</b>	<b>107.90%</b>

The following is a summary of the geographical concentration of our investment portfolio as of March 31, 2012:

<b>Region:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Midwest	\$ 74,076,575	\$ 74,666,265	28.02%
Northeast	17,864,578	18,192,852	6.83%
Northwest	13,240,748	13,062,347	4.90%
Southeast	91,764,218	93,017,903	34.91%
Southwest	66,303,686	67,357,543	25.28%
West	20,837,934	21,206,897	7.96%
<b>Total investments</b>	<b>\$ 284,087,739</b>	<b>\$ 287,503,807</b>	<b>107.90%</b>

**Table of Contents**

The following is a summary of the industry classification in which the Company invests as of December 31, 2011:

<b>Industry:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Aerospace & defense	\$ 3,926,483	\$ 3,926,483	1.47%
Business services	42,062,668	43,012,086	16.08%
Communications	11,155,137	11,465,517	4.28%
Election services	10,252,341	10,306,298	3.85%
Energy / Utilities	26,642,140	27,040,285	10.10%
Financial services	12,010,864	12,011,496	4.49%
Food & beverage	36,131,223	36,537,507	13.65%
Healthcare, ambulatory surgery centers	18,408,996	19,383,861	7.24%
Healthcare, consulting	12,027,298	12,027,298	4.49%
Healthcare, dental services	11,916,773	12,331,993	4.61%
Manufacturing	25,394,558	25,574,132	9.56%
Restaurants	16,057,606	16,260,214	6.08%
Retail & grocery	37,125,535	37,116,162	13.87%
<b>Total investments</b>	<b>\$ 263,111,622</b>	<b>\$ 266,993,332</b>	<b>99.77%</b>

The following is a summary of the geographical concentration of our investment portfolio as of December 31, 2011:

<b>Region:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Midwest	\$ 73,850,595	\$ 74,476,659	27.82%
Northeast	17,856,832	18,131,496	6.78%
Northwest	13,149,455	12,997,081	4.86%
Southeast	70,058,029	71,792,628	26.83%
Southwest	67,132,478	68,229,951	25.50%
West	21,064,233	21,365,517	7.98%
<b>Total investments</b>	<b>\$ 263,111,622</b>	<b>\$ 266,993,332</b>	<b>99.77%</b>

The following is a summary of the levels within the fair value hierarchy in which the Company invests as of March 31, 2012:

<b>Description:</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
First lien debt	\$ 91,891,026	\$		\$ 91,891,026
Second lien debt	56,628,615			56,628,615
Subordinated debt	123,490,204			123,490,204
Investments in funds	12,012,852			12,012,852
Equity investments	3,481,110			3,481,110
<b>Total investments</b>	<b>\$ 287,503,807</b>	<b>\$</b>	<b>\$</b>	<b>\$ 287,503,807</b>

The following is a summary of the levels within the fair value hierarchy in which the Company invests as of December 31, 2011:

<b>Description:</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
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First lien debt	\$ 89,488,235	\$	\$ 89,488,235
Second lien debt	60,124,938		60,124,938
Subordinated debt	101,841,744		101,841,744
Investments in funds	12,011,496		12,011,496
Equity investments	3,526,919		3,526,919
Total investments	\$ 266,993,332	\$	\$ 266,993,332

**Table of Contents**

The following table rolls forward the changes in fair value during the three months ended March 31, 2012 for investments classified within Level 3:

	<b>First lien debt</b>	<b>Second lien debt</b>	<b>Subordinated debt</b>	<b>Investments in funds</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning balance, January 1, 2012	\$ 89,488,235	\$ 60,124,938	\$ 101,841,744	\$ 12,011,496	\$ 3,526,919	\$ 266,993,332
Purchases	2,586,250		33,620,500	1,988		36,208,738
Sales and repayments	(315,521)	(3,777,778)	(12,569,273)			(16,662,572)
Unrealized appreciation (depreciation) <sup>(1)</sup>	(32,376)	91,612	(478,437)	(632)	(45,809)	(465,642)
Net amortization of premiums, discounts and fees	103,461	98,757	550,647			752,865
PIK	60,977	91,086	525,023			677,086
<b>Ending balance, March 31, 2012</b>	<b>\$ 91,891,026</b>	<b>\$ 56,628,615</b>	<b>\$ 123,490,204</b>	<b>\$ 12,012,852</b>	<b>\$ 3,481,110</b>	<b>\$ 287,503,807</b>

Net change in unrealized appreciation from investments still held as of the reporting date <sup>(1)</sup>	\$ (32,376)	\$ 91,612	\$ (40,467)	\$ (632)	\$ (45,809)	\$ (27,672)
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The following table rolls forward the changes in fair value during the three months ended March 31, 2011 for investments classified within Level 3<sup>(2)</sup>:

	<b>First lien debt</b>	<b>Second lien debt</b>	<b>Subordinated debt</b>	<b>Investments in funds</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning balance, January 1, 2011	\$ 35,184,846	\$ 33,968,221	\$ 66,576,890	\$ 12,790,984	\$ 5,008,238	\$ 153,529,179
Purchases	130,880	28,943,334	12,740,000	1,572		41,815,786
Sales and repayments	(283,768)	(8,738,889)		(790,984)		(9,813,641)
Unrealized appreciation (depreciation) <sup>(1)</sup>	139,421	(406,086)	924,256		90,784	748,375
Net amortization of premiums, discounts and fees	62,331	343,689	100,767			506,787
PIK and non cash earnings		94,109	435,028	330,913		860,050
<b>Ending balance, March 31, 2011</b>	<b>\$ 35,233,710</b>	<b>\$ 54,204,378</b>	<b>\$ 80,776,941</b>	<b>\$ 12,332,485</b>	<b>\$ 5,099,022</b>	<b>\$ 187,646,536</b>

Net change in unrealized appreciation from investments still held as of the reporting date <sup>(1)</sup>	\$ 139,421	\$ 167,954	\$ 924,256	\$	\$ 90,784	\$ 1,322,415
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- (1) All unrealized appreciation (depreciation) in the table above is reflected in the accompanying Consolidated Statements of Operations.
- (2) For the three months ended March 31, 2011, the Company has reclassified certain of the above investment categories to expand the classification of investments to reflect the security interest of the Company's debt holdings. The opening balance as of January 1, 2011 has been adjusted to conform to the revised classifications.

**Table of Contents**

The following provides quantitative information about Level 3 fair value measurements:

<b>Description:</b>	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Average) (1)</b>
First lien debt	\$ 91,891,026	Discounted cash flows (income approach)	Weighted average cost of capital	11% - 13% (12%)
Second lien debt	56,628,615	Discounted cash flows (income approach)	Weighted average cost of capital	15% - 17% (16%)
Subordinated debt	123,490,204	Discounted cash flows (income approach)	Weighted average cost of capital	14% - 16% (15%)
Investments in funds	12,012,852	Discounted cash flows (income approach)	Weighted average cost of capital	13% - 26% (19%)
		Net asset value, as a practical expedient	Net asset value	N/A
Equity investments	3,481,110	Market comparable companies (market approach)	EBITDA multiple	6.1 7.1 (6.6)
Total investments	\$ 287,503,807			

- (1) The minimum and maximum values were determined using the weighted average of the fair value of the investments in each investment category.

The primary significant unobservable input used in the fair value measurement of the Company's debt securities (first lien debt, second lien debt and subordinated debt), including income-producing investments in funds, is the weighted average cost of capital, or WACC. Significant increases (decreases) in the WACC in isolation would result in a significantly lower (higher) fair value measurement. In determining the WACC, for the income, or yield, approach, the Company considers current market yields and multiples, portfolio company performance, leverage levels, credit quality, among other factors in its analysis. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate WACC to use in the income approach.

The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple, or the Multiple. Significant increases (decreases) in the Multiple in isolation would result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market approach, the Company considers current market trading and/or transaction multiples, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

**Investment in Funds***Greenway*

On January 14, 2011, THL Credit Greenway Fund LLC, or Greenway, was formed as a Delaware limited liability company. Greenway is a portfolio company of the Company. Greenway is a closed-end investment fund which provides for no liquidity or redemption options and is not readily marketable. Greenway operates under a limited liability agreement dated January 19, 2011, or the Agreement. Greenway will continue in existence until January 14, 2021, subject to earlier termination pursuant to certain terms of the Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Agreement. Greenway has a two year investment period.

Greenway has \$150,000,000 of capital committed by affiliates of a single institutional investor, and is managed by the Company through the investment professionals that serve on the Company's investment committee. The Company's capital commitment to Greenway is \$15,000. As of March 31, 2012, \$130,529,186 of capital had been called by Greenway and the Company's portion of total called capital was \$13,053. As of March 31, 2012 and December 31, 2011, the value of the Company's interest in Greenway was \$12,852 and \$11,496, respectively, and is reflected in the Consolidated Schedule of Investments.

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As manager of Greenway, the Company acts as the investment adviser to Greenway and is entitled to receive certain fees. As a result, Greenway is classified as an affiliate of the Company. For the three months ended March 31, 2012 and 2011, the Company earned \$530,334 and \$80,182 in fees related to Greenway, which are included in other income in the Consolidated Statements of Operations. As of March 31, 2012 and December 31, 2011, \$509,173 and \$410,479 of fees related to Greenway were included in Due from affiliate on the Consolidated Statements of Assets and Liabilities.

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## **Table of Contents**

Greenway invests in securities similar to those of the Company pursuant to investment and allocation guidelines which address, among other things, the size of the borrowers, the types of transactions and the concentration and investment ratio amongst Greenway and the Company. However, the Company has the discretion to invest in other securities.

### *LCP Capital Fund LLC*

The Company has invested in membership interests in LCP Capital Fund LLC, or LCP, a private investment company that was organized to participate in investment opportunities that arise when a special purpose entity, or SPE, or sponsor thereof, needs to raise capital to achieve ratings, regulatory, accounting, tax, or other objectives. LCP is a closed investment vehicle which provides for no liquidity or redemption options and is not readily marketable. LCP is managed by an unaffiliated third party. As of March 31, 2012 and December 31, 2011, the Company has contributed \$12,000,000 of capital in the form of membership interests in LCP, which is invested in an underlying SPE referred to as Series 2005-01. The Company's exposure is limited to the amount of its contributed capital.

The Company's contributed capital in LCP is maintained in a collateral account held by a third-party custodian, who is neither affiliated with the Company nor with LCP, and acts as collateral on certain credit default swaps for the Series 2005-01 for which LCP receives fixed premium payments throughout the year, adjusted for expenses incurred by LCP. The SPE purchases assets on a non-recourse basis and LCP agrees to reimburse the SPE up to a specified amount for potential losses. LCP holds the contributed cash invested for an SPE transaction in a segregated account that secures the payment obligation of LCP. The Company expects to receive distributions from LCP on a quarterly basis. Such distributions are reflected in the Company's Consolidated Statements of Operations as interest income in the period earned. LCP has a remaining life of 19 years; however, it is currently expected that Series 2005-01 will terminate on February 15, 2013, if not extended prior to this date pursuant to the terms of Series 2005-1 SPE. Regardless of the date of dissolution, LCP has the right to receive amounts held in the collateral account if there is an event of default under LCP's operative agreements. LCP may have other series which will have investments in other SPEs to which the Company will not be exposed.

### ***Security Transactions, Income Recognition, Realized/Unrealized Gains or Losses***

Security transactions are recorded on a trade-date basis. The Company measures realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method. The Company reports changes in fair value of investments that are measured at fair value as a component of net change in unrealized appreciation or depreciation on investments in the Consolidated Statements of Operations.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that the Company expects to collect such amounts. Dividend income is recognized on the ex-dividend date. Original issue discount, principally representing the estimated fair value of detachable equity or warrants obtained in conjunction with the acquisition of debt securities, and market discount or premium are capitalized and accreted or amortized into interest income over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion/amortization of discounts and premiums and upfront loan origination fees.

The Company has investments in its portfolio which contain a contractual paid-in-kind, or PIK, interest provision. PIK interest is computed at the contractual rate specified in each investment agreement, is added to the principal balance of the investment, and is recorded as income. The Company will cease accruing PIK interest if there is insufficient value to support the accrual or if it does not expect amounts to be collectible. To maintain the Company's status as a RIC, PIK interest income, which is considered investment company taxable income, must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash.

The Company recorded \$769,012 and \$529,137 in PIK income for the three months ended March 31, 2012 and 2011, respectively. The Company received cash proceeds related to PIK income previously recognized of \$523,868 and \$0, for the three months ended March 31, 2012 and 2011, respectively.

The Company capitalizes and amortizes upfront loan origination fees received in connection with the closing of investments. The unearned income from such fees is accreted into interest income over the contractual life of the loan based on the effective interest method. Upon prepayment of a loan or debt security, any prepayment premiums, unamortized upfront loan origination fees, and unamortized discounts are recorded as interest income.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned. The Company had no income from advisory services for the three

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months ended March 31, 2012 and 2011, respectively.

Other income includes commitment fees, fees related to the management of Greenway, amendment fees and unused commitment fees associated with investments in portfolio companies.

Expenses are recorded on an accrual basis.

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## **Table of Contents**

### ***Revolving and Unfunded Delayed Draw Loans***

For the Company's investments in revolving and delayed draw loans, the cost basis of the investments purchased is adjusted for the cash received for the discount on the total balance committed. The fair value is also adjusted for price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative value until it is offset by the future amounts called and funded.

### ***Income Taxes***

The Company has elected to be taxed as a RIC under Subchapter M of the Code and currently qualifies, and intends to continue to qualify each year, as a RIC under the Code.

In order to qualify for favorable tax treatment as a RIC, the Company is required to distribute annually to its stockholders at least 90% of its investment company taxable income, as defined by the Code. To avoid federal excise taxes, the Company must distribute annually at least 98% of its ordinary income for each calendar year and 98.2% of its net capital gains for the one-year period ending October 31 of that calendar year. The Company, at its discretion, may choose not to distribute all of its taxable income for the calendar year and pay a non-deductible 4% excise tax on this income. If the Company chooses to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. The Company will accrue excise tax on undistributed taxable income as required.

If the Company does not distribute at least 98% of its ordinary income in the year earned and 98.2% of its net capital gains for the one-year period ending October 31 in that calendar year, the Company will generally be required to pay an excise tax equal to 4% of the undistributed amount. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

The Company follows the provisions under the authoritative guidance on accounting for and disclosure of uncertainty in tax positions. The provisions require management to determine whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions not meeting the more likely than not threshold, the tax amount recognized in the consolidated financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. There are no unrecognized tax benefits in the accompanying consolidated financial statements. Although the Company files federal and state tax returns, the Company's major tax jurisdiction is federal. The Company's inception-to-date federal tax years remain subject to examination by taxing authorities.

### ***Dividends***

Dividends and distributions to stockholders are recorded on the applicable record date. The amount, if any to be paid out as a dividend is determined by the Company's board of directors on a quarterly basis. Net realized capital gains, if any, are generally distributed at least annually out of assets legally available for such distributions, although the Company may decide to retain such capital gains for investment.

Capital transactions in connection with the Company's dividend reinvestment plan are recorded when shares are issued.

### **3. Related Party Transactions**

On March 6, 2012, the Company's investment management agreement was re-approved by its board of directors, including a majority of our directors who are not interested persons of the Company. Under the investment management agreement, the Advisor, subject to the overall supervision of the Company's board of directors, manages the day-to-day operations of, and provides investment advisory services to the Company.

The Advisor receives a fee for investment advisory and management services consisting of a base management fee and a two-part incentive fee.

The base management fee is calculated at an annual rate of 1.5% of the Company's gross assets payable quarterly in arrears on a calendar quarter basis. For purposes of calculating the base management fee, gross assets is determined as the value of the Company's assets without deduction for any liabilities. For the first quarter of our operations, the base management fee was calculated based on the initial value of the Company's gross assets. Subsequently, the base management fee is calculated based on the value of the Company's gross assets at the end of the most recently completed calendar quarter, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base

management fees for any partial quarter are prorated.



**Table of Contents**

For the three months ended March 31, 2012 and 2011, the Company incurred base management fees payable to the Advisor of \$1,039,310 and \$991,460, respectively. As of March 31, 2012 and December 31, 2011, \$1,039,310 and \$1,013,048, respectively, was payable to the Advisor.

The incentive fee has two components, ordinary income and capital gains, as follows:

The ordinary income component is calculated, and payable, quarterly in arrears based on the Company's preincentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The preincentive fee net investment income, which is expressed as a rate of return on the value of the Company's net assets attributable to the Company's common stock, will have a 2.0% (which is 8.0% annualized) hurdle rate (also referred to as minimum income level). Preincentive fee net investment income means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial assistance and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company's operating expenses for the quarter (including the base management fee, expenses payable under the Company's administration agreement (discussed below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee and any offering expenses and other expenses not charged to operations but excluding certain reversals to the extent such reversals have the effect of reducing previously accrued incentive fees based on the deferral of non-cash interest. Preincentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. The Advisor receives no incentive fee for any calendar quarter in which the Company's preincentive fee net investment income does not exceed the minimum income level. Subject to the cumulative total return requirement described below, the Advisor receives 100% of the Company's preincentive fee net investment income for any calendar quarter with respect to that portion of the preincentive net investment income for such quarter, if any, that exceeds the minimum income level but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the catch-up provision) and 20.0% of the Company's preincentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of the Company's preincentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which the Company's preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the amount, if positive, of the sum of preincentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation of the Company for the then current and 11 preceding calendar quarters. In addition, the Advisor is not paid the portion of such incentive fee that is attributable to deferred interest until the Company actually receives such interest in cash.

For the three months ended March 31, 2012 and 2011, the Company incurred \$1,519,647 and \$0, respectively, of incentive fees related to ordinary income. As of March 31, 2012, \$1,446,483 of such incentive fees are currently payable to the Advisor, as \$73,164 of incentive fees incurred by the Company were generated from deferred interest (i.e. PIK and certain discount accretion) and are not payable until such amounts are received in cash.

The second component of the incentive fee (capital gains incentive fee) is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment management agreement, as of the termination date). This component is equal to 20.0% of the Company's cumulative aggregate realized capital gains from inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid capital gains incentive fees is subtracted from such capital gains incentive fee calculated.

The capital gains incentive fee payable to the Company's Advisor under the investment management agreement (as described above) as of March 31, 2012 and December 31, 2011 was \$0 and \$195,529, respectively. GAAP requires that the capital gains incentive fee accrual considers the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment management agreement. For accounting purposes in accordance with GAAP only, in order to reflect the potential capital gains incentive fee that would be payable for a given period as if all unrealized gains were realized, the Company has accrued total capital gains incentive fees including \$0 and \$195,929 currently payable as of March 31, 2012 and December 31, 2011, respectively of \$682,942 and \$972,271 as of March 31, 2012 and December 31, 2011, respectively, based upon net realized capital gains and unrealized capital depreciation for that period (in accordance with the terms of the investment management agreement), plus unrealized capital appreciation on investments held at the end of the year. There can be no assurance that such unrealized capital



**Table of Contents**

appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued would not necessarily be payable under the investment management agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Approximately \$350,000 of the accrued potential capital gains incentive fee for the three months ended March 31, 2011 was related to unrealized appreciation on investments in periods prior to 2011. Such amounts were not material to current or to prior periods' consolidated financial statements.

The Company has also entered into an administration agreement with the Advisor under which the Advisor will provide administrative services to the Company. Under the administration agreement, the Advisor performs, or oversees the performance of administrative services necessary for the operation of the Company, which include, among other things, being responsible for the financial records which the Company is required to maintain and preparing reports to the Company's stockholders and reports filed with the SEC. In addition, the Advisor assists in determining and publishing the Company's net asset value, oversees the preparation and filing of the Company's tax returns and the printing and dissemination of reports to the Company's stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. The Company will reimburse the Advisor for its allocable portion of the costs and expenses incurred by the Advisor for overhead in performance by the Advisor of its duties under the administration agreement and the investment management agreement, including facilities, office equipment and our allocable portion of cost of compensation and related expenses of our chief financial officer and chief compliance officer and their respective staffs, as well as any costs and expenses incurred by the Advisor relating to any administrative or operating services provided by the Advisor to the Company. Such costs are reflected as administrator expenses in the accompanying Consolidated Statements of Operations. Under the administration agreement, the Advisor provides, on behalf of the Company, managerial assistance to those portfolio companies to which the Company is required to provide such assistance. To the extent that our Advisor outsources any of its functions, the Company pays the fees associated with such functions on a direct basis without profit to the Advisor.

For the three months ended March 31, 2012 and 2011, the Company incurred administrator expenses payable to the Advisor of \$823,892 and \$568,065. As of March 31, 2012 and December 31, 2011, \$0 and \$338,569, respectively, was payable to the Advisor.

The Company and the Advisor have entered into a license agreement with THL Partners under which THL Partners has granted to the Company and the Advisor a non-exclusive, personal, revocable, worldwide, non-transferable license to use the trade name and service mark *THL*, which is a proprietary mark of THL Partners, for specified purposes in connection with the Company's and the Advisor's respective businesses. This license agreement is royalty-free, which means the Company is not charged a fee for its use of the trade name and service mark *THL*. The license agreement is terminable either in its entirety or with respect to the Company or the Advisor by THL Partners at any time in its sole discretion upon 60 days prior written notice, and is also terminable with respect to either the Company or the Advisor by THL Partners in the case of certain events of non-compliance. After the expiration of its first one year term, the entire license agreement is terminable by either the Company or the Advisor at the Company or its sole discretion upon 60 days prior written notice. Upon termination of the license agreement, the Company and the Advisor must cease to use the name and mark *THL*, including any use in the Company's respective legal names, filings, listings and other uses that may require the Company to withdraw or replace the Company's names and marks. Other than with respect to the limited rights contained in the license agreement, the Company and the Advisor have no right to use, or other rights in respect of, the *THL* name and mark. The Company is an entity operated independently from THL Partners and third parties who deal with the Company have no recourse against THL Partners.

***Due to Affiliates***

The Advisor paid certain other general and administrative expenses on behalf of the Company. Such amounts, if any, have been recorded in the Consolidated Statements of Assets and Liabilities as due to affiliate as of March 31, 2012 and December 31, 2011.

***Affiliated Stockholders***

THL Credit Opportunities, L.P. and BDC Holdings own 6,974 and 8,047,720 shares, respectively, or 0.03% and 39.80%, respectively, of the Company's common stock as of March 31, 2012, compared with 6,974 and 8,972,720 shares, respectively, or 0.03% and 44.38%, respectively, as of December 31, 2011.

**4. Realized Gains**

The Company did not recognize any realized gains for the three months ended March 31, 2012 and 2011.



**Table of Contents****5. Net Increase in Net Assets Per Share Resulting from Operations**

The following information sets forth the computation of basic and diluted net increase in net assets per share resulting from operations:

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Numerator net increase in net assets resulting from operations:	\$ 5,706,346	\$ 4,884,086
Denominator basic and diluted weighted average common shares:	20,220,200	20,004,824
Basic and diluted net increase in net assets per common share resulting from operations:	\$ 0.28	\$ 0.24

Diluted net increase in net assets per share resulting from operations equals basic net increase in net assets per share resulting from operations for each period because there were no common stock equivalents outstanding during the above periods.

**6. Credit Facility**

In accordance with the 1940 Act, with certain exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. As of March 31, 2012 and December 31, 2011, the Company had \$24,500,000 and \$5,000,000 of borrowings outstanding, respectively, at a weighted average interest rate of 3.7500% and 3.8125%, respectively.

On March 11, 2011, the Company entered into a three-year \$115,000,000 syndicated credit facility, or the Facility, with ING Capital LLC, or ING, with an accordion feature that provides for expansion of the Facility up to \$125,000,000, subject to customary conditions. The Facility was expanded to \$125,000,000 on March 23, 2011. The Facility will expire on March 11, 2014.

The Facility allows for the Company to borrow money at a rate of (i) LIBOR plus 3.50% with no LIBOR floor or (ii) 2.5% per annum plus an alternate base rate based on the highest rate of the Prime Rate, Federal Funds Rate plus 0.5% or three month LIBOR plus 1.0% per annum. The Facility requires the payment of a non-use fee at a rate of 1.00% per annum when the Company is using 50% or less of the Facility, and 0.50% per annum when the Company is using more than 50% of the Facility. Borrowings under the Facility are based on a borrowing base. The Facility generally requires payment of interest on a quarterly basis for loans bearing interest at the alternate base rate, and at the end of the applicable interest period for loans bearing interest at LIBOR. All outstanding principal is due upon maturity. The Facility also requires mandatory prepayment of interest and principal upon certain customary triggering events (including, without limitation, the disposition of assets or the issuance of certain securities).

The Facility has certain collateral requirements and/or financial covenants, including covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and its subsidiaries, and (e) compliance with certain financial maintenance standards including (i) minimum stockholders' equity, (ii) a ratio of total assets (less total liabilities) to total indebtedness, of the Company and its subsidiaries, of not less than 2.25:1.0, (iii) minimum liquidity, (iv) minimum net worth, and (v) a consolidated interest coverage ratio. In addition to the financial maintenance standards, described in the preceding sentence, borrowings under the Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio.

The Facility documents also include default provisions such as the failure to make timely payments under the Facility, the occurrence of a change in control, and the failure by the Company to materially perform under the operative agreements governing the facility, which, if not complied with, could, at the option of the lenders under the Facility, accelerate repayment under the Facility, thereby materially and adversely affecting the Company's liquidity, financial condition and results of operations. Each loan originated under the Facility is subject to the satisfaction of certain conditions. The Company cannot be assured that it will be able to borrow funds under the Facility at any particular time or at all. The Company is currently in compliance with all financial covenants under the Facility.

For the three months ended March 31, 2012, the Company borrowed \$25,300,000 and made \$5,800,000 of repayments under the Facility. There were no borrowings or repayments for the three months ended March 31, 2011. As of March 31, 2012 and December 31, 2011, there were \$24,500,000 and \$5,000,000 of borrowings outstanding, respectively. Interest expense and related fees of \$452,833 and \$69,583 were incurred in connection with the facility during the three months ended March 31, 2012 and 2011, respectively.

**7. Offering Expenses**

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As of March 31, 2012 and December 31, 2011, \$379,687 and \$327,267, respectively, of offering costs related to the Company's shelf registration statement were incurred and are reflected in the Consolidated Statements of Assets and Liabilities as deferred offering costs. Such amounts are expected to be charged against paid in capital in excess of par upon closing of an offering under the Company's shelf registration.

**Table of Contents****8. Commitments and Contingencies**

From time to time, the Company, or the Advisor, may become party to legal proceedings in the ordinary course of business, including proceedings related to the enforcement of our rights under contracts with our portfolio companies. Neither the Company, nor the Advisor, is currently subject to any material legal proceedings.

The Company has the following revolving commitments to portfolio companies:

	As of	
	March 31, 2012	December 31, 2011
Total commitments	\$ 10,925,000	\$ 10,925,000
Less: funded commitments	(2,715,750)	(499,500)
<b>Total unfunded commitments</b>	<b>\$ 8,209,250</b>	<b>\$ 10,425,500</b>

As of March 31, 2012 and December 31, 2011, the Company has also agreed to provide \$7,480,000 and \$7,850,000, respectively, of capital in delayed draw and capital expenditure facilities. The Company has also agreed to provide certain additional funding amounts of up to \$4,666,667 to a portfolio company to fund future acquisitions provided certain performance requirements and other conditions are met. As of March 31, 2012 and December 31, 2011, such requirements and conditions had not been met.

**9. Dividends**

The Company has elected to be taxed as a regulated investment company under Subchapter M of the Code. In order to maintain its status as a regulated investment company, it is required to distribute at least 90% of its investment company taxable income. The Company intends to make distributions to stockholders on a quarterly basis of substantially all of its net investment income. In addition, although the Company intends to make distributions of net realized capital gains, if any, at least annually, out of assets legally available for such distributions, it may in the future decide to retain such capital gains for investment.

In addition, the Company may be limited in its ability to make distributions due to the BDC asset coverage test for borrowings applicable to the Company as a BDC under the 1940 Act.

The following table summarizes the Company's dividends declared and paid or to be paid on all shares:

Date Declared	Record Date	Payment Date	Amount Per Share
August 5, 2010	September 2, 2010	September 30, 2010	\$ 0.05
November 4, 2010	November 30, 2010	December 28, 2010	\$ 0.10
December 14, 2010	December 31, 2010	January 28, 2011	\$ 0.15
March 10, 2011	March 25, 2011	March 31, 2011	\$ 0.23
May 5, 2011	June 15, 2011	June 30, 2011	\$ 0.25
July 28, 2011	September 15, 2011	September 30, 2011	\$ 0.26
October 27, 2011	December 15, 2011	December 30, 2011	\$ 0.28
March 6, 2012	March 20, 2012	March 30, 2012	\$ 0.29
March 6, 2012	March 20, 2012	March 30, 2012	\$ 0.05
May 2, 2012	June 15, 2012	June 29, 2012	\$ 0.30

**Table of Contents**

On May 2, 2012, the Company's board of directors declared a dividend of \$0.30 per share, payable on June 29, 2012 to stockholders of record at the close of business on June 15, 2012. The dividend will be paid out of net income earned in the period from April 1, 2012 through June 30, 2012.

The Company may not be able to achieve operating results that will allow it to make distributions at a specific level or to increase the amount of these distributions from time to time. If the Company does not distribute a certain percentage of its income annually, it will suffer adverse tax consequences, including possible loss of its status as a regulated investment company. The Company cannot assure stockholders that they will receive any distributions at a particular level.

We maintain an opt in dividend reinvestment plan for our common stockholders. As a result, unless stockholders specifically elect to have their dividends automatically reinvested in additional shares of common stock, stockholders will receive all such dividends in cash. With respect to our dividends and distributions paid to stockholders during the three months ended March 31, 2012 and 2011, dividends reinvested pursuant to our dividend reinvestment plan totaled \$13 and \$4,048,573, respectively.

Under the terms of our dividend reinvestment plan, dividends will primarily be paid in newly issued shares of common stock. However, the Company reserves the right to purchase shares in the open market in connection with the implementation of the plan. This feature of the plan means that, under certain circumstances, we may issue shares of our common stock at a price below net asset value per share, which could cause our stockholders to experience dilution.

Distributions in excess of our current and accumulated profits and earnings would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions will be made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we had determined the tax attributes of our 2012 distributions as of March 31, 2012, approximately 85.3% would be from ordinary income and 14.7% would be from capital gains for tax purposes. However, except for capital gain distributions attributable to long-term capital gain recognized in 2011, there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2012 distributions to stockholders will actually be. Each year, a statement on Form 1099-DIV identifying the source of the distribution will be mailed to our stockholders.



**Table of Contents****10. Financial Highlights**

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 13.24	\$ 13.06
Net investment income <sup>(1)</sup>	0.31	0.21
Net change in unrealized appreciation of investments <sup>(1)(2)</sup>	(0.03)	0.03
Net increase in net assets resulting from operations	0.28	0.24
Distributions to stockholders	(0.34)	(0.23)
Net asset value, end of period	\$ 13.18	\$ 13.07
Per share market value at end of period	\$ 12.86	\$ 13.66
Total return <sup>(3)(4)</sup>	8.08%	6.76%
Shares outstanding at end of period	20,220,201	20,220,197
<b>Ratio/Supplemental Data:</b>		
Net assets at end of period	\$ 266,448,197	\$ 264,339,231
Ratio of operating expenses to average net assets <sup>(5)</sup>	6.88%	4.52%
Ratio of net investment income to average net assets <sup>(5)</sup>	9.27%	6.40%
Portfolio turnover <sup>(4)</sup>	6.10%	3.41%

(1) Calculated based on weighted average common shares outstanding.

(2) Net change in unrealized appreciation of investments includes the effect of rounding on a per share basis.

(3) Total return is based on the change in market price per share during the period. Total return takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.

(4) Not annualized.

(5) Annualized.

**11. Subsequent Events**

On April 13, 2012, the Company closed on a \$1,500,000 follow-on investment in the subordinated term loans of Country Pure Foods, LLC, in connection with an acquisition.

On April 20, 2012, the Company was prepaid on \$7,555,555, or the remainder of its investment, at par, in Charming Charlie, Inc. plus a prepayment premium.

On April 26, 2012, the Company sold its investment in Hickory Farms, Inc., at par, realizing proceeds of \$9,463,885.

On April 30, 2012, the Company closed on an \$8,666,667 investment in the subordinated term loan of a manufacturer operating in the textile waste recycling industry.

On May 1, 2012, the Company received \$3,645,967, or 30% of its contributed capital in LCP Capital Fund LLC, in connection with a reduction in its commitment pursuant to the governing documents, which is related to the notional amount of the underlying credit default swaps.

On May 2, 2012, the Company closed on a \$13,000,000 investment in the subordinated term loan of IMDS Corporation (IMDS). Headquartered in Fort Worth, TX, IMDS is a provider of comprehensive outsourcing solutions for orthopedic and medical device companies.

On May 2, 2012, the Company's board of directors declared a dividend of \$0.30 per share, payable on June 29, 2012 to stockholders of record at the close of business on June 15, 2012. The dividend will be paid out of net income earned in the period from April 1, 2012 through June 30, 2012.



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**Table of Contents**

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

*The information contained in this section should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report.*

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This report, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, potential, outlook, could, sustain, seek, achieve and similar expressions, or future or conditional verbs such as will, would, should, could, may or similar expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors previously identified elsewhere in this filing, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

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 future acquisitions and divestitures;

the unfavorable resolution of legal proceedings;

our business prospects and the prospects of our portfolio companies;

the impact, extent and timing of technological changes and the adequacy of intellectual property protection;

the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or the Advisor;

the ability of the Advisor to identify suitable investments for us and to monitor and administer our investments;

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our contractual arrangements and relationships with third parties;

any future financings by us;

the ability of the Advisor to attract and retain highly talented professionals;

fluctuations in foreign currency exchange rates; and

the impact of changes to tax legislation and, generally, our tax position.

### **Overview**

THL Credit, Inc. was organized as a Delaware corporation on May 26, 2009 and initially funded on July 23, 2009. We commenced principal operations on April 21, 2010. Our investment objective is to generate both current income and capital appreciation, primarily through the origination of privately negotiated investments in debt and equity securities in middle market companies.

We are an externally managed, non-diversified, closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less.

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.

## **Table of Contents**

On April 21, 2010, we completed our initial public offering, formally commencing principal operations, and sold 9,000,000 shares of our common stock through a group of underwriters at a price of \$13.00 per share, less an underwriting discount and commissions totaling \$0.8125 per share. Concurrently, we sold 6,307,692 shares of our common stock to THL Credit Partners BDC Holdings, L.P., or BDC Holdings, at \$13.00 per share that was not subject to an underwriting discount and commission. We received \$191.7 million of total net proceeds for the aforementioned offerings. Since May 2011, BDC Holdings distributed an aggregate of 2.8 million shares of our common stock held by BDC Holdings to its partners. As of March 31, 2012 BDC Holdings owns 39.8% of our common stock.

We have elected to be treated for tax purposes as a RIC under Subchapter M of the Code. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income we distribute to our stockholders.

## **Portfolio Composition and Investment Activity**

### ***Portfolio Composition***

We completed the quarter ended March 31, 2012 with \$287.5 million (at fair value), which represents a \$20.5 million, or 7.7%, increase from the \$267.0 million (at fair value) as of December 31, 2011. We also increased our portfolio to twenty-six companies, including THL Credit Greenway Fund LLC, as of March 31, 2012, from twenty-four companies, including Greenway, as of December 31, 2011. As of March 31, 2012, the portfolio was invested 32.0% in first lien debt, including unitranche loans, 19.7% in second lien debt, 42.9% in subordinated debt, 4.2% in income-producing investments in funds, and 1.2% in equity. As of December 31, 2011, the portfolio was invested 33.6% in first lien debt, including unitranche loans, 22.5% in second lien debt, 38.1% in subordinated debt, 4.5% in income-producing investments in funds, and 1.3% in equity.

At March 31, 2012, our average portfolio company investment, exclusive of Greenway, at amortized cost and fair value was approximately \$11.4 million and \$11.5 million, respectively and our largest portfolio company investment by amortized cost and fair value was approximately \$18.6 million and \$19.5 million, respectively. At December 31, 2011, our average portfolio company investment at amortized cost and fair value was approximately \$11.4 million and \$11.6 million, respectively and our largest portfolio company investment by amortized cost and fair value was approximately \$18.4 million and \$19.4 million, respectively.

At March 31, 2012, 41.4% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 58.6% bore interest at fixed rates. At December 31, 2011, 40.0% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 60.0% bore interest at fixed rates. In the future, we expect that additional loans in our portfolio will have floating rates.

The weighted average yield of the debt and income-producing investments in funds in our portfolio at their current cost was 14.0% at March 31, 2012 as compared to 14.0% at December 31, 2011. The weighted average yield on our debt securities at their current cost was 13.7% at March 31, 2012 as compared to 13.8% at December 31, 2011. Yields are computed using interest rates and dividend yields as of the balance sheet date and include amortization of upfront loan origination fees, original issue discount and market premium or discount. Yields exclude common equity investments, preferred equity investments, and cash and cash equivalents.

Our portfolio companies currently have an average EBITDA of approximately \$26 million based on the latest available financial information and our weighted average attachment point in the capital structure of our portfolio companies is approximately 3.1 times EBITDA.

### ***Investment Activity***

During the three months ended March 31, 2012, we made \$36.2 million (\$36.7 million at par) of investments including \$20.3 million (\$20.6 million at par) in two new portfolio companies and \$16.0 million (\$16.1 million at par) in three existing portfolio companies, including a refinancing of Food Processing Holdings, LLC ( Food Holdings ) and funding \$2.6 million of delayed draw and revolver commitments. Debt investments funded in the three months ended March 31, 2012, included \$2.6 million of first lien and \$34.1 million of subordinated loans and had a weighted average yield of 13.9%.

During the three months ended March 31, 2011, we made \$41.8 million (\$42.3 million at par) of investments in five new portfolio companies, including our investment in Greenway. Debt investments funded in the three months ended March 31, 2011, included \$0.1 million of first lien, \$28.9 million of second lien and \$12.7 million of subordinated loans and had a weighted average yield of 13.6%.



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## **Table of Contents**

During the three months ended March 31, 2012, we received \$16.7 million in proceeds principally from prepayments of our initial debt investment in Food Holdings and partial prepayments from our investment in Charming Charlie, Inc., as well as amortization of certain other investments. These proceeds included \$0.1 million of prepayment premiums, which are related to Charming Charlie, Inc. During the three months ended March 31, 2011, we received \$9.0 million in proceeds principally from the prepayment from Intelligrated, Inc., as well as amortization of certain other investments. These proceeds included \$0.3 million of prepayment premiums recognized in connection with these transactions. The frequency or volume of any prepayments may fluctuate significantly from period to period.

Our level of investment activity can vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

### ***Investment Risk***

The value of our investments will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuer. During periods of limited liquidity and higher price volatility, our ability to dispose of investments at a price and time that we deem advantageous may be impaired.

Lower-quality debt securities involve greater risk of default or price changes due to changes in the credit quality of the issuer. The value of lower-quality debt securities often fluctuates in response to company, political, or economic developments and can decline significantly over short periods of time or during periods of general or regional economic difficulty. Lower-quality debt securities can be thinly traded or have restrictions on resale, making them difficult to sell at an acceptable price. The default rate for lower-quality debt securities is likely to be higher during economic recessions or periods of high interest rates.

### ***Managed Fund***

On January 14, 2011, THL Credit Greenway Fund LLC was formed as a Delaware limited liability company. Greenway is a portfolio company of ours. Greenway is a closed-end investment fund which provides for no liquidity or redemption options and is not readily marketable. Greenway operates under a limited liability agreement dated January 19, 2011 (the Agreement). Greenway will continue in existence until January 14, 2021, subject to earlier termination pursuant to certain terms of the Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Agreement. Greenway has a two year investment period.

Greenway has \$150.0 million of capital committed by affiliates of a single institutional investor, and is managed by us through the investment professionals that serve on our investment committee. Our capital commitment to Greenway is \$0.02 million. As of March 31, 2012, \$130.5 million of capital had been called by Greenway and our portion of total called capital was \$0.01 million. As of March 31, 2012 and December 31, 2011, the value of our interest in Greenway was \$0.01 million and \$0.01 million, respectively, and is reflected in the Consolidated Schedule of Investments.

As manager of Greenway, we act as the investment adviser to Greenway and are entitled to receive certain fees. As a result, Greenway is classified as an affiliate of ours. For the three months ended March 31, 2012 and 2011, we earned \$0.5 million and \$0.1 million in fees related to Greenway, which are included in other income in the Consolidated Statements of Operations. As of March 31, 2012 and December 31, 2011, \$0.5 million and \$0.4 million of fees related to Greenway were included in Due from affiliate on the Consolidated Statements of Assets and Liabilities.

Greenway invests in securities similar to those of ours pursuant to investment and allocation guidelines which address, among other things, the size of the borrowers, the types of transactions and the concentration and investment ratio amongst Greenway and us. However, we have the discretion to invest in other securities.

### ***Investment in Fund***

We have invested in membership interests in LCP Capital Fund LLC, a private investment company that was organized to participate in investment opportunities that arise when a special purpose entity, or sponsor thereof, needs to raise capital to achieve ratings, regulatory, accounting, tax, or other objectives. LCP is a closed investment vehicle which provides for no liquidity or redemption options and is not readily marketable. LCP is managed by an unaffiliated third party. As of March 31, 2012 and December 31, 2011, we had contributed \$12.0 million of capital in the form of membership interests in LCP, which is invested in an underlying SPE referred to as Series 2005-01. Our exposure is limited to the amount of our contributed capital.





## Table of Contents

Our contributed capital in LCP is maintained in a collateral account held by a third-party custodian, who is neither affiliated with us nor with LCP, and acts as collateral on certain credit default swaps for the Series 2005-01 for which LCP receives fixed premium payments throughout the year, adjusted for expenses incurred by LCP. The SPE purchases assets on a non-recourse basis and LCP agrees to reimburse the SPE up to a specified amount for potential losses. LCP holds the contributed cash invested for an SPE transaction in a segregated account that secures the payment obligation of LCP. We expect to receive distributions from LCP on a quarterly basis. Such distributions are reflected in our Consolidated Statements of Operations as interest income in the period earned. LCP has a remaining life of 19 years; however, it is currently expected that Series 2005-01 will terminate on February 15, 2013, if not extended prior to this date pursuant to the terms of Series 2005-1 SPE. Regardless of the date of dissolution, LCP has the right to receive amounts held in the collateral account if there is an event of default under LCP's operative agreements. LCP may have other series which will have investments in other SPEs to which we will not be exposed.

### *Asset Quality*

We view active portfolio monitoring as a vital part of our investment process. We consider board observation rights, regular dialogue with company management and sponsors, and detailed internally generated monitoring reports to be critical to our performance. We have developed a monitoring template that promotes compliance with these standards and that is used as a tool by the Advisor's investment committee to assess investment performance relative to plan. In addition, our portfolio companies may rely on us to provide financial and capital market expertise and may view us as a value-added resource.

As part of the monitoring process, the Advisor assesses the risk profile of each of our investments and assigns each investment a score of a 1, 2, 3, 4 or 5. Effective March 31, 2012, the Advisor revised its scoring system in order to categorize, on a more granular level, each investment based upon its performance and may revise the scoring system in the future depending upon the nature of the portfolio. The changes from December 31, 2011, included moving investments with a previous score of a 2 to a new investment performance score of 3 and bifurcating a previous score of 1 between new investment performance scores of 1 and 2 based upon its performance. Overall, there was no significant change in the risk profile of the portfolio companies between December 31, 2011 and March 31, 2012.

The revised investment performance scores, or IPS, are as follows:

- 1 The portfolio company is performing above our underwriting expectations.
- 2 The portfolio company is performing as expected at the time of underwriting. All new investments are initially scored a 2.
- 3 The portfolio company is operating below our underwriting expectations, and requires closer monitoring. The company may be out of compliance with financial covenants, however, principal or interest payments are generally not past due.
- 4 The portfolio company is performing materially below our underwriting expectations and returns on our investment are likely to be impaired. Principal or interest payments may be past due, however, full recovery of principal is expected.
- 5 The portfolio company is performing substantially below expectations and the risk of the investment has increased substantially. The company is in payment default and the principal amount is not expected to be repaid in full.

For any investment receiving a score of a 3 or lower, our manager increases its level of focus and prepares regular updates for the investment committee summarizing current operating results, material impending events and recommended actions.

The Advisor monitors and, when appropriate, changes the investment scores assigned to each investment in our portfolio. In connection with our investment valuation process, the Advisor and board of directors review these investment scores on a quarterly basis. Our average investment score was 1.92 at March 31, 2012. The following is a distribution of the investment scores of our portfolio companies at March 31, 2012:

Investment Score	March 31, 2012	
	Investments at Fair Value	% of Total Portfolio
1 <sup>(a)</sup>	\$ 78.5	27.3%
2 <sup>(b)</sup>	128.6	44.7%
3 <sup>(c)</sup>	80.4	28.0%

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4  
5

**Total**

\$ 287.5

100.0%

33

## **Table of Contents**

- (a) As of March 31, 2012, Investment Score 1 included \$11.9 million of loans to companies in which we also hold equity securities.  
 (b) As of March 31, 2012, Investment Score 2 included \$24.4 million of loans to companies in which we also hold equity securities.  
 (c) As of March 31, 2012, Investment Score 3 included \$45.5 million of loans to companies in which we also hold equity securities.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. However, we may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. If the fair value of a loan is below cost, we may cease recognizing paid-in-kind, or PIK, interest and/or the accretion of a discount on the debt investment until such time that the fair value equals or exceeds cost. As of March 31, 2012 and December 31, 2011, we had no loans on non-accrual.

## **Results of Operations**

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

## **Comparison of the Three Months Ended March 31, 2012 and 2011**

### ***Investment Income***

We generate revenues primarily in the form of interest on the debt we hold. Our investments in fixed income instruments generally have an expected maturity of five to seven years, and typically bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly. Payments of principal of 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 instruments and preferred stock investments may defer payments of dividends or 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 fees from the management of Greenway, prepayment fees, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

Investment income for the three months ended March 31, 2012 totaled \$10.7 million as compared to \$7.1 million for the three months ended March 31, 2011. The increase in our investment income for the three months ended March 31, 2012 was primarily attributable to \$9.6 million of interest income on debt securities and cash equivalents (including \$0.8 million of PIK interest, \$0.1 million of prepayment premiums and \$0.8 million of accretion of discounts and other fees, of which \$0.4 million is related to the Food Holdings refinancing), \$0.5 million of interest income on income-producing equity securities, \$0.5 million of fees related to Greenway and \$0.1 million of other income. Our investment income for the three months ended March 31, 2011 was primarily attributable to \$6.5 million of interest income on debt securities and cash equivalents (including \$0.5 million of PIK interest, \$0.3 million of prepayment premiums and \$0.5 million of accretion of discounts and other fees, of which \$0.3 million is related to the Intelligrated, Inc. realization), \$0.3 million of interest income on income-producing securities, \$0.1 million of fees related to Greenway and \$0.1 million of other income. We also received cash proceeds related to PIK income previously recognized of \$0.5 million and \$0, for the three months ended March 31, 2012 and 2011, respectively.

The increases in investment income from the respective periods were due to the growth in the overall investment portfolio and the closing of Greenway in January 2011.

In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned. We had no income from advisory services for the three months ended March 31, 2012 and 2011.

### ***Expenses***

Our primary operating expenses include the payment of base management fees, an incentive fee, and expenses reimbursable under the investment management agreement and the allocable portion of overhead under the administration agreement ( administrator expenses ). The base

management fee compensates the Advisor for work in identifying, evaluating, negotiating,

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## **Table of Contents**

closing and monitoring our investments. Our investment management agreement and administration agreement provides that we will reimburse the Advisor for costs and expenses incurred by the Advisor for facilities, office equipment and utilities allocable to the performance by the Advisor of its duties under the agreements, as well as any costs and expenses incurred by the Advisor relating to any administrative or operating services provided by the Advisor to us. We bear all other costs and expenses of our operations and transactions.

Operating expenses totaled \$4.6 million and \$2.9 million for the three months ended March 31, 2012 and 2011, and consisted of incentive fees, base management fees, administrator expenses, fees related to our credit facility, professional fees, insurance expenses, directors' fees, and other general and administrative expenses.

The base management fees for the three months ended March 31, 2012 and 2011 were \$1.0 million and \$1.0 million, respectively, as provided for in the investment management agreement. The incentive fees for the three months ended March 31, 2012 and 2011 were \$1.4 million, and \$0.5 million, respectively. Such amounts include the effect of unrealized appreciation of (\$0.1) and \$0.5 million, respectively. Approximately \$0.4 million, for the three months ended March 31, 2011, was related to unrealized appreciation on investments in periods prior to 2011. Such amounts were not material to current or prior periods' financial statements. There can be no assurance that such unrealized capital (depreciation) appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued is currently not, and would not necessarily be, payable under the investment management agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. The accrued incentive fee related to capital gains may differ from the actual incentive fee that may be paid to the Advisor depending on whether the Company is ultimately able to generate a net realized capital gain. As of March 31, 2012, \$1.4 million of incentive fees are currently payable to the Advisor pursuant to the terms of the investment management agreement, as \$0.1 million of incentive fees incurred were generated from deferred interest (i.e. PIK and certain discount accretion) and is not payable until such amounts are received in cash. The increase in base management fees and incentive fee expenses for the respective periods is due to the growth in both the portfolio and net investment income.

Administrator expenses and expenses for professional fees, insurance expenses, directors' fees, and other general and administrative expense (other expenses) for the three months ended March 31, 2012 totaled \$0.8 million and \$0.7 million, respectively, as compared to \$0.6 million and \$0.7 million for the three months ended March 31, 2011. The increase in administrator expenses is due principally to additional resources and related costs to support our growth.

For the three months ended March 31, 2012, fees and expenses related to our credit facility, including amortization of deferred financing costs, were \$0.7 million. Borrowings and repayments under the credit facility were \$25.3 million and \$5.8 million, respectively, for the three months ended March 31, 2012. For the three months ended March 31, 2011, fees and expenses related to our credit facility, including amortization of deferred financing costs, were \$0.1 million. There were no borrowings or repayments under the credit facility for the three months ended March 31, 2011. The increase in expenses related to the credit facility is due principally to the timing of the facility closing in March 2011 and the level of borrowings.

We expect certain of our operating expenses, including administrator expenses, professional fees and other general and administrative expenses to decline as a percentage of our total assets during periods of growth and increase as a percentage of our total assets during periods of asset declines. We expect operating expenses, excluding base management and incentive fees, and costs related to our credit facility, to continue to generally range between \$1.4 million to \$1.5 million per quarter.

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

Net investment income was \$6.2 million, or \$0.31 per common share based on a weighted average of 20,220,200 common shares outstanding for the three months ended March 31, 2012, as compared to \$4.1 million, or \$0.21 per common share based on a weighted average of 20,004,824 common shares outstanding for the three months ended March 31, 2011. The increase in net investment income is attributable to the growth in the portfolio.

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

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized.

We did not recognize any realized gains or losses on our portfolio company investments during the three months ended March 31, 2012 and 2011.

### ***Net Change in Unrealized Appreciation of Investments***

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

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## **Table of Contents**

Net change in unrealized appreciation on investments totaled \$(0.5) million for the three months ended March 31, 2012 and \$0.7 million for the three months ended March 31, 2011. The change in unrealized appreciation on our investments was driven primarily by the realization of previously unrealized appreciation on Food Holdings in February 2012, changes in the capital market conditions, and in the financial performance of certain portfolio companies.

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

Net increase in net assets resulting from operations totaled \$5.7 million, or \$0.28 per common share based on a weighted average of 20,220,200 common shares for the three months ended March 31, 2012, as compared to \$4.9 million, or \$0.24 per common share based on a weighted average of 20,004,824 common shares outstanding, for the three months ended March 31, 2011. The increase in net assets resulting from operations is due to the continued growth in net investment income, which is a result of growing our portfolio.

### **Financial condition, liquidity and capital resources**

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

Our operating activities used cash of \$16.1 million and \$29.2 million for the three months ended March 31, 2012 and 2011, respectively, primarily in connection with the purchase of investments. For the three months ended March 31, 2012, our financing activities provided cash of \$19.5 million from net borrowings and used cash of \$6.9 million for dividends to stockholders. For the three months ended March 31, 2011, our financing activities used cash of \$6.1 million for the payment of financing costs and dividends to stockholders.

As of March 31, 2012, we deployed the proceeds received from our initial public offering. As a result, our liquidity and capital resources now will be derived primarily from our credit facility and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from turnover within our portfolio and from public and private offerings of securities to finance our investment objectives. To that end, we have a shelf registration statement on file, pursuant to which we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. However, there can be no assurance that these capital resources will be available to us when we are assessing capital markets.

As of March 31, 2012 and December 31, 2011, we had cash of \$2.1 million and \$5.6 million, respectively. We had no cash equivalents as of March 31, 2012 and December 31, 2011.

#### ***Credit Facility***

In accordance with the 1940 Act, with certain exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. As of March 31, 2012 and December 31, 2011, we had \$24.5 million and \$5.0 million of borrowings outstanding, respectively.

On March 11, 2011, we entered into a three-year \$115 million syndicated credit facility with ING Capital LLC with an accordion feature that provides for expansion of the Facility up to \$125 million, subject to customary conditions. The Facility was expanded to \$125 million on March 23, 2011. The Facility will expire on March 11, 2014.

The Facility allows for us to borrow money at a rate of (i) LIBOR plus 3.50% with no LIBOR floor or (ii) 2.5% per annum plus an alternate base rate based on the highest rate of the Prime Rate, Federal Funds Rate plus 0.5% or three month LIBOR plus 1.0% per annum. The Facility requires the payment of a non-use fee at a rate of 1.00% per annum when we are using 50% or less of the Facility, and 0.50% per annum when we are using more than 50% of the Facility. Borrowings under the Facility are based on a borrowing base. The Facility generally requires payment of interest on a quarterly basis for loans bearing interest at the alternate base rate, and at the end of the applicable interest period for loans bearing interest at LIBOR. All outstanding principal is due upon maturity. The Facility also requires mandatory prepayment of interest and principal upon certain customary triggering events (including, without limitation, the disposition of assets or the issuance of certain securities).

Our Facility has certain collateral requirements and/or financial covenants, including covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) limitations on the creation or existence of agreements that prohibit liens on certain properties of the ours and our subsidiaries, and (e) compliance with certain financial maintenance standards including (i) minimum stockholders' equity, (ii) a ratio of total assets (less total liabilities) to total indebtedness, of ours and our subsidiaries, of not less than 2.25:1.0, (iii) minimum liquidity, (iv) minimum net worth, and (v) a consolidated interest coverage

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ratio. In addition to the financial maintenance standards, described in the preceding sentence, borrowings under the Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in our portfolio.



**Table of Contents**

The Facility documents also include default provisions such as the failure to make timely payments under the Facility, the occurrence of a change in control, and the failure by us to materially perform under the operative agreements governing the facility, which, if not complied with, could, at the option of the lenders under the Facility, accelerate repayment under the Facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. Each loan originated under the Facility is subject to the satisfaction of certain conditions. We cannot be assured that we will be able to borrow funds under the Facility at any particular time or at all. The Company is currently in compliance with all financial covenants under the Facility.

For the three months ended March 31, 2012, we borrowed \$25.3 million and made \$5.8 million of repayments under the Facility. There were no borrowings or repayments for the three months ended March 31, 2011. As of March 31, 2012 and December 31, 2011, there were \$24.5 million and \$5.0 million of borrowings outstanding, respectively. Interest expense and related fees of \$0.5 million and \$0.1 million were incurred in connection with the facility during the three months ended March 31, 2012 and 2011, respectively.

**Other**

We have received a Greenlight letter allowing us to file an application with the Investment Division of the Small Business Administration, to license a Small Business Investment Company. We submitted our application, which was formally accepted for processing by the SBA on September 21, 2011. There can be no assurance that we will be able obtain such license and capitalize such SBIC with sufficient regulatory capital to borrow the maximum amount available.

THL Credit SBIC, LP and its general partner, THL Credit SBIC GP, LLC, were organized in Delaware on August 25, 2011 as a limited partnership and limited liability company, respectively. Both the SBIC LP and SBIC GP are consolidated wholly owned subsidiaries of ours. The SBIC LP will be subject to regulation and oversight by the SBA. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. As of March 31, 2012 and December 31, 2011, the SBIC LP had investments in Express Courier International, Inc. and Sheplers, Inc., with an aggregate amortized cost basis of \$19.8 million, and an investment in Sheplers, Inc., with an amortized cost basis of \$12.8 million, respectively, that were pre-approved by the SBA.

**Commitments and Contingencies**

From time to time, the Company, or the Advisor, may become party to legal proceedings in the ordinary course of business, including proceedings related to the enforcement of our rights under contracts with our portfolio companies. Neither the Company, nor the Advisor, is currently subject to any material legal proceedings.

The Company has the following revolving commitments (in millions) to portfolio companies:

	March 31, 2012	As of December 31, 2011
Total commitments	\$ 10.9	\$ 10.9
Less: funded commitments	(2.7)	(0.5)
Total unfunded commitments	\$ 8.2	\$ 10.4

As of March 31, 2012 and December 31, 2011, the Company has also agreed to provide \$7.5 and \$7.9 million, respectively, of capital in delayed draw and capital expenditure facilities. The Company has also agreed to provide additional funding amounts of up to \$4.7 million to a portfolio company to fund future acquisitions provided certain performance requirements and other conditions are met. As of March 31, 2012 and December 31, 2011, such requirements and conditions had not been met.

**Dividends**

We have elected to be taxed as a regulated investment company under Subchapter M of the Code. In order to maintain our status as a regulated investment company, we are required to (1) distribute at least 90% of our investment company taxable income and (2) distribute at least 98% of our ordinary income for each calendar year and 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year to avoid excise tax. We intend to make distributions to stockholders on a quarterly basis of substantially all of our net investment income. Although we intend to make distributions of net realized capital gains, if any, at least annually, out of assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. In addition, the extent and timing of special dividends, if any, will be

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determined by our board of directors and will largely be driven by portfolio specific events and tax considerations at the time.

**Table of Contents**

In addition, we may be limited in our ability to make distributions due to the BDC asset coverage test for borrowings applicable to us as a BDC under the 1940 Act.

The following table summarizes our dividends declared and paid or to be paid on all shares:

Date Declared	Record Date	Payment Date	Amount Per Share
August 5, 2010	September 2, 2010	September 30, 2010	\$ 0.05
November 4, 2010	November 30, 2010	December 28, 2010	\$ 0.10
December 14, 2010	December 31, 2010	January 28, 2011	\$ 0.15
March 10, 2011	March 25, 2011	March 31, 2011	\$ 0.23
May 5, 2011	June 15, 2011	June 30, 2011	\$ 0.25
July 28, 2011	September 15, 2011	September 30, 2011	\$ 0.26
October 27, 2011	December 15, 2011	December 30, 2011	\$ 0.28
March 6, 2012	March 20, 2012	March 30, 2012	\$ 0.29
March 6, 2012	March 20, 2012	March 30, 2012	\$ 0.05
May 2, 2012	June 15, 2012	June 29, 2012	\$ 0.30

On May 2, 2012, our board of directors declared a dividend of \$0.30 per share, payable on June 29, 2012 to stockholders of record at the close of business on June 15, 2012. The dividend will be paid out of net investment income earned in the period from April 1, 2012 through June 30, 2012.

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. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our status as a regulated investment company. We cannot assure stockholders that they will receive any distributions at a particular level.

We maintain an opt in dividend reinvestment plan for our common stockholders. As a result, unless stockholders specifically elect to have their dividends automatically reinvested in additional shares of common stock, stockholders will receive all such dividends in cash. With respect to our dividends and distributions paid to stockholders during the three months ended March 31, 2012 and 2011, dividends reinvested pursuant to our dividend reinvestment plan totaled \$0.0 million and \$4.0 million, respectively.

Under the terms of our dividend reinvestment plan, dividends will primarily be paid in newly issued shares of common stock. However, we reserve the right to purchase shares in the open market in connection with the implementation of the plan. This feature of the plan means that, under certain circumstances, we may issue shares of our common stock at a price below net asset value per share, which could cause our stockholders to experience dilution.

Distributions in excess of our current and accumulated profits and earnings would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions will be made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we had determined the tax attributes of our 2012 distributions as of March 31, 2012, approximately 85.3% would be from ordinary income and 14.7% would be from capital gains for tax purposes. However, except for capital gain distributions attributable to long-term capital gains recognized in 2011, there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2012 distributions to stockholders will actually be. Each year, a statement on Form 1099-DIV identifying the source of the distribution will be mailed to our stockholders.

**Contractual obligations**

We have entered into a contract with the Advisor to provide investment advisory services. Payments for investment advisory services under the investment management agreement in future periods will be equal to (a) an annual base management fee of 1.5% of our gross assets and (b) an incentive fee based on our performance. In addition, under our administration agreement, the Advisor will be reimbursed for administrative services incurred on our behalf. See description below under Related Party Transactions.

**Off-Balance sheet arrangements**

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We currently have no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

## Table of Contents

### **Related Party Transactions**

#### *Investment Management and Administration Agreements*

On March 6, 2012, our investment management agreement with the Advisor was re-approved by our Board of Directors. Under the investment management agreement, the Advisor, subject to the overall supervision of our board of directors, manages the day-to-day operations of, and provides investment advisory services to us.

The Advisor receives a fee for investment advisory and management services consisting of a base management fee and a two-part incentive fee.

The base management fee is calculated at an annual rate of 1.5% of our gross assets payable quarterly in arrears on a calendar quarter basis. For purposes of calculating the base management fee, gross assets is determined as the value of our assets without deduction for any liabilities. For the first quarter of our operations, the base management fee was calculated based on the initial value of our gross assets. Subsequently, the base management fee is calculated based on the value of our gross assets at the end of the most recently completed calendar quarter, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial quarter will be appropriately prorated.

The incentive fee has two components, ordinary income and capital gains, as follows:

The ordinary income component is calculated, and payable, quarterly in arrears based on our preincentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The preincentive fee net investment income, which is expressed as a rate of return on the value of our net assets attributable to our common stock, will have a 2.0% (which is 8.0% annualized) hurdle rate (also referred to as minimum income level). Preincentive fee net investment income means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial assistance and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under our administration agreement (discussed below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee and any offering expenses and other expenses not charged to operations but excluding certain reversals to the extent such reversals have the effect of reducing previously accrued incentive fees based on the deferral of non-cash interest. Preincentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. The Advisor receives no incentive fee for any calendar quarter in which our preincentive fee net investment income does not exceed the minimum income level. Subject to the cumulative total return requirement described below, the Advisor receives 100% of our preincentive fee net investment income for any calendar quarter with respect to that portion of the preincentive net investment income for such quarter, if any, that exceeds the minimum income level but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the catch-up provision) and 20.0% of our preincentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our preincentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which our preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the amount, if positive, of the sum of our preincentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters. In addition, the Advisor is not paid the portion of such incentive fee that is attributable to deferred interest until we actually receive such interest in cash.

For the three months ended March 31, 2012 and 2011, we incurred \$1.5 million and \$0, respectively, of incentive fees related to ordinary income. As of March 31, 2012, \$1.4 million of such incentive fees are currently payable to the Advisor, as \$0.1 million of incentive fees incurred by us were generated from deferred interest (i.e. PIK and certain discount accretion) and are not payable until such amounts are received in cash.

The second component of the incentive fee (capital gains incentive fee) is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment management agreement, as of the termination date). This component is equal to 20.0% of our cumulative aggregate realized capital gains from inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid capital gains incentive fees is subtracted from such capital gains incentive fee calculated.



## **Table of Contents**

The capital gains incentive fee payable to our Advisor under the investment management agreement (as described above) as of March 31, 2012 and December 31, 2011 was \$0 and \$0.2 million, respectively. GAAP requires that the capital gains incentive fee accrual considers the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment management agreement. For accounting purposes in accordance with GAAP only, in order to reflect the potential capital gains incentive fee that would be payable for a given period as if all unrealized gains were realized, we have accrued total capital gains incentive fees including \$0 and \$0.2 million currently payable as of March 31, 2012 and December 31, 2011, respectively, of \$0.7 million and \$1.0 million as of March 31, 2012 and December 31, 2011, respectively, based upon net realized capital gains and unrealized capital depreciation for that period (in accordance with the terms of the investment management agreement), plus unrealized capital appreciation on investments held at the end of the year. There can be no assurance that such unrealized capital appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued would not necessarily be payable under the investment management agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Approximately \$0.4 million of the accrued potential capital gains incentive fee for the three months ended March, 31, 2011 was related to unrealized appreciation on investments in periods prior to 2011. Such amounts were not material to current or to prior periods consolidated financial statements.

We have also entered into an administration agreement with the Advisor under which the Advisor will provide administrative services to us. Under the administration agreement, the Advisor performs, or oversees the performance of administrative services necessary for our operation, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Advisor assists in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. We will reimburse the Advisor for our allocable portion of the costs and expenses incurred by the Advisor for overhead in performance by the Advisor of its duties under the administration agreement and the investment management agreement, including facilities, office equipment and our allocable portion of cost of compensation and related expenses of our chief financial officer and chief compliance officer and their respective staffs, as well as any costs and expenses incurred by the Advisor relating to any administrative or operating services provided to us by the Advisor. Such costs are reflected as Administrator expenses in the accompanying Consolidated Statements of Operations. Under the administration agreement, the Advisor provides, on our behalf, managerial assistance to those portfolio companies to which the Company is required to provide such assistance. To the extent that our Advisor outsources any of its functions, the Company pays the fees associated with such functions on a direct basis without profit to the Advisor.

### ***License Agreement***

We and the Advisor have entered into a license agreement with THL Partners under which THL Partners has granted to us and the Advisor a non-exclusive, personal, revocable worldwide non-transferable license to use the trade name and service mark *THL*, which is a proprietary mark of THL Partners, for specified purposes in connection with our respective businesses. This license agreement is royalty-free, which means we are not charged a fee for our use of the trade name and service mark *THL*. The license agreement is terminable either in its entirety or with respect to us or the Advisor by THL Partners at any time in its sole discretion upon 60 days prior written notice, and is also terminable with respect to either us or the Advisor by THL Partners in the case of certain events of non-compliance. After the expiration of its first one year term, the entire license agreement is terminable by either us or the Advisor at our or its sole discretion upon 60 days prior written notice. Upon termination of the license agreement, we and the Advisor must cease to use the name and mark *THL*, including any use in our respective legal names, filings, listings and other uses that may require us to withdraw or replace our names and marks. Other than with respect to the limited rights contained in the license agreement, we and the Advisor have no right to use, or other rights in respect of, the *THL* name and mark. We are an entity operated independently from THL Partners, and third parties who deal with us have no recourse against THL Partners.

### ***Due to Affiliate***

The Advisor paid certain other general and administrative expenses on our behalf. Such amounts, if any, have been recorded in the Consolidated Statements of Assets and Liabilities as Due to affiliate.

### ***Managed Funds***

#### ***Greenway***

On January 14, 2011, Greenway was formed as a Delaware limited liability company. Greenway is a portfolio company of THL Credit, Inc. Greenway is a closed-end investment fund which provides for no liquidity or redemption options and is not readily marketable. Greenway operates under a limited liability agreement dated January 19, 2011. Greenway will continue in existence until January 14, 2021, subject to earlier termination pursuant to certain terms of the Agreement. The term may also be extended for up to three additional one-year periods

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pursuant to certain terms of the Agreement. Greenway has a two year investment period.



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## **Table of Contents**

Greenway has \$150.0 million of capital committed by affiliates of a single institutional investor, and is managed by THL Credit, Inc. through the investment professionals that serve on our investment committee. Our capital commitment to Greenway is \$0.02 million. As of March 31, 2012, \$130.5 million of capital had been called by Greenway and our portion of total called capital was \$0.01 million. As of March 31, 2012 and December 31, 2011, the value of our interest in Greenway was \$0.01 million and \$0.01 million, respectively, and is reflected in the Consolidated Schedule of Investments.

As manager of Greenway, we act as the investment adviser to Greenway and are entitled to receive certain fees. As a result, Greenway is classified as an affiliate of ours. For the three months ended March 31, 2012 and 2011, we earned \$0.5 million and \$0.1 million in fees related to Greenway, which are included in other income in the Consolidated Statements of Operations. As of March 31, 2012 and December 31, 2011, \$0.5 million and \$0.4 million of fees related to Greenway were included in Due from affiliate on the Consolidated Statements of Assets and Liabilities.

Greenway invests in securities similar to those of ours pursuant to investment and allocation guidelines which address, among other things, the size of the borrowers, the types of transactions and the concentration and investment ratio amongst Greenway and us. However, we have the discretion to invest in other securities.

### *THL Credit SBIC, LP*

We have received a Greenlight letter allowing us to file an application with the Investment Division of the Small Business Administration, or the SBA, to license a Small Business Investment Company. We submitted our application, which was formally accepted for processing by the SBA on September 21, 2011. There can be no assurance that we will be able obtain such license and capitalize such SBIC with sufficient regulatory capital to borrow the maximum amount available.

THL Credit SBIC, LP and its general partner, THL Credit SBIC GP, LLC, were organized in Delaware on August 25, 2011 as a limited partnership and limited liability company, respectively. Both the SBIC LP and SBIC GP are consolidated wholly owned subsidiaries of ours. The SBIC LP will be subject to regulation and oversight by the SBA. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. As of March 31, 2012 and December 31, 2011, the SBIC LP had investments in Express Courier International, Inc. and Sheplers, Inc., with an aggregate amortized cost basis of \$19.8 million, and an investment in Sheplers, Inc., with an amortized cost basis of \$12.8 million, respectively, that were pre-approved by the SBA.

### *Affiliated Stockholders*

THL Credit Opportunities, L.P. and BDC Holdings own 6,974 and 8,047,720 shares, respectively, or 0.03% and 39.80%, respectively, of our common stock as of March 31, 2012, compared with 6,974 and 8,972,720 shares, respectively, or 0.03% and 44.38%, respectively, as of December 31, 2011.

### **Critical accounting policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, the Company's significant accounting policies are further described in the notes to the consolidated financial statements.

### *Valuation of Portfolio Investments*

As a BDC, we generally invest in illiquid securities including debt and equity investments of middle-market companies. Investments for which market quotations are readily available are valued using market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. Debt and equity securities for which market quotations are not readily available are valued at fair value as determined in good faith by our board of directors. Because we expect that there will not be a readily available market value for many of the investments in our portfolio, it is expected that many of our portfolio investments' values will be determined in good faith by our board of directors in accordance with a documented valuation policy that has been reviewed and approved by our board of directors in accordance with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.



**Table of Contents**

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

our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

preliminary valuation conclusions are then documented and discussed with senior management of the Advisor;

to the extent determined by the audit committee of our board of directors, independent valuation firms engaged by us conduct independent appraisals and review the Advisor's preliminary valuations in light of their own independent assessment;

the audit committee of our board of directors reviews the preliminary valuations of the Advisor and independent valuation firms and, if necessary, responds and supplements the valuation recommendation of the independent valuation firm to reflect any comments; and

our board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Advisor, the respective independent valuation firms and the audit committee.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. We utilize an income approach to value our debt investments and a combination of income and market approaches to value our equity investments. With respect to unquoted securities, our board of directors, in consultation with our independent third party valuation firm, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. For debt investments, we determine the fair value primarily using an income, or yield, approach that analyzes the discounted cash flows of interest and principal for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of each portfolio investments. Our estimate of the expected repayment date is generally the legal maturity date of the instrument. The yield analysis considers changes in leverage levels, credit quality, portfolio company performance and other factors.

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future cash flows or earnings to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, the current investment performance rating, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, transaction comparables, our principal market as the reporting entity and enterprise values, among other factors.

The following provides quantitative information about our Level 3 fair value measurements:

Description:	Fair Value (Millions)	Valuation Technique	Unobservable Inputs	Range (Average) <sup>(1)</sup>
First lien debt	\$ 91.9	Discounted cash flows (income approach)	Weighted average cost of capital	11% - 13% (12%)
Second lien debt	56.6	Discounted cash flows (income approach)	Weighted average cost of capital	15% - 17% (16%)

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Subordinated debt	123.5	Discounted cash flows (income approach)	Weighted average cost of capital	14% - 16% (15%)
Investments in funds	12.0	Discounted cash flows (income approach)	Weighted average cost of capital	13% - 26% (19%)
			Net asset value	
		Net asset value, as a practical expedient		N/A
Equity investments	3.5	Market comparable companies (market approach)	EBITDA multiple	6.1 7.1 (6.6)
Total investments	\$ 287.5			

**Table of Contents**

- (1) The minimum and maximum values were determined using the weighted average of the fair value of the investments in each investment category.

The primary significant unobservable input used in the fair value measurement of our debt securities (first lien debt, second lien debt and subordinated debt), including income-producing investments in funds is the weighted average cost of capital. Significant increases (decreases) in the WACC in isolation would result in a significantly lower (higher) fair value measurement. In determining the WACC, for the income, or yield, approach, we consider current market yields and multiples, portfolio company performance, leverage levels, credit quality, among other factors in its analysis. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate WACC to use in the income approach.

The primary significant unobservable input used in the fair value measurement of our equity investments is the EBITDA multiple. Significant increases (decreases) in the Multiple in isolation would result in a significantly higher (lower) fair value measurement. To determine the Multiple for the market approach, the Company considers current market trading and/or transaction multiples, portfolio company performance (financial ratios) relative to public and private peer companies and leverage levels, among other factors. Changes in one or more of these factors can have a similar directional change on other factors in determining the appropriate Multiple to use in the market approach.

***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we determine that it is probable that we will not be able to collect such interest. Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. As of March 31, 2012 and December 31, 2011, we did not have any loans on non-accrual status. Upfront loan origination fees, original issue discount and market discount or premium are capitalized, and we then amortize such amounts as interest income using the effective yield method. We record prepayment premiums on loans and debt investments as interest income.

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

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

***Federal Income Taxes***

We operate so as to maintain our status as a RIC under Subchapter M of the Code and intend to continue to do so. Accordingly, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. In order to qualify for favorable tax treatment as a RIC, we are required to distribute annually to our stockholders at least 90% of our investment company taxable income, as defined by the Code. To avoid federal excise taxes, we must distribute annually at least 98% of our ordinary income for each calendar year and 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year. We may choose not to distribute all of our taxable income for the calendar year and pay a non-deductible 4% excise tax on this income. If we choose to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. We will accrue excise tax on undistributed taxable income as required.

If we do not distribute at least 98% of our ordinary income in the year earned and 98.2% of our net capital gains for the one-year period ending October 31 in that calendar year, we will generally be required to pay an excise tax equal to 4% of the undistributed amount. To the extent that we determine that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. As of March 31, 2012 and December 31, 2011, we have accrued \$0 and \$0.02 million, respectively, for federal excise taxes.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the consolidated financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.



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## **Table of Contents**

### **Recent developments**

On April 13, 2012, we closed on a \$1.5 million follow-on investment in the subordinated term loans of Country Pure Foods, LLC, in connection with an acquisition.

On April 20, 2012, we were prepaid on \$7.6 million, or the remainder of our investment, at par, in Charming Charlie, Inc. plus a prepayment premium.

On April 26, 2012, we sold our investment in Hickory Farms, Inc., at par, realizing proceeds of \$9.5 million.

On April 30, 2012, we closed on an \$8.7 million investment in the subordinated term loan of a manufacturer operating in the textile waste recycling industry.

On May 1, 2012, we received \$3.6 million, or 30% of our contributed capital in LCP Capital Fund LLC in connection with a reduction in our commitment pursuant to the governing documents, which is related to the notional amount of the underlying credit default swaps.

On May 2, 2012, we closed on a \$13.0 million investment in the subordinated term loan of IMDS Corporation ( IMDS ). Headquartered in Fort Worth, TX, IMDS is a provider of comprehensive outsourcing solutions for orthopedic and medical device companies.

On May 2, 2012, our board of directors declared a dividend of \$0.30 per share, payable on June 29, 2012 to stockholders of record at the close of business on June 15, 2012. The dividend will be paid out of net income earned in the period from April 1, 2012 through June 30, 2012.

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

We are subject to financial market risks, including changes in interest rates. As of March 31, 2012, 58.6%, or seventeen, of the debt investments in our portfolio bore interest at fixed rates. Fourteen of the debt investments in our portfolio have interest rate floors, which have effectively converted the debt investments to fixed rate loans in the current interest rate environment. In the future, we expect other debt investments in our portfolio will have floating rates. Assuming that the Consolidated Statement of Assets and Liabilities as of March 31, 2012, 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 income by less than \$0.2 million due to the current floors in place. A hypothetical decrease in LIBOR would not affect our net income, again, due to the aforementioned floors in place. 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. For the quarters ended March 31, 2012 and March 31, 2011, we did not engage in hedging activities.

### **Item 4. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

Our Chief Executive Officer and Chief Financial Officer, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act ). As of the end of the period covered by this quarterly report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act 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.

#### ***Changes in Internal Control Over Financial Reporting***

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There have been no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not a defendant in any material pending legal proceeding, and no such material proceedings are known to be contemplated. However, from time to time, we may be party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under the contracts with our portfolio companies.

**Item 1A. Risk Factors**

*Important risk factors that could cause results or events to differ from current expectations are described in Risks of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2012 and in the Company's registration statement on Form N-2 filed with the Securities and Exchange Commission on June 22, 2011 and as amended on August 25, 2011, October 18, 2011 and March 15, 2012.*

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

We issued a total of one share and 304,090 shares of common stock under our dividend reinvestment plan during the three months ended March 31, 2012 and 2011, respectively. The issuance was not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate price for the shares of common stock issued under the dividend reinvestment plan during the three months ended March 31, 2012 and 2011, was approximately \$0.0 million and \$4.0 million, respectively.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits.**

Listed below are the exhibits that are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

- 10 Computation of Per Share Earnings (included in the notes to the consolidated financial statements contained in this report).
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.\*
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.\*
- 32.1

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Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).\*

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).\*

(\*) Filed herewith

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THL CREDIT, INC.

Date: May 3, 2012

By: /s/ JAMES K. HUNT  
**James K. Hunt**  
**Chief Executive Officer**

Date: May 3, 2012

By: /s/ TERRENCE W. OLSON  
**Terrence W. Olson**  
**Chief Financial Officer**