

THL Credit, Inc.
Form 10-Q
November 04, 2013
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 September 30, 2013

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 814-00789

THL CREDIT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: THL Credit, Inc. - Form 10-Q

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

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 November 4, 2013 was 33,905,202.

Table of Contents

THL CREDIT, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

Table of Contents

	INDEX	PAGE NO.
PART I.	<u>FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Statements of Assets and Liabilities as of September 30, 2013 (unaudited) and December 31, 2012</u>	2
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 (unaudited)</u>	3
	<u>Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2013 and 2012 (unaudited)</u>	4
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)</u>	5
	<u>Consolidated Schedules of Investments as of September 30, 2013 (unaudited) and December 31, 2012</u>	6
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	19
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	63
Item 4.	<u>Controls and Procedures</u>	64
PART II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	64
Item 1A.	<u>Risk Factors</u>	64
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	67
Item 3.	<u>Defaults Upon Senior Securities</u>	67
Item 4.	<u>Mine Safety Disclosures</u>	68
Item 5.	<u>Other Information</u>	68
Item 6.	<u>Exhibits</u>	68
	<u>SIGNATURES</u>	69

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**

(in thousands, except per share data)

	September 30, 2013 (unaudited)	December 31, 2012
Assets:		
Investments at fair value:		
Non-controlled, non-affiliated investments (cost of \$571,168 and \$391,699, respectively)	\$ 571,686	\$ 394,339
Non-controlled, affiliated investments (cost of \$10 and \$10, respectively)	10	10
Total investments at fair value (cost of \$571,178 and \$391,709, respectively)	571,696	394,349
Cash	10,008	4,819
Deferred financing costs	4,295	3,817
Interest receivable	8,286	2,594
Escrow receivable	2,000	
Due from affiliate	904	420
Receivable for paydown of investments	608	125
Prepaid expenses and other assets	450	134
Total assets	\$ 598,247	\$ 406,258
Liabilities:		
Loans payable	\$ 125,900	\$ 50,000
Payable for investment purchased	9,100	
Accrued incentive fees	3,543	3,279
Base management fees payable	2,081	1,514
Deferred tax liability	1,436	454
Accrued expenses	843	739
Due to affiliate	580	
Accrued credit facility fees and interest	513	115
Interest rate derivative	314	1,053
Income taxes payable	109	
Accrued administrator expenses	50	304
Dividends payable		1,316
Total liabilities	144,469	58,774
Commitments and contingencies (Note 8)		
Net Assets:		
Preferred stock, par value \$.001 per share, 100,000 preferred shares authorized, no preferred shares issued and outstanding		
	34	26

Edgar Filing: THL Credit, Inc. - Form 10-Q

Common stock, par value \$.001 per share, 100,000 common shares authorized, 33,905 and 26,315 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively.		
Paid-in capital in excess of par	449,893	343,723
Net unrealized (depreciation) appreciation on investments, net of provision for taxes of \$1,436 and \$454, respectively	(918)	2,187
Net unrealized depreciation on interest rate derivative	(314)	(1,053)
Interest rate derivative periodic interest payments, net	(500)	(180)
Accumulated undistributed net realized gains		348
Accumulated undistributed net investment income	5,583	2,433
Total net assets	453,778	347,484
Total liabilities and net assets	\$ 598,247	\$ 406,258
Net asset value per share	\$ 13.38	\$ 13.20

See accompanying notes to these consolidated financial statements.

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

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Investment Income:				
From non-controlled, non-affiliated investments:				
Interest income	\$ 17,694	\$ 13,570	\$ 48,472	\$ 34,724
Dividend income	356		4,884	
Other income	142	109	687	240
From non-controlled, affiliated investment:				
Other income	872	558	2,116	1,782
Total investment income	19,064	14,237	56,159	36,746
Expenses:				
Base management fees	2,081	1,282	5,278	3,429
Incentive fee	2,053	1,697	8,093	4,759
Credit facility interest and fees	1,403	1,026	3,898	2,239
Administrator expenses	800	726	2,450	2,227
Other general and administrative expenses	508	363	1,354	981
Professional fees	311	278	953	841
Amortization of debt issuance costs	274	259	1,039	708
Directors' fees	152	129	438	399
Total expenses	7,582	5,760	23,503	15,583
Income tax (benefit) provision	(120)		376	
Net investment income	11,602	8,477	32,280	21,163
Realized and Unrealized Gain on Investments:				
Net realized (loss) gain on non-controlled, non-affiliated investments	(390)		2,393	
Income tax benefit, realized gain	1,097			
Net change in unrealized appreciation on investments:				
Non-controlled, non-affiliated investments	(3,141)	(1,687)	(2,123)	(2,125)
Non-controlled, affiliated investments				(1)
Net change in unrealized appreciation on investments	(3,141)	(1,687)	(2,123)	(2,126)
Provision for taxes on unrealized gain on investments	(1,050)		(981)	
Interest rate derivative periodic interest payments, net	(113)	(87)	(321)	(86)
Unrealized depreciation on interest rate derivative	(248)	(534)	739	(1,109)
Net increase in net assets resulting from operations	\$ 7,757	\$ 6,169	\$ 31,987	\$ 17,842
Net investment income per common share:				
Basic and diluted	\$ 0.34	\$ 0.41	\$ 1.11	\$ 1.04
Net increase in net assets resulting from operations per common share:				
Basic and diluted	\$ 0.23	\$ 0.30	\$ 1.10	\$ 0.88
Weighted average shares of common stock outstanding:				
Basic and diluted	33,905	20,618	29,068	20,354

See accompanying notes to these consolidated financial statements.

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

(in thousands, except per share data)

	For the nine months ended September 30,	
	2013	2012
Increase in net assets from operations:		
Net investment income	\$ 32,280	\$ 21,163
Interest rate derivative periodic interest payments, net	(321)	(86)
Realized gain on investments	2,393	
Net change in unrealized appreciation on investments	(2,123)	(2,126)
Provision for taxes on unrealized gain on investments	(981)	
Net change in unrealized depreciation on interest rate derivative	739	(1,109)
Net increase in net assets resulting from operations	31,987	17,842
Distributions to stockholders	(31,871)	(19,412)
Capital share transactions:		
Issuance of common stock	110,966	85,879
Less offering costs	(4,788)	(4,176)
Net increase in net assets from capital share transactions	106,178	81,703
Total increase in net assets	106,294	80,133
Net assets at beginning of period	347,484	267,617
Net assets at end of period	\$ 453,778	\$ 347,750
Common shares outstanding at end of period	33,905	26,315
Capital share activity:		
Shares sold	7,590	6,095
	7,590	6,095

See accompanying notes to these consolidated financial statements.

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

(in thousands)

	For the nine months ended September 30,	
	2013	2012
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 31,987	\$ 17,842
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Increase in payable for investment purchased	9,100	
Net change in unrealized appreciation on investments	2,123	2,126
Unrealized depreciation on interest rate derivative	(739)	1,109
Purchases of investments	(297,159)	(172,105)
Proceeds from sale and paydown of investments	123,142	73,107
Increase in investments due to PIK	(2,590)	(2,928)
Amortization of deferred financing costs	1,039	708
Accretion of discounts on investments and other fees	(3,346)	(2,009)
Increase in interest receivable	(5,692)	(2,500)
Increase in escrow receivable	(2,000)	
Increase in due from affiliate	(484)	(106)
Increase in prepaid expenses and other assets	(316)	(18)
Increase in accrued expenses	78	188
Increase in accrued credit facility fees and interest	398	122
Increase in income taxes payable	109	
Increase in deferred tax liability	982	
Increase in base management fees payable	567	269
Decrease in accrued administrator expenses	(255)	(316)
Increase in incentive fees payable	265	214
Decrease in dividends payable	(1,316)	
Increase (decrease) in due to affiliate	580	(21)
Net cash used in operating activities	(143,527)	(84,318)
Cash flows from financing activities		
Borrowings under credit facility	311,600	184,900
Repayments under credit facility	(235,700)	(139,900)
Issuance of shares of common stock	110,966	85,878
Offering costs paid	(4,788)	(3,849)
Distributions paid to stockholders	(31,871)	(19,411)
Increase in deferred financing costs	(1,491)	(2,924)
Net cash provided by financing activities	148,716	104,694
Net increase in cash	5,189	20,376
Cash, beginning of period	4,819	5,573
Cash, end of period	\$ 10,008	\$ 25,949
Supplemental Disclosure of Cash Flow Information:		
Cash interest paid	\$ 2,536	\$ 948
Income taxes paid	\$ 621	\$

See accompanying notes to these consolidated financial statements.

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

September 30, 2013

(dollar amounts in thousands)

Portfolio company/Type of Investment ⁽¹⁾	Industry	Interest Rate ⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal ⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Non-controlled/non-affiliated investments 125.99% of net asset value							
20-20 Technologies Inc.							
Senior Secured Term Loan ⁽⁴⁾	IT Services	13.3% ⁽⁵⁾	09/12/12	09/12/17	\$ 13,738	\$ 13,450	\$ 13,634
						13,450	13,634
Adirondack Park CLO Ltd.							
Subordinated Notes, Residual Interest ⁽⁴⁾	Financial services	13.7% ⁽¹²⁾	03/27/13	04/15/24	\$ 10,000	9,336	9,300
						9,336	9,300
AIM Media Texas Operating, LLC							
Second Lien Loan	Media, entertainment and leisure	16.0% ⁽⁶⁾ (13.0% Cash and 3.0% PIK)	06/21/12	06/21/17	\$ 5,830	5,711	6,005
Member interest ⁽⁷⁾⁽⁸⁾			06/21/12		0.763636	764	1,000
						6,475	7,005
Airborne Tactical Advantage Company, LLC							
Senior Secured Note	Aerospace & defense	11.0%	09/07/11	03/07/16	\$ 4,000	3,883	3,960
Class A Warrants ⁽⁹⁾			09/07/11		511,812	113	135
Series A Preferred Stock ⁽⁹⁾			09/17/13		225,000	169	255
						4,165	4,350
Blue Coat Systems, Inc.							
Second Lien Term Loan	IT Services	9.5% (LIBOR + 8.5%)	06/27/13	06/27/20	\$ 15,000	14,855	15,000
						14,855	15,000
C&K Market, Inc.							
Senior Subordinated Note	Retail & grocery	18.0% ⁽¹⁹⁾	11/03/10	11/03/15	\$ 13,650	13,302	10,237
Warrant for Class B			11/03/10		156,552	349	

Edgar Filing: THL Credit, Inc. - Form 10-Q

						13,651	10,237
Connecture, Inc.							
Second Lien Term Loan	Healthcare	12.5% (LIBOR + 11.0%)	03/18/13	07/15/18	\$ 7,000	6,870	7,000
						6,870	7,000
Country Pure Foods, LLC							
Subordinated Term Loan	Food & beverage	13.0%	08/13/10	02/13/17	\$ 16,181	16,181	16,060
						16,181	16,060
CRS Reprocessing, LLC							
Senior Secured Term Loan	Manufacturing	10.5% (LIBOR + 9.5%)	06/16/11	06/16/15	\$ 18,302	18,227	18,302
						18,227	18,302
Cydcor LLC							
Senior Secured Term Loan	Business services	9.8% (LIBOR +7.3%)	06/17/13	06/12/17	\$ 13,727	13,727	13,727
						13,727	13,727

(Continued on next page)

See accompanying notes to these consolidated financial statements.

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

September 30, 2013

(dollar amounts in thousands)

Portfolio company/Type of Investment ⁽¹⁾	Industry	Interest Rate ⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal ⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Dr. Fresh, LLC Subordinated Term Loan	Consumer products	14.0% ⁽⁶⁾ (12.0% Cash and 2.0% PIK)	05/15/12	11/15/17	\$ 14,374	14,139	14,302
						14,139	14,302
Dryden CLO, Ltd. Subordinated Notes, Residual Interest ⁽⁴⁾	Financial services	13.5% ⁽¹²⁾	09/12/13	11/15/25	\$ 10,000	9,100	9,200
						9,100	9,200
Duff & Phelps Corporation Tax Receivable Agreement Payment Rights ⁽¹¹⁾	Financial services	17.2% ⁽¹²⁾	06/01/12	12/31/29		12,262	14,381
Senior Secured Term Loan ⁽¹¹⁾		4.5% (LIBOR + 3.5%)	05/15/13	04/23/20	\$ 249	253	251
						12,515	14,632
Embarcadero Technologies, Inc. First Lien Term Loan	IT Services	10.2% ⁽⁵⁾	02/15/13	12/28/17	\$ 9,946	9,812	9,846
						9,812	9,846
Expert Global Solutions, Inc. Second Lien Term Loan	Business services	12.5% (LIBOR + 10.2% and 0.8% PIK)	06/21/13	10/03/18	\$ 18,727	18,997	18,997
						18,997	18,997
Express Courier International, Inc. Secured Subordinated Term Loan	Business services	15.0% ⁽¹³⁾ (PIK)	01/17/12	07/17/16	\$ 7,766	7,652	6,368
						7,652	6,368
Firebirds International, LLC Common stock ⁽⁹⁾	Restaurants		05/17/11		1,906	191	234

Edgar Filing: THL Credit, Inc. - Form 10-Q

						191	234
Food Processing Holdings, LLC							
Senior Subordinated Note ⁽¹⁵⁾	Food & beverage	15.0% ⁽⁶⁾	02/28/12	08/28/17	\$ 14,165	14,059	14,165
		(12.0% Cash					
		and 3.0% PIK)					
Class A Units ⁽⁹⁾			04/20/10		162.44	163	202
Class B Units ⁽⁹⁾			04/20/10		406.09	408	150
						14,630	14,517

(Continued on next page)

See accompanying notes to these consolidated financial statements.

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

September 30, 2013

(dollar amounts in thousands)

Portfolio company/Type of Investment ⁽¹⁾	Industry	Interest Rate ⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal ⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Freeport Financial SBIC Fund LP Member interest ⁽¹⁷⁾	Financial services		06/14/13			147	147
						147	147
Gold, Inc. Subordinated Term Loan	Consumer products	15.0% ⁽⁶⁾ (13.0% Cash and 2.0% PIK)	12/31/12	12/31/17	\$ 16,647	16,352	16,647
						16,352	16,647
Gryphon Partners 3.5, L.P. Partnership interest ⁽¹⁷⁾	Financial services		11/20/12	12/21/18		143	384
						143	384
Harrison Gypsum, LLC Senior Secured Term Loan	Industrials	10.5% ⁽⁶⁾ (LIBOR + 8.5% and 0.5% PIK)	12/21/12	12/21/17	\$ 24,623	24,300	24,500
						24,300	24,500
Hart InterCivic, Inc. Senior Secured Term Loan	IT Services	10.5% (LIBOR + 9.0%)	07/01/11	07/01/16	\$ 8,775	8,667	8,643
Senior Secured Revolving Loan ⁽¹⁰⁾		10.5% (LIBOR + 9.0%)	07/01/11	07/01/16	\$ 800	767	800
						9,434	9,443
HEALTHCAREfirst, Inc. Senior Secured Term Loan	Healthcare	11.5% ⁽⁵⁾	08/31/12	08/30/17	\$ 9,300	9,068	8,881
						9,068	8,881
Holland Intermediate Acquisition Corp. Senior Secured Term Loan	Energy / Utilities	10.0% (LIBOR + 9.0%)	05/29/13	05/29/18	\$ 24,227	23,730	23,730

Edgar Filing: THL Credit, Inc. - Form 10-Q

						23,730	23,730	
Ingenio Acquisition, LLC								
Senior Secured Term Loan	Media, entertainment and leisure	12.8% ⁽⁶⁾	05/10/13	05/10/18	\$ 9,636	9,455	9,492	
		(11.3% Cash and 1.5% PIK)						
						9,455	9,492	
Jefferson Management Holdings, LLC								
Member interest ⁽⁷⁾⁽⁸⁾	Healthcare		04/20/10		1,393	1,393	937	
						1,393	937	

(Continued on next page)

See accompanying notes to these consolidated financial statements.

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

September 30, 2013

(dollar amounts in thousands)

Portfolio company/Type of Investment ⁽¹⁾	Industry	Interest Rate ⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal ⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Key Brand Entertainment, Inc. Senior Secured Term Loan	Media, entertainment and leisure	9.8% (LIBOR + 8.50%)	08/08/13	08/08/18	\$ 13,178	12,921	12,921
Senior Secured Revolving Loan ⁽¹⁰⁾⁽¹⁴⁾		9.8% (LIBOR + 8.50%)	08/08/13	08/08/18	\$	(29)	
						12,892	12,921
LCP Capital Fund LLC Member interest ⁽⁸⁾⁽¹⁶⁾⁽¹⁷⁾	Financial services	12.6% ⁽¹²⁾	04/20/10	02/15/15	\$ 8,354	8,354	8,354
						8,354	8,354
Loadmaster Derrick & Equipment, Inc. Senior Secured Term Loan	Energy / Utilities	9.3% (LIBOR + 8.3%)	09/28/12	09/28/17	\$ 9,709	9,493	9,370
						9,493	9,370
Martex Fiber Southern Corp. Subordinated Term Loan	Industrials	13.5% ⁽⁶⁾	04/30/12	10/31/19	\$ 8,856	8,741	8,502
		(12.0% Cash and 1.5% PIK)					
						8,741	8,502
NCM Group Holdings, LLC Senior Secured Term Loan	Industrials	12.5% (LIBOR + 11.5%)	08/29/13	08/29/18	\$ 26,727	25,672	25,672
						25,672	25,672
Oasis Legal Finance Holding Company LLC Second Lien Term Loan	Financial services	10.5%	09/30/13	09/30/18	\$ 23,943	23,465	23,465
						23,465	23,465
Octagon Income Note XIV, Ltd. Income Notes, Residual Interest ⁽⁴⁾	Financial services	15.5% ⁽¹²⁾	12/19/12	01/15/24	\$ 9,304	8,805	8,711

Edgar Filing: THL Credit, Inc. - Form 10-Q

						8,805	8,711
OEM Group, Inc.							
Senior Secured Note	Manufacturing	15.0% ⁽⁶⁾	10/07/10	10/07/15	\$ 15,066	14,855	14,312
(12.5% Cash							
and 2.5%							
PIK)							
Warrant for Common			10/07/10				
						14,855	14,312
SeaStar Solutions (f.k.a. Marine Acquisition Corp)							
Senior Subordinated Note	Manufacturing	13.5% ⁽⁶⁾	09/18/12	05/18/17	\$ 16,500	16,192	16,500
(11.5% Cash							
and 2.0%							
PIK)							
						16,192	16,500

(Continued on next page)

See accompanying notes to these consolidated financial statements.

Table of Contents**THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (unaudited) (Continued)****September 30, 2013****(dollar amounts in thousands)**

Portfolio company/Type of Investment⁽¹⁾	Industry	Interest Rate⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Sheplers, Inc. Senior Secured (2 nd lien) Term Loan	Retail & grocery	13.2%	12/20/11	12/20/16	\$ 11,426	11,219	11,255
Mezzanine Loan		(LIBOR + 11.7%) 17.0% ⁽¹⁸⁾	12/20/11	12/20/17	\$ 1,871	1,845	1,848
		(10.0% Cash and 7.0% PIK)					
						13,064	13,103
Sheridan Square CLO, Ltd Income Notes, Residual Interest ⁽⁴⁾	Financial services	13.2% ⁽¹²⁾	03/12/13	04/15/25	\$ 6,338	6,225	6,213
						6,225	6,213
Specialty Brands Holdings, LLC Second Lien Term Loan	Restaurants	11.3% (LIBOR + 9.8%)	07/16/13	07/16/18	\$ 20,977	20,571	20,571
						20,571	20,571
The Studer Group, L.L.C. Senior Subordinated Note	Healthcare	12.0%	09/29/11	1/31/19	\$ 16,910	16,910	16,910
						16,910	16,910
Surgery Center Holdings, Inc. Second Lien Term Loan	Healthcare	9.8% (LIBOR + 8.5%)	04/19/13	04/11/20	\$ 15,000	14,642	15,000
Member interest ⁽⁸⁾⁽⁹⁾			04/20/10		469,673	470	2,000
						15,112	17,000
Tri Starr Management Services, Inc. Senior Subordinated Note	IT Services	15.0% ⁽⁶⁾ (12.5% Cash and 2.5% PIK)	03/04/13	03/04/19	\$ 18,183	17,847	17,865
						17,847	17,865

Edgar Filing: THL Credit, Inc. - Form 10-Q

Trinity Services Group, Inc.								
Senior Subordinated Note	Food & beverage	14.5% ⁽⁶⁾ (12.0% Cash and 2.5% PIK)	03/29/12	09/29/17	\$ 14,305	14,138	13,876	
						14,138	13,876	
Vision Solutions, Inc.								
Second Lien Term Loan	IT Services	9.5% (LIBOR + 8.0%)	03/31/11	07/23/17	\$ 11,625	11,558	11,625	
						11,558	11,625	

(Continued on next page)

See accompanying notes to these consolidated financial statements.

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

September 30, 2013

(dollar amounts in thousands)

Portfolio company/Type of Investment ⁽¹⁾	Industry	Interest Rate ⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal ⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Washington Inventory Service Senior Secured Term Loan	Business services	10.3% (LIBOR + 9.0%)	12/27/12	06/20/19	\$ 11,000	10,854	11,165
						10,854	11,165
Wingspan Portfolio Holdings, Inc. Subordinated Term Loan	Financial services	13.5% ⁽⁶⁾ (12.0% Cash and 1.5% PIK)	05/21/13	11/21/16	\$ 18,768	18,425	17,079
						18,425	17,079
YP Equity Investors, LLC Member interest ⁽⁷⁾⁽⁸⁾	Media, entertainment and leisure		05/08/12				1,600
							1,600
Non-controlled/non-affiliated investments 125.99% of net asset value						\$ 571,168	\$ 571,686
Non-controlled/affiliated investments 0.00% of net asset value							
THL Credit Greenway Fund LLC Member interest ⁽⁸⁾⁽¹⁷⁾	Financial services		01/27/11	1/14/2021		6	6
						6	6
THL Credit Greenway Fund II LLC Member interest ⁽⁸⁾⁽¹⁷⁾	Financial services		03/01/13			4	4

Total investments 125.99% of net asset value **\$ 571,178** **\$ 571,696**

Derivative Instruments

Counterparty	Instrument	Interest Rate	Expiration Date	# of Contracts	Notional	Cost	Fair Value
ING Capital Markets, LLC	Interest Rate Swap	1.1425%/LIBOR	5/10/2017	1	\$ 50,000	\$	\$ (314)
	Pay Fixed/Receive						
	Floating						

Total derivative instruments (0.07%) of net asset value **\$** **\$ (314)**

(Continued on next page)

See accompanying notes to these consolidated financial statements.

Table of Contents

THL Credit, Inc. and Subsidiaries

Consolidated Schedule of Investments (unaudited)

September 30, 2013

(dollar amounts in thousands)

- (1) All debt investments are income-producing. Equity and member interests are non-income-producing unless otherwise noted.
- (2) Variable interest rate investments bear interest in reference to LIBOR or ABR, which are effective as of September 30, 2013. These variable rates reset monthly or quarterly, subject to interest rate floors.
- (3) Principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.
- (4) Foreign 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.
- (5) Unitranche investment; interest rate reflected represents the effective yield earned on the investment for the most recent quarter.
- (6) At the option of the issuer, interest can be paid in cash or cash and PIK. The percentage of PIK shown is the maximum PIK that can be elected by the company.
- (7) Interest held by a wholly owned subsidiary of THL Credit, Inc.
- (8) Member interests of limited liability companies are the equity equivalents of the stock of corporations.
- (9) Equity ownership may be held in shares or units of companies related to the portfolio company.
- (10) Issuer pays 0.50% unfunded commitment fee on revolving loan facility.
- (11) 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.
- (12) Income-producing security with no stated coupon; interest rate reflects an estimation of an effective yield to expected maturity as of September 30, 2013.
- (13) Loan was on non-accrual status as of September 30, 2013. Issuer's contractual rate is 15.0% PIK until December 31, 2013 and then 13.0% cash thereafter.
- (14) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan.
- (15) Interest held in companies related to the portfolio company.
- (16) The Company's investment in LCP Capital Fund LLC is in the form of membership interests and its contributed capital is for the most recent quarter 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.
- (17) 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.
- (18) Issuer has the option to increase its aggregate interest rate to 18.5% all PIK for a period of time under certain conditions in the credit agreement.
- (19) Loan was on non-accrual status as of September 30, 2013. Contractual default rate of interest is 18.0%.
See accompanying notes to these consolidated financial statements.

Table of Contents**THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2012****(dollar amounts in thousands)**

Portfolio company/Type of Investment⁽¹⁾	Industry	Interest Rate⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Non-controlled/non-affiliated investments 113.49% of net asset value							
20-20 Technologies Inc.							
Senior Secured Term Loan ⁽⁴⁾	IT Services	13.2% ⁽⁵⁾	09/12/12	09/12/17	\$ 14,000	\$ 13,666	\$ 13,666
							(LIBOR + 11.0%)
						13,666	13,666
AIM Media Texas Operating, LLC							
Second Lien Loan	Media, entertainment and leisure	16.0%	06/21/12	06/21/17	\$ 9,976	9,743	9,775
Member interest ⁽⁷⁾⁽⁸⁾			06/21/12		0.763636	764	764
						10,507	10,539
Airborne Tactical Advantage Company, LLC							
Senior Secured Note	Aerospace & defense	11.0%	09/07/11	03/07/16	\$ 4,000	3,854	3,900
Class A Warrants ⁽⁹⁾			09/07/11		511,812	113	120
Senior Secured Delayed Draw Term Loans ⁽¹⁰⁾		11.0%	09/07/11	03/07/16			
						3,967	4,020
C&K Market, Inc.							
Senior Subordinated Note	Retail & grocery	16.0%	11/03/10	11/03/15	\$ 13,582	13,176	13,480
							(14.0% Cash and 2.0% PIK)
Warrant for Class B			11/03/10		157,552	349	350
						13,525	13,830
Country Pure Foods, LLC							
Subordinated Term Loan	Food & beverage	15%	08/13/10	02/13/16	\$ 16,079	15,871	15,758
							(12.5% Cash

Edgar Filing: THL Credit, Inc. - Form 10-Q

and 2.5% PIK)								15,871	15,758
CRS Reprocessing, LLC									
Senior Secured Term Loan	Manufacturing	10.3%	06/16/11	06/16/15	\$	8,438	8,327	8,375	
(LIBOR +									
9.3%)									
								8,327	8,375
Cydcor LLC									
Senior Secured Term Loan	Business services	12.3%	09/18/12	09/17/16	\$	14,649	14,270	14,270	
(LIBOR									
+9.8%)									
								14,270	14,270
Dr. Fresh, LLC									
Subordinated Term Loan	Consumer products	14.0% ⁽⁶⁾	05/15/12	11/15/17	\$	14,158	13,893	13,946	
(12.0% Cash									
and 2.0%									
PIK)									
								13,893	13,946

(Continued on next page)

See accompanying notes to these consolidated financial statements.

Table of Contents**THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (Continued)****December 31, 2012****(dollar amounts in thousands)**

Portfolio company/Type of Investment⁽¹⁾	Industry	Interest Rate⁽²⁾	Initial Acquisition Date	Maturity/ Dissolution Date	Principal⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Duff & Phelps Corporation Tax Receivable Agreement Payment Rights ⁽¹¹⁾	Financial services	16.4% ⁽¹²⁾	06/01/12	12/31/29		12,262	12,262
						12,262	12,262
Express Courier International, Inc. Secured Subordinated Term Loan	Business services	15.0% ⁽¹³⁾ (PIK)	01/17/12	07/17/16	\$ 7,479	7,358	6,357
						7,358	6,357
Firebirds International, LLC Senior Secured Term Loan	Restaurants	10.5% (LIBOR + 9.0)	05/17/11	05/17/16	\$ 8,200	8,080	8,200
Senior Secured Revolving Loan ⁽¹⁴⁾⁽¹⁵⁾		10.5% (LIBOR + 9.0)	05/17/11	05/17/16		(67)	
Common stock ⁽⁹⁾			05/17/11		1,906	191	215
						8,204	8,415
Food Processing Holdings, LLC Senior Subordinated Note ⁽¹⁶⁾	Food & beverage	15.0% ⁽⁶⁾ (12.0% Cash and 3.0% PIK)	02/28/12	08/28/17	\$ 13,847	13,727	13,397
Class A Units ⁽⁹⁾			04/20/10		162.44	163	181
Class B Units ⁽⁹⁾			04/20/10		406.09	408	150
						14,298	13,728

Edgar Filing: THL Credit, Inc. - Form 10-Q

Gold, Inc.								
Subordinated Term Loan	Consumer products	15.0% ⁽⁶⁾	12/31/12	12/31/17	\$ 36,800	36,064	36,064	
		(13.0% Cash and 2.0% PIK)						
						36,064	36,064	
Gryphon Partners 3.5, L.P.								
Partnership interest	Financial services		11/20/12	12/21/18		1,195	1,895	
						1,195	1,895	
Harrison Gypsum, LLC								
Senior Secured Term Loan	Industrials	10.5% ⁽⁶⁾	12/21/12	12/21/17	\$ 25,380	25,001	25,001	
		(LIBOR + 8.5% and 0.5% PIK)						
						25,001	25,001	
Hart InterCivic, Inc.								
Senior Secured Term Loan	IT Services	10.5%	07/01/11	07/01/16	\$ 9,594	9,450	9,499	
		(LIBOR + 9.0%)						
Senior Secured Revolving Loan ⁽¹⁰⁾⁽¹⁵⁾		10.5%	07/01/11	07/01/16	\$	(42)		
		(LIBOR + 9.0%)						
						9,408	9,499	

(Continued on next page)

See accompanying notes to these consolidated financial statements.

Table of Contents**THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (Continued)****December 31, 2012****(dollar amounts in thousands)**

Portfolio company/Type of Investment⁽¹⁾	Industry	Interest Rate⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
HEALTHCAREfirst, Inc. Senior Secured Term Loan	Healthcare	11.5% ⁽⁵⁾ (LIBOR + 10.0%)	08/31/12	08/30/17	\$ 9,875	9,594	9,594
						9,594	9,594
IMDS Corporation Subordinated Term Loan	Healthcare	15.5% ⁽⁶⁾ (12.5% Cash and 3.0% PIK)	05/02/12	11/02/17	\$ 13,266	12,967	12,404
						12,967	12,404
Jefferson Management Holdings, LLC Member interest ⁽⁷⁾⁽⁸⁾	Healthcare	N/A	04/20/10		1,393	1,393	1,388
						1,393	1,388
LCP Capital Fund LLC Member interest ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾	Financial services	16.2% ⁽¹⁹⁾	04/20/10	02/15/15	\$ 8,354	8,354	8,354
						8,354	8,354
Loadmaster Derrick & Equipment, Inc. Senior Secured Term Loan	Energy / Utilities	9.3% (LIBOR + 8.3%)	09/28/12	09/28/17	\$ 9,709	9,462	9,462
Senior Secured Revolving Loan ⁽¹⁰⁾		9.3% (LIBOR + 8.3%)	09/28/12	09/28/17	\$ 290	290	290
Senior Secured Delayed Draw Term Loans		9.3% (LIBOR + 8.3%)	09/28/12	09/28/17	\$		
						9,752	9,752

Edgar Filing: THL Credit, Inc. - Form 10-Q

Marine Acquisition Corp.
(Teleflex Marine)

Senior Subordinated Note	Manufacturing	13.5% ⁽⁶⁾	09/18/12	05/18/17	\$ 16,500	16,146	16,170
--------------------------	---------------	----------------------	----------	----------	-----------	--------	--------

						16,146	16,170
--	--	--	--	--	--	--------	--------

Martex Fiber Southern Corp.

Subordinated Term Loan	Industrials	13.5% ⁽⁶⁾	04/30/12	10/31/19	\$ 8,756	8,632	8,580
------------------------	-------------	----------------------	----------	----------	----------	-------	-------

(12.0% Cash

and 1.5%

PIK)

						8,632	8,580
--	--	--	--	--	--	-------	-------

Octagon Income Note XIV, Ltd.

Income Notes, Residual Interest ⁽⁴⁾	Financial services	15.5% ⁽²⁰⁾	12/19/12	01/15/24	\$ 10,000	9,400	9,400
------------------------------------------------	--------------------	-----------------------	----------	----------	-----------	-------	-------

						9,400	9,400
--	--	--	--	--	--	-------	-------

OEM Group, Inc.

Senior Secured Note	Manufacturing	15.0% ⁽⁶⁾	10/07/10	10/07/15	\$ 14,784	14,510	13,601
---------------------	---------------	----------------------	----------	----------	-----------	--------	--------

(12.5% Cash

and 2.5%

PIK)

Warrant for Common

						14,510	13,601
--	--	--	--	--	--	--------	--------

(Continued on next page)

See accompanying notes to these consolidated financial statements.

Table of Contents**THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (Continued)****December 31, 2012****(dollar amounts in thousands)**

Portfolio company/Type of Investment ⁽¹⁾	Industry	Interest Rate ⁽²⁾	Initial Acquisition Date	Maturity/Dissolution Date	Principal ⁽³⁾ No. of Shares / No. of Units	Cost	Fair Value
Non-controlled/affiliated investments 0.00% of net asset value							
THL Credit Greenway Fund LLC							
Member interest	Financial services		01/27/11	1/14/2021		10	10
						10	10
Total investments 113.49% of net asset value						\$ 391,709	\$ 394,349

Derivative Instruments

Counterparty	Instrument	Interest Rate	Expiration Date	# of Contracts	Notional	Cost	Fair Value
ING Capital Markets, LLC	Interest Rate Swap	1.1425%/	5/10/2017	1	\$ 50,000	\$	\$ (1,053)
	Pay	LIBOR					
	Fixed/Receive						
	Floating						
Total derivative instruments (0.30)% of net asset value						\$	\$ (1,053)

- (1) All debt investments are income-producing. Equity and member interests are non-income-producing unless otherwise noted.
- (2) Variable interest rate investments bear interest in reference to LIBOR or ABR, which reset monthly or quarterly, subject to interest rate floors. Unless otherwise noted, for each debt investment we have provided the interest rate in effect as of December 31, 2012.
- (3) Principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.
- (4) Foreign 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.
- (5) Unitranche investment; yield reflected represents the effective yield earned on the investment.
- (6) At the option of the issuer, interest can be paid in cash or cash and PIK. The percentage of PIK shown is the maximum PIK that can be elected by the company.
- (7) Interest held by a wholly owned subsidiary of THL Credit, Inc.
- (8) Member interests of limited liability companies are the equity equivalents of the stock of corporations.
- (9) Equity ownership may be held in shares or units of companies related to the portfolio company.

Edgar Filing: THL Credit, Inc. - Form 10-Q

- (10) Issuer pays 0.5% unfunded commitment fee on facility.
- (11) 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.
- (12) Income-producing security with no stated coupon; yield from initial investment through December 31, 2012 was approximately 16.4%.
- (13) Issuer will pay 15% PIK until April 1, 2013, 13.0% cash interest thereafter.
- (14) Issuer pays 0.25% unfunded commitment fee on revolving loan quarterly.
- (15) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan.
- (16) Interest held in companies related to the portfolio company.
- (17) 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.
- (18) 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.

(Continued on next page)

See accompanying notes to these consolidated financial statements.

Table of Contents

THL Credit, Inc. and Subsidiaries

Consolidated Schedule of Investments

December 31, 2012

(dollar amounts in thousands)

- (19) Income producing security with no stated coupon; cash yield for the three months ended December 31, 2012 was approximately 16.2%.
- (20) Income producing security with no stated coupon; cash yield for the three months ended December 31, 2012 was approximately 15.5%.
- (21) Issuer has the option to increase its aggregate interest rate to 18.5% all PIK for a period of time under certain conditions in the credit agreement.

See accompanying notes to these consolidated financial statements.

Table of Contents

THL Credit, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2013

(in thousands, except per share data)

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, as amended, 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 7 shares of common stock at an aggregate purchase price of \$101 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, as determined by the Company's board of directors, and on the same day issued 4,140 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 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 6,308 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 15,308 shares and received \$190,684 of net proceeds, which includes an underwriting discount and offering expenses.

On May 26, 2010, the underwriters exercised their over-allotment option under the underwriting agreement and elected to purchase an additional 337 shares of common stock at \$13.00 per share resulting in additional net proceeds of \$3,892, which includes an underwriting discount and offering expenses.

On September 25, 2012, the Company closed a public equity offering selling 6,095 shares of its common stock through a group of underwriters at a price of \$14.09 per share, less an underwriting discount and offering expenses, and received \$81,657 in net proceeds.

On June 24, 2013, the Company closed a public equity offering selling 7,590 shares of its common stock through a group of underwriters at a price of \$14.62 per share, less an underwriting discount and offering expenses, and received \$106,178 in net proceeds.

The Company has established wholly owned subsidiaries, THL Credit AIM Media Holdings Inc., THL Credit Holdings, Inc. and THL Credit YP Holdings Inc, which are structured as Delaware entities, or tax blockers, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). Tax blockers are not consolidated for income tax purposes and may incur income tax expense as a result of their 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.

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. On January 16, 2013, the Company withdrew its application with the Investment Division of the U.S. Small Business Administration, or SBA, to license a small business investment company, or SBIC. Both the

Edgar Filing: THL Credit, Inc. - Form 10-Q

SBIC LP and SBIC GP remain consolidated wholly owned subsidiaries of the Company.

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 statement of financial statements for the 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, 2013. 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 September 30, 2013 and December 31, 2012.

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 facilities.

Deferred Offering Costs

Deferred offering costs consist of fees and expenses incurred in connection with the 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. These costs are capitalized when incurred and recognized as a reduction of offering proceeds when the offering becomes effective.

Escrow Receivable

Escrow receivable represents the Company's claims to amounts set aside for indemnification claims or purchase price adjustments from the sale of certain investments. Escrow receivable is presented at net realizable value on the Consolidated Statements of Assets and Liabilities. There is a risk that some or all of the escrow amounts might not be ultimately collected by the Company.

Interest Rate Derivative

The Company recognizes derivatives as either interest rate derivative assets or liabilities at fair value on its Consolidated Statements of Assets and Liabilities with valuation changes and interest rate payments recorded as net change in unrealized appreciation (depreciation) on interest rate derivative and interest rate derivative periodic interest payments, net, respectively, on the Consolidated Statements of Operations. See also the disclosure in Note 7, Interest Rate Derivative.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash, accounts payable and accrued expenses, approximate fair value due to their short-term nature. The carrying amounts and fair values of the Company's long-term obligations are disclosed in Note 6, Credit Facility.

Table of Contents

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 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. 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:

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;

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 and the respective independent valuation firms.

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 flows, 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 Advisor and 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, which valuation is then approved by the board of directors. 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 Company values its interest rate derivative agreement using an income approach that analyzes the discounted cash flows associated with the interest rate derivative agreement. Significant inputs to the discounted cash flows methodology include the forward interest rate yield curves in effect as of the end of the measurement period and an evaluation of the counterparty's credit risk.

The Company values its residual interest investments in collateralized loan obligations using an income approach that analyzes the discounted cash flows of our residual interest. The discounted cash flows model utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, the Company uses Intex cash flow models, or an

Edgar Filing: THL Credit, Inc. - Form 10-Q

appropriate substitute to form the basis for the valuation of the Company's residual interest. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rates and prepayment rates in order to arrive at estimated cash flows. The assumptions are based on available market data and projections provided by third parties as well as management estimates.

The Company values its investment in payment rights using an income approach that analyzes the discounted projected future cash flow streams assuming an appropriate discount rate, which will among other things consider other transactions in the market, the current credit environment, performance of the underlying portfolio company and the length of the remaining payment stream.

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

Table of Contents

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.

Investment Risk

The value of investments will generally fluctuate with, among other things, changes in prevailing interest rates, federal tax rates, counterparty risk, 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.

As of September 30, 2013, we had two loans on non-accrual with an amortized cost basis of \$20,954 and fair value of \$16,605. As of December 31, 2012, we had no loans on non-accrual.

Security Transactions, Payment-in-Kind, 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 on investments in the Consolidated Statements of Operations. The Company reports changes in fair value of the interest rate derivative that is

Edgar Filing: THL Credit, Inc. - Form 10-Q

measured at fair value as a component of net change in unrealized appreciation or depreciation on interest rate derivative in the Consolidated Statements of Operations.

Table of Contents

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.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when it is no longer probable 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.

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 following shows a rollforward of PIK income activity for the nine months ended September 30, 2013 and for the year ended December 31, 2012:

Accumulated PIK balance at December 31, 2011	\$ 3,488
PIK income capitalized/receivable	4,124
PIK received in cash from full repayments	(1,805)
Accumulated PIK balance at December 31, 2012	5,807
PIK income capitalized/receivable	2,588
PIK received in cash from full repayments	(2,255)
Accumulated PIK balance at September 30, 2013	\$ 6,140

Interest income from the Company's TRA and CLO residual interests is recorded based upon an estimation of an effective yield to expected maturity using anticipated cash flows. Amounts in excess of income recognized are recorded as a reduction to the cost basis of the investment. The Company monitors the anticipated cash flows from its TRA and CLO residual interests and will adjust its effective yield periodically as needed.

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 related to portfolio companies for the three and nine months ended September 30, 2013 and 2012, respectively.

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

Table of Contents

The following is a summary of the levels within the fair value hierarchy in which the Company invests as of September 30, 2013:

Description	Fair Value	Level 1	Level 2	Level 3
First lien secured debt	\$ 183,729	\$	\$	\$ 183,729
Subordinated debt	170,359			170,359
Second lien debt	154,395			154,395
CLO residual interests	33,424			33,424
Investment in payment rights	14,381			14,381
Investments in funds	8,895			8,895
Equity investments	6,513			6,513
Total investments	\$ 571,696	\$	\$	\$ 571,696
Interest rate derivative	(314)		(314)	
Total liability at fair value	\$ (314)	\$	\$ (314)	\$

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

Description	Fair Value	Level 1	Level 2	Level 3
Subordinated debt	\$ 183,319	\$	\$	\$ 183,319
First lien secured debt	102,256			102,256
Second lien debt	70,035			70,035
Investment in payment rights	12,262			12,262
Investments in funds	10,259			10,259
CLO residual interests	9,400			9,400
Equity investments	6,818			6,818
Total investments	\$ 394,349	\$	\$	\$ 394,349
Interest rate derivative	(1,053)		(1,053)	
Total liability at fair value	\$ (1,053)	\$	\$ (1,053)	\$

The following is a summary of the industry classification in which the Company invests as of September 30, 2013:

Industry	Cost	Fair Value	% of Net Assets
Financial services	\$ 96,525	\$ 97,494	21.49%
IT Services	76,956	77,414	17.06%
Industrials	58,714	58,673	12.93%
Healthcare	49,354	50,729	11.18%
Business services	51,230	50,258	11.08%
Manufacturing	49,274	49,115	10.82%
Food & beverage	44,949	44,452	9.80%
Energy / Utilities	33,223	33,099	7.29%
Media, entertainment and leisure	28,821	31,018	6.84%
Consumer Products	30,491	30,949	6.82%
Retail & grocery	26,715	23,340	5.14%

Edgar Filing: THL Credit, Inc. - Form 10-Q

Restaurants	20,762	20,805	4.58%
Aerospace & defense	4,164	4,350	0.96%
Total Investments	\$ 571,178	\$ 571,696	125.99%

Table of Contents

The following is a summary of the geographical concentration of our investment portfolio as of September 30, 2013:

Region	Cost	Fair Value	% of Net Assets
Northeast	\$ 133,394	\$ 135,274	29.81%
West	126,567	127,861	28.18%
Midwest	103,215	103,458	22.80%
Southwest	98,611	97,006	21.38%
Southeast	82,290	84,225	18.56%
International	13,450	13,635	3.00%
Northwest	13,651	10,237	2.26%
Total Investments	\$ 571,178	\$ 571,696	125.99%

The following is a summary of the industry classification in which the Company invests as of December 31, 2012⁽¹⁾:

Industry	Cost	Fair Value	% of Net Assets
Healthcare	\$ 55,080	\$ 56,558	16.27%
Consumer Products	49,957	50,010	14.39%
Food & beverage	44,124	43,559	12.54%
Industrials	43,142	43,089	12.40%
Manufacturing	38,982	38,145	10.98%
IT services	34,621	34,790	10.01%
Financial services	31,221	31,921	9.19%
Business services	32,464	31,462	9.05%
Retail & grocery	26,455	26,967	7.76%
Media, entertainment and leisure	13,742	15,661	4.51%
Energy / Utilities	9,752	9,752	2.81%
Restaurants	8,203	8,415	2.42%
Aerospace & defense	3,966	4,020	1.16%
	\$ 391,709	\$ 394,349	113.49%

(1) The Company has changed the industry classification of certain investments to conform to new industry classifications adopted as of September 30, 2013.

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

Region	Cost	Fair Value	% of Net Assets
Southeast	\$ 101,401	\$ 104,146	29.98%
West	87,804	88,635	25.51%
Southwest	73,786	72,432	20.84%
Midwest	62,867	63,033	18.14%
Northeast	38,659	38,607	11.11%
Northwest	13,526	13,830	3.98%
International	13,666	13,666	3.93%

Edgar Filing: THL Credit, Inc. - Form 10-Q

Total Investments	\$ 391,709	\$ 394,349	113.49%
-------------------	------------	------------	---------

Table of Contents

The following table rolls forward the changes in fair value during the nine months ended September 30, 2013 for investments classified within Level 3:

	First lien debt	Second lien debt	Subordinated debt	Investments in Funds	Equity investments	Investment in payment rights	CLO residual interests	Totals
Beginning balance, January 1 2013	\$ 102,256	\$ 70,035	\$ 183,319	\$ 10,259	\$ 6,819	\$ 12,261	\$ 9,400	\$ 394,349
Purchases	121,468	100,397	49,645	366	169		25,114	297,159
Sales and repayments	(41,021)	(18,537)	(61,589)	(1,270)			(1,208)	(123,625)
Unrealized appreciation (depreciation) ⁽¹⁾	(39)	1,323	(4,549)	(460)	(475)	2,120	(43)	(2,123)
Net amortization of premiums, discounts and fees	966	857	1,362				161	3,346
PIK	99	320	2,171					2,590
Ending balance, September 30, 2013	\$ 183,729	\$ 154,395	\$ 170,359	\$ 8,895	\$ 6,513	\$ 14,381	\$ 33,424	\$ 571,696
Net change in unrealized appreciation from investments still held as of the reporting date ⁽¹⁾	\$ 242	\$ 1,865	\$ (930)	\$ (99)	\$ 2,638	\$ (1,014)	\$ (43)	\$ 2,659

(1) All unrealized appreciation (depreciation) in the table above is reflected in the accompanying Consolidated Statements of Operations.

Table of Contents

The following table rolls forward the changes in fair value during the nine months ended September 30, 2012 for investments classified within Level 3:

	First lien debt	Second lien debt	Subordinated debt	Investments in Funds	Equity investments	Investment in payment rights	Totals
Beginning balance, January 1, 2012	\$ 89,488	\$ 60,125	\$ 101,842	\$ 12,011	\$ 3,527	\$	\$ 266,993
Purchases	53,957	19,571	85,310	4	763	12,500	172,105
Sales and repayments	(22,572)	(25,324)	(21,826)	(3,647)			(73,369)
Unrealized appreciation (depreciation) ⁽¹⁾	506	(1,122)	(2,062)	(1)	553		(2,126)
Net amortization of premiums, discounts and fees	436	594	979				2,009
PIK	122	475	2,331				2,928
Ending balance, September 30, 2012	\$ 121,937	\$ 54,319	\$ 166,574	\$ 8,367	\$ 4,843	\$ 12,500	\$ 368,540
Net change in unrealized appreciation from investments still held as of the reporting date ⁽¹⁾	\$ 506	\$ (373)	\$ (1,062)	\$ (1)	\$ 553	\$	\$ (377)

(1) All unrealized appreciation (depreciation) in the table above is reflected in the accompanying Consolidated Statements of Operations. The following provides quantitative information about Level 3 fair value measurements as of September 30, 2013:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) ⁽¹⁾
First lien secured debt	\$ 183,729	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	12% - 13% (12%)
Second lien debt	154,395	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	12% - 14% (13%)
Subordinated debt	170,359	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	15% - 17% (16%)
Investments in funds	8,895	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	13%
Equity investments	6,513	Net asset value, as a practical expedient Market comparable companies (market approach)	Net asset value EBITDA multiple	N/A 5.7% - 6.5% (6.1%)
Investment in payment rights ⁽²⁾	14,381	Discounted cash flows (income approach)	Weighted average cost of capital (WACC) Federal tax rates	17.2% 35% - 40% (38%)
CLO residual interests	33,424	Discounted cash flows (income approach)	Weighted average cost of capital (WACC) Default rate Prepayment rate	14% 2% 20%
Total investments	\$ 571,696			

Table of Contents

(1) Ranges were determined using a weighted average based upon the fair value of the investments in each investment category.

(2) Investment in a tax receivable agreement, or TRA, payment rights

The following provides quantitative information about Level 3 fair value measurements as of December 31, 2012:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) ⁽¹⁾
First lien secured debt	\$ 102,256	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	12% - 13% (12%)
Second lien debt	70,035	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14% - 16% (15%)
Subordinated debt	183,319	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	15% - 17% (16%)
Investments in funds	10,259	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14% - 18% (16%)
		Net asset value, as a practical expedient	Net asset value	N/A
Equity investments	6,818	Market comparable companies (market approach)	EBITDA multiple	5.0 - 5.7 (5.3)
Investment in payment rights ⁽²⁾	12,262	Discounted cash flows (income approach)	Weighted average cost of capital (WACC) and federal tax rates	14% - 18% (16%)
CLO residual interest	9,400	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	15% - 16% (16%)
Total investments	\$ 394,349			

(1) Ranges were determined using a weighted average based upon the fair value of the investments in each investment category.

(2) Investment in a tax receivable agreement, or TRA, payment rights

The primary significant unobservable input used in the fair value measurement of the Company's debt securities (first lien secured debt, second lien debt and subordinated debt), including income-producing investments in funds, payment rights and CLO residual interests 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, including federal tax rates, in its analysis. In the case of CLO residual interests, the Company considers prepayment, re-investment and loss assumptions based upon historical and projected performance as well as comparable yields for other similar CLOs. In the case of the TRA, the Company considers the risks associated with changes in tax rates, the performance of the portfolio company and the expected term of the investment. 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.

Table of Contents

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 Tax Receivable Agreement Payment Rights

In June 2012, the Company invested in a TRA that entitles it to certain payment rights, or TRA Payment Rights, from Duff & Phelps Corporation, or Duff & Phelps. The TRA transfers the economic value of certain tax deductions, or tax benefits, taken by Duff & Phelps to the Company and entitles the Company to a stream of payments to be received. The TRA payment right is, in effect, a subordinated claim on the issuing company which can be valued based on the credit risk of the issuer, which includes projected future earnings, the liquidity of the underlying payment right, risk of tax law changes, the effective tax rate and any other factors which might impact the value of the payment right.

Through the TRA, the Company is entitled to receive an annual tax benefit payment based upon 85% of the savings from certain deductions along with interest. The payments that the Company is entitled to receive result from cash savings, if any, in U.S. federal, state or local income tax that Duff & Phelps realizes (i) from the tax savings derived from the goodwill and other intangibles created in connection with the Duff & Phelps initial public offering and (ii) from other income tax deductions. These tax benefit payments will continue until the relevant deductions are fully utilized, which is projected to be 17 years. Pursuant to the TRA, the Company maintains the right to enforce Duff & Phelps payment obligations as a transferee of the TRA contract. If Duff & Phelps chooses to pre-pay and terminate the TRA, the Company will be entitled to the present value of the expected future TRA payments. If Duff & Phelps breaches any material obligation then all obligations are accelerated and calculated as if an early termination occurred. Failure to make a payment is a breach of a material obligation if the failure occurs for more than three months.

The projected annual tax benefit payment will be accrued on a quarterly basis and paid annually. The payment will be allocated between a reduction in the cost basis of the investment and interest income based upon an amortization schedule. Based upon the characteristics of the investment, the Company has chosen to categorize the investment in the TRA payment rights as investment in payment rights in the fair value hierarchy.

Managed Funds

The Advisor and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. For example, the Advisor may serve as investment adviser to one or more registered closed-end funds. In addition, our officers may serve in similar capacities for one or more registered closed-end funds. The Advisor and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Advisor or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Advisor's allocation procedures.

The Company does not have the ability to redeem its investment in funds but distributions are expected to be received until the dissolution of the funds, which is anticipated to be between 2013 and 2021, as the underlying investments are expected to be liquidated.

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 had a two year investment period.

Greenway has \$150,000 of capital committed by affiliates of a single institutional investor. The Company's capital commitment to Greenway is \$15. As of September 30, 2013, and December 31, 2012, all of the capital had been called by Greenway. The Company's nominal investment in Greenway is reflected in the September 30, 2013 and December 31, 2012 Consolidated Schedule of Investments.

Edgar Filing: THL Credit, Inc. - Form 10-Q

The Company acts as the investment adviser to Greenway and is entitled to receive certain fees relating to its investment management services provided, including a base management fee, a performance fee and a portion of the closing fees on each investment transaction. As a result, Greenway is classified as an affiliate of the Company. For the three and nine months ended September 30, 2013, the Company earned \$393 and \$1,396, respectively, in fees related to Greenway, respectively, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. For the three and nine months ended September 30, 2012, the Company earned \$558 and \$1,782 in fees related to Greenway, respectively, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of September 30, 2013 and December 31, 2012, \$393 and \$402 of fees related to Greenway, respectively, were included in due from affiliate on the Consolidated Statements of Assets and Liabilities.

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.

Greenway II

On January 31, 2013, THL Credit Greenway Fund II, LLC, or Greenway II LLC, was formed as a Delaware limited liability company and is a portfolio company of the Company. Greenway II LLC is a closed-end investment fund which provides for no liquidity or redemption options and is not readily marketable. Greenway II operates under a limited liability agreement dated February 11, 2013, as amended, or the Greenway II Agreement. Greenway II LLC will continue in existence for eight years from the final closing date, subject to earlier termination pursuant to certain terms of the Greenway II LLC Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Greenway II LLC Agreement. Greenway II LLC has a two year investment period.

Greenway II LLC has \$186,505 of commitments primarily from institutional investors. The Company's capital commitment to Greenway II is \$4. The Company's nominal investment in Greenway II LLC is reflected in the September 30, 2013 Consolidated Schedule of Investments. Greenway II LLC is managed by the Company through the investment professionals that serve on its investment committee. As contemplated in the Greenway II LLC Agreement, the Company has established a related investment vehicle and entered into an investment management agreement with an account set up by an unaffiliated third party investor to invest alongside Greenway II LLC pursuant to similar economic terms. The account is also managed by the Company. References to Greenway II herein include Greenway II LLC and the accounts of related investment vehicles.

The Company acts as the investment adviser to Greenway II and is entitled to receive certain fees relating to its investment management services provided, including a base management fee, a performance fee and a portion of the closing fees on each investment transaction. As a result, Greenway II is classified as an affiliate of the Company. For the three and nine months ended September 30, 2013, the Company earned \$479 and \$720, respectively, in fees related to Greenway II, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of September 30, 2013, \$441 of fees related to Greenway II were included in due from affiliate on the Consolidated Statements of Assets and Liabilities. During the nine months ended September 30, 2013, the Company sold a portion of its investments in seven portfolio companies at fair value, for total proceeds of \$19,533, to Greenway II determined in accordance with the normal valuation policies with no significant realized gains on the transactions.

Greenway II 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 II and the Company. However, the Company has the discretion to invest in other securities.

Investment in Funds

LCP Capital Fund LLC

The Company has invested in a membership interest of 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 September 30, 2013 and December 31, 2012, the Company has contributed \$12,000 of capital in the form of membership interests in LCP, which is invested in an underlying SPE referred to as Series 2005-01. On May 1, 2012, the Company received \$3,646 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. The Company's exposure is limited to the amount of its remaining contributed capital. As of September 30, 2013, the value of the Company's interest in LCP was \$8,354, and is reflected in the Consolidated Schedules of Investments.

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 18 years; however, it is currently expected that Series 2005-01 will terminate on February 15, 2015, 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

Edgar Filing: THL Credit, Inc. - Form 10-Q

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.

Table of Contents

CLO Residual Interests

The Company invested \$33,500 in the residual interest in the subordinated notes, which can also be structured as income notes, of four CLOs. The Company owns between 10.4% and 23.1% of the subordinated notes of these CLOs. The subordinated notes are subordinated to the secured notes issued in connection with each CLO. The secured notes in each structure are collateralized by portfolios consisting primarily of broadly syndicated senior secured bank loans. The first investment was in the income notes of a \$625,900 CLO of Octagon Investment Partners XIV, Ltd. The income notes are part of a class of subordinated notes, which are paid equal with other subordinated notes within this class. The subordinated notes are subordinated to the claims of \$569,250 in secured notes issued by the structure. The second investment was in the income notes of a \$724,534 CLO of Sheridan Square CLO Ltd. The income notes are part of a class of subordinated notes, which are paid equal with other subordinated notes within this class. The subordinated notes are subordinated to the claims of \$658,700 in secured notes issued by the structure. The third investment was in the subordinated notes of the \$517,000 CLO of Adirondack Park CLO Ltd. There is only one class of subordinated notes that are subordinated to the claims of \$463,500 in secured notes issued by the structure. The fourth investment was in the subordinated notes of a \$516,400 CLO of Dryden 30 Senior Loan Fund. The subordinated notes are subordinated to the claims of \$473,150 in secured notes issued by the structure.

In each case, the subordinated notes do not have a stated rate of interest, but are entitled to receive distributions on quarterly payment dates subject to the priority of payments to secured note holders in the structures if and to the extent funds are available for such purpose. The payments on the subordinated notes are subordinated not only to the interest and principal claims of all secured notes issued, but to certain administrative expenses, taxes, and the base and subordinated fees paid to the collateral manager. Payments to the subordinated notes may vary significantly quarter to quarter for a variety of reasons and may be subject to 100% loss. Investments in subordinated notes, due to the structure of the CLO, can be significantly impacted by change in the market value of the assets, the distributions on the assets, defaults and recoveries on the assets, capital gains and losses on the assets along with prices, interest rates and other risks associated with the assets.

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, Including Excise Tax

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 a 4% excise tax on undistributed earnings, we are required to distribute each calendar year the sum of (i) 98% of our ordinary income for such calendar year (ii) 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year (iii) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax. 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. 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. See also the disclosure in Note 9, Dividends, for a summary of the dividends paid. For the three and nine months ended September 30, 2013 and 2012, the Company did not incur any excise tax expense.

Certain consolidated subsidiaries of the Company are subject to U.S. federal and state income taxes. These taxable entities are not consolidated for income tax purposes and may generate income tax liabilities or assets from permanent and temporary differences in the recognition of items for financial reporting and income tax purposes at the subsidiaries.

For the three months ended September 30, 2013, the Company recognized a current income tax benefit of (\$1,217), which is shown as income tax (benefit) provision of (\$120) and income tax (benefit) provision, realized gain of (\$1,097) in the Consolidated Statements of Operations. For the nine months ended September 30, 2013, the Company recognized current income tax provision of \$376, which is shown as income tax (benefit) provision in the Consolidated Statements of Operations. These income taxes relate primarily related to the proceeds

Table of Contents

received in June 2013 from its equity investment in YP Equity Investors, LLC into one of the Company's wholly owned tax blocker corporations. The expense reflects the tax impact of a revision to previously recognized estimated realized gains and dividend income as a result of adjusted tax estimates provided by YP Equity Investors, LLC during the quarter and may be subject to further change once tax information is finalized for the year. The Company did not recognize current tax expense for the three or nine months ended September 30, 2012. As of September 30, 2013, \$359 of income tax receivable was included in prepaid expenses and other assets and \$109 was included as income taxes payable on the Consolidated Statements of Assets and Liabilities relating to dividend income and other projected earnings of tax blocker corporations. As of December 31, 2012, there were no income taxes receivable or payable.

For the three and nine months ended September 30, 2013, the Company recognized a provision for tax on unrealized gain on investments of \$1,050 and \$981 for consolidated subsidiaries in the Consolidated Statements of Operations. The Company did not recognize a benefit or provision for tax on unrealized gain on investments during the three and nine months ended September 30, 2012. As of September 30, 2013 and December 31, 2012, \$1,436 and \$454, respectively, were included in deferred tax liability on the Consolidated Statements of Assets and Liabilities relating to deferred tax on unrealized gain on investments held in tax blocker corporations.

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 or obligations 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 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

Investment Management Agreement

On February 27, 2013, 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. 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.

For the three and nine months ended September 30, 2013, the Company incurred base management fees payable to the Advisor of \$2,081, and \$5,278, respectively. For the three and nine months ended September 30, 2012, the Company incurred base management fees payable to the Advisor of \$1,282, and \$3,429, respectively. As of September 30, 2013 and December 31, 2012, \$2,081 and \$1,514, respectively, was payable to the Advisor.

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

Edgar Filing: THL Credit, Inc. - Form 10-Q

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, for the immediately preceding calendar quarter, 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

Table of Contents

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 fee 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 and nine months ended September 30, 2013, the Company incurred \$2,731 and \$7,855, respectively, of incentive fees related to ordinary income. For the three and nine months September 30, 2012, the Company incurred \$2,035 and \$5,184, respectively, of incentive fees related to ordinary income.

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 of September 30, 2013 and December 31, 2012 was \$0 and \$35, respectively.

As of September 30, 2013 and December 31, 2012, \$2,710 and \$2,331, respectively, of such incentive fees are currently payable to the Advisor. For the three months ended September 30, 2013, \$87 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.

GAAP requires that the incentive fee accrual considers the cumulative aggregate unrealized capital appreciation or depreciation of investments or other financial instruments, such as an interest rate derivative, in the calculation, as an incentive fee would be payable if such unrealized capital appreciation or depreciation were realized, even though such unrealized capital appreciation or depreciation 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 incentive fee that would be payable for a given period as if all unrealized gains or losses were realized, the Company has accrued incentive fees of \$40 and \$317 as of September 30, 2013 and December 31, 2012, respectively, based upon unrealized appreciation or depreciation of investments and the interest rate derivative for that period (in accordance with the terms of the investment management agreement). There can be no assurance that such unrealized appreciation or depreciation 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 incentive fees in subsequent periods.

Administration Agreement

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

Table of Contents

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 and nine months ended September 30, 2013, the Company incurred administrator expenses of \$800, and \$2,450, respectively. For the three and nine months ended September 30, 2012, the Company incurred administrator expenses of \$726, and \$2,227, respectively. As of September 30, 2013 and December 31, 2012, \$50 and \$304, respectively, was payable to the Advisor.

The Company and the Advisor have entered into a license agreement with THL Partners, L.P., or 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 and From Affiliates

The Advisor paid certain other general and administrative expenses on behalf of the Company. As of September 30, 2013 and December 31, 2012, \$64 and \$0, respectively, of expenses were included in due to affiliate on the Consolidated Statements of Assets and Liabilities.

The Company acts as the investment adviser to Greenway and Greenway II and is entitled to receive certain fees. As a result, Greenway and Greenway II are classified as affiliates of the Company. As of September 30, 2013 and December 31, 2012, \$893 and \$411 of total fees related to Greenway and Greenway II, respectively, were included in due from affiliate on the Consolidated Statements of Assets and Liabilities.

4. Realized Gains and Losses on Investments

The Company recognized realized (losses) gains on its portfolio investments of (\$390) and \$2,393 during the three and nine months ended September 30, 2013, respectively, related primarily to the proceeds received from YP Equity Investors, LLC in June 2013. Realized losses of (\$390) for the three months ended September 30, 2013, reflecting a revision to previously recognized estimated realized gains and dividend income as a result of adjusted tax estimates from YP Equity Investors, LLC. The Company did not recognize any realized gains and losses for the three and nine months ended September 30, 2012.

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:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Numerator net increase in net assets resulting from operations:	\$ 7,757	\$ 6,169	\$ 31,987	\$ 17,842
Denominator basic and diluted weighted average common shares:	33,905	20,618	29,068	20,354
Basic and diluted net increase in net assets per common share resulting from operations:	\$ 0.23	\$ 0.30	\$ 1.10	\$ 0.88

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

On March 15, 2013, the Company entered into an amendment, or the Revolver Amendment, to our existing revolving credit agreement, or Revolving Facility, and entered into an amendment, or the Term Loan Amendment, to our term loan agreement credit facility, or Term Loan Facility, and together with the Revolving Facility, the Facilities, with ING Capital LLC.

The Revolver Loan Amendment revised the Revolving Facility dated May 10, 2012 to among other things, increase the amount available for borrowing under the Revolving Facility from \$140,000 to \$170,000 and extend the maturity date from May 2016 to May 2017 (with a one year term out period beginning in May 2016). The one year term out period is the one year anniversary between the revolver termination date, or the end of the availability period, and the maturity date. During this time, the Company is required to make mandatory prepayments on its loans from the proceeds we receive from the sale of assets, extraordinary receipts, returns of capital or the issuances of equity or debt. The Revolver Amendment also changes the interest rate of the Revolving Facility to (i) when the facility is more than or equal to 35% drawn and the step-down condition is satisfied, LIBOR plus 2.75%, (ii) when the facility is more than or equal to 35% drawn and the step-down condition is not satisfied, LIBOR plus 3.00%, (iii) when the facility is less than 35% drawn and the step-down condition is satisfied, LIBOR plus 2.75%, and (iv) when the facility is less than 35% drawn and the step-down condition is not satisfied, LIBOR plus 3.25%. The non-use fee is 1.00% annually if the Company uses 35% or less of the Revolving Facility and 0.50% annually if the Company uses more than 35% of the Revolving Facility. The Company elects the LIBOR rate on the loans outstanding on our Revolving Facility, which can have a maturity date that is one, two, three or six months. The LIBOR rate on the borrowings outstanding on its Revolving Facility currently has a one month maturity.

The Term Loan Amendment revised the Term Loan Facility dated May 10, 2012 to increase the \$50,000 senior secured term loan, or Term Loan, to \$70,000 and extend the maturity date from May 2017 to May 2018. The Term Loan bears interest at LIBOR plus 4.00% (with no LIBOR Floor) and has substantially similar terms to our existing Revolving Facility (as amended by the Amendment). The Company elects the LIBOR rate on our Term Loan, which can have a maturity date that is one, two, three or six months. The LIBOR rate on its Term Loan currently has a one month maturity.

Each of the Facilities includes an accordion feature permitting the Company to expand the Facilities, if certain conditions are satisfied; provided, however, that the aggregate amount of the Facilities, collectively, is capped at \$400,000.

The Facilities generally require payment of interest on a quarterly basis for ABR loans, and at the end of the applicable interest period for Eurocurrency loans bearing interest at LIBOR, the interest rate benchmark used to determine the variable rates paid on the Facilities. LIBOR maturities can range between one and six months at the election of the Company. All outstanding principal is due upon each maturity date. The Facilities also require a mandatory prepayment of interest and principal upon certain customary triggering events (including, without limitation, the disposition of assets or the issuance of certain securities).

Borrowings under the Facilities are subject to, among other things, a minimum borrowing/collateral base. The Facilities have 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 not represented by senior securities) to the aggregate amount of senior securities representing indebtedness, of the Company and its subsidiaries, of not less than 2.25:1.0, (iii) minimum liquidity,

Edgar Filing: THL Credit, Inc. - Form 10-Q

(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 Facilities (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.

Table of Contents

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

For the nine months ended September 30, 2013, the Company borrowed \$311,600 and repaid \$235,700 under the Facilities. For the nine months ended September 30, 2012, the Company borrowed \$184,900 and repaid \$139,900 under the Facilities.

As of September 30, 2013 and December 31, 2012, there were \$125,900 and \$50,000 of borrowings outstanding under the Facilities at a weighted average interest rate of 4.41% and 4.21%, respectively. As of September 30, 2013 and December 31, 2012, the carrying amount of the Company's outstanding Facilities approximated fair value. The fair values of the Company's Facilities are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of the Company's Facilities are estimated based upon market interest rates and entities with similar credit risk. As of September 30, 2013 and December 31, 2012, the Facilities would be deemed to be level 3 of the fair value hierarchy.

Interest expense and related fees of \$1,403 and \$3,898 were incurred in connection with the Facilities during the three and nine months ended September 30, 2013, respectively. Interest expense and related fees of \$1,026 and \$2,239 were incurred in connection with the Facilities during the three and nine months ended September 30, 2012, respectively.

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. The asset coverage as of September 30, 2013 is in excess of 200%.

See also the disclosure in Note 11, Subsequent Events, for a recent amendment to the Facilities.

7. Interest Rate Derivative

On May 10, 2012, the Company entered into a five-year interest rate swap agreement, or swap agreement, with ING Capital Markets, LLC in connection with its Term Loan Facility. Under the swap agreement, with a notional value of \$50,000, the Company pays a fixed rate of 1.1425% and receives a floating rate based upon the current three-month LIBOR rate. The Company entered into the swap agreement to manage interest rate risk and not for speculative purposes.

The Company records the change in valuation of the swap agreement in unrealized appreciation (depreciation) as of each measurement period. When the quarterly interest rate swap amounts are paid or received under the swap agreement, the amounts are recorded as a realized gain (loss) through interest rate derivative periodic interest payments, net on the Consolidated Statement of Operations.

The Company recognized a realized loss for the three and nine months ended September 30, 2013 of \$113 and \$321, respectively, which is reflected as interest rate derivative periodic interest payments, net on the Consolidated Statements of Operations. The Company recognized a realized loss for the three and nine months ended September 30, 2012 of \$86, which is reflected as interest rate derivative periodic interest payments, net on the Consolidated Statements of Operations.

For the three and nine months ended September 30, 2013, the Company recognized (\$248) and \$739, respectively, of net change in unrealized depreciation from the swap agreement, which is listed under net change in unrealized depreciation on interest rate derivative in the Consolidated Statements of Operations. For the three and nine months ended September 30, 2012, the Company recognized (\$534) and (\$1,109), respectively, of net change in unrealized depreciation from the swap agreement. As of September 30, 2013 and December 31, 2012, the Company's fair value of its swap agreement is (\$314) and (\$1,053), respectively, which is listed as an interest rate derivative liability on the Consolidated Statements of Assets and Liabilities.

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.

Edgar Filing: THL Credit, Inc. - Form 10-Q

Unfunded commitments to provide funds to portfolio companies are not reflected on the Company's Consolidated Statements of Assets and Liabilities. The Company's unfunded commitments may be significant from time to time. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that the Company holds. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company intends to use cash flow from normal and early principal repayments and proceeds from borrowings and offerings to fund these commitments.

Table of Contents

As of September 30, 2013 and December 31, 2012, the Company has the following unfunded commitments to portfolio companies (in millions):

	September 30, 2013	As of December 31, 2012
Unfunded revolving commitments	\$ 10,678	\$ 10,910
Unfunded delayed draw and capital expenditure facilities	8,000	12,000
Unfunded commitments to investments in funds	4,680	3,980
 Total unfunded commitments	 \$ 23,358	 \$ 26,890

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. To avoid a 4% excise tax on undistributed earnings, the Company is required to distribute each calendar year the sum of (i) 98% of its ordinary income for such calendar year (ii) 98.2% of its net capital gains for the one-year period ending October 31 of that calendar year (iii) any income recognized, but not distributed, in preceding years and on which the Company paid no federal income tax. 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
July 26, 2012	September 14, 2012	September 28, 2012	\$ 0.32
November 2, 2012	December 14, 2012	December 28, 2012	\$ 0.33
December 20, 2012	December 31, 2012	January 28, 2013	\$ 0.05
February 27, 2013	March 15, 2013	March 29, 2013	\$ 0.33
May 2, 2013	June 14, 2013	June 28, 2013	\$ 0.34
August 2, 2013	September 16, 2013	September 30, 2013	\$ 0.34
August 2, 2013	September 16, 2013	September 30, 2013	\$ 0.08
October 30, 2013	December 16, 2013	December 31, 2013	\$ 0.34

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.

Edgar Filing: THL Credit, Inc. - Form 10-Q

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 and nine months ended September 30, 2012, dividends reinvested pursuant to our dividend reinvestment plan totaled \$0 and \$26, respectively. There were no dividends reinvested for the three or nine months ended September 30, 2013 under the dividend reinvestment plan.

Table of Contents

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 the Company had determined the tax attributes of its 2013 distributions as of September 30, 2013, 93.7% would be from ordinary income, 6.3% would be from capital gains and 0% would be a return of capital. There can be no certainty to stockholders that this determination is representative of what the tax attributes of the Company's 2013 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.

10. Financial Highlights

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Per Share Data:				
Net asset value, beginning of period	\$ 13.58	\$ 13.17	\$ 13.20	\$ 13.24
Net investment income, after taxes ⁽¹⁾	0.34	0.41	1.11	1.04
Net realized (loss) gains on investments ⁽¹⁾	(0.01)		0.09	
Income tax provision, realized gain ⁽¹⁾	0.03		(0.01)	
Net change in unrealized appreciation on investments ^{(1) (2)}	(0.10)	(0.07)	(0.06)	(0.10)
Provision for taxes on unrealized gain on investments ⁽¹⁾	(0.03)		(0.03)	
Net change in unrealized (depreciation) appreciation of interest rate derivative ⁽¹⁾	(0.01)	(0.03)	0.03	(0.06)
Net increase in net assets resulting from operations ⁽³⁾	0.22	0.31	1.13	0.88
Accretive effect of share issuance		0.05	0.14	0.05
Distributions to stockholders	(0.42)	(0.32)	(1.09)	(0.96)
Net asset value, end of period	\$ 13.38	\$ 13.21	\$ 13.38	\$ 13.21
Per share market value at end of period	\$ 15.61	\$ 14.03	\$ 15.61	\$ 14.03
Total return ⁽⁴⁾⁽⁵⁾	2.76%	4.16%	5.54%	20.57%
Shares outstanding at end of period	33,905	26,315	33,905	26,315
Ratio/Supplemental Data:				
Net assets at end of period	\$ 453,778	\$ 347,750	\$ 453,778	\$ 347,750
Ratio of operating expenses to average net assets ⁽⁶⁾	6.57%	8.49%	4.57%	7.76%
Ratio of net investment income to average net assets ⁽⁶⁾	9.78%	12.49%	10.87%	10.54%
Portfolio turnover ⁽⁵⁾	5.83%	9.33%	25.96%	23.50%

(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) Includes the cumulative effect of rounding.

(4) 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.

(5) Not annualized.

Table of Contents

- (6) Annualized, except for dividend income, income tax provision on the YP Equity Investors, LLC dividend and the net impact on incentive fees.

11. Subsequent Events

From October 1, 2013 through November 4, 2013, the Company made new investments of \$25,833 of in the financial services, food and beverage and media, entertainment and leisure industries. Of the \$25,833 of new investments, 97.5% were first lien senior secured debt and 2.5% was an investment in funds. All of the new debt investments were floating rate and had a weighted average yield based upon cost at the time of investment of 10.8%.

From October 1, 2013 through November 4, 2013, the Company received proceeds of \$21,647 from prepayments, sales or refinancings of investments in energy/utilities, financial services, food and beverage and media, entertainment and leisure industries, including prepayment premiums of \$175. Of the aggregate principal amount of investments repaid, sold or refinanced, 4.1% were in first lien senior secured debt, 27.2% were second lien debt, 66.0% were subordinated debt and 2.8% were CLO residual interests. Of the debt investments prepaid, based upon par value, 4.2% were floating rate and 95.8% were fixed rate investments and 95.8% had a PIK election and 4.2% did not have a PIK election.

On October 9, 2013, the Company closed on an additional \$85,000 of commitments to its Facilities, which increased the commitments on the Revolving Facility from \$170,000 to \$232,000 and commitments on the Term Loan Facility from \$70,000 to \$93,000.

On October 30, 2013, the Company's board of directors declared a dividend of \$0.34 per share payable on December 31, 2013 to stockholders of record at the close of business on December 16, 2013.

Table of Contents

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Item 1A Risk Factors of Part II of this quarterly report on Form 10-Q, Item 1A Risk Factors of our annual report on Form 10-K, and Cautionary Statement Regarding Forward-Looking Statements of this Item 2. You should not place undue reliance on these forward-looking statements.

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, continue, 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 THL Credit Advisors LLC, or the Advisor;

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

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., or the Company, 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 a direct lender to middle-market companies and invest in subordinated, or mezzanine, debt and second lien secured debt, which may include an associated equity component such as warrants, preferred stock or other similar securities. We may also selectively invest in first lien secured loans that generally have structures with higher interest rates, which include unitranche investments, or loan structures that combine characteristics of traditional first lien senior secured as well as second lien and subordinated loans. In certain instances we will also make direct equity investments, including equity investments into or through funds, and we may also selectively invest in more broadly syndicated first lien secured loans from time to time. We may also provide advisory services to managed funds.

Table of Contents

We are an externally managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940 Act, as amended, or 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 U.S. Securities and Exchange Commission, or 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.

Since April 2010, after we completed our initial public offering and commenced principal operations, we have been responsible for making, on behalf of ourselves and managed funds, \$985 million in commitments into 57 separate portfolio companies through a combination of both initial and follow-on investments.

We have elected to be treated for tax purposes as a regulated investment company, or 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 income taxes on any income we distribute to our stockholders.

Portfolio Composition and Investment Activity

Portfolio Composition

As of September 30, 2013, we have \$571.7 million of investments (at fair value), which represents a \$177.4 million, or 45.0% increase from the \$394.3 million (at fair value) as of December 31, 2012. We also increased our portfolio to forty-nine investments, including THL Credit Greenway Fund LLC, or Greenway, and THL Credit Greenway Fund II LLC, or Greenway II, as of September 30, 2013, from thirty-four portfolio investments, including Greenway, as of December 31, 2012.

At September 30, 2013, our average portfolio investment, exclusive of Greenway, Greenway II and portfolio investments where we only have an equity investment, at amortized cost and fair value was approximately \$13.6 million and \$13.5 million, respectively and our largest portfolio investment by both amortized cost and fair value was approximately \$25.6 million. At December 31, 2012, our average portfolio investment at both amortized cost and fair value was approximately \$11.9 million and our largest portfolio company investment by both amortized cost and fair value was approximately \$36.1 million.

At September 30, 2013, 53.9% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 46.1% bore interest at fixed rates. At December 31, 2012, 43.3% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 56.7% bore interest at fixed rates.

The weighted average yield of the debt and income-producing investments in our portfolio at their current cost was 12.1% at September 30, 2013 as compared to 13.9% at December 31, 2012. The weighted average yield on our debt securities at their current cost was 11.8% at September 30, 2013 as compared to 13.7% at December 31, 2012.

Table of Contents

The following table shows the weighted average yield by investment category at their current cost basis (in millions).

Description:	As of	
	September 30, 2013	December 31, 2012
First lien secured debt	11.3%	11.5%
Second lien debt	11.8%	13.3%
Subordinated debt	12.5%	15.0%
Investments in funds ⁽¹⁾	12.6%	16.3%
Investment in payment rights	17.2%	16.4%
CLO residual interests	14.6%	15.5%
Debt and income-producing investments	12.1%	13.9%
Debt investments	11.8%	13.7%

- (1) Includes only our investment in LCP Capital Fund LLC, which is the only investment in funds where we receive regular payments.
(2) 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.

Our portfolio companies, in which we have debt investments, currently have an average EBITDA of approximately \$30 million, based on the latest available financial information provided by the portfolio companies. Our weighted average attachment point in the capital structure of our portfolio companies is approximately 4.1 times EBITDA based on the latest available financial information.

As of September 30, 2013, 77% of our portfolio investments are in sponsored investments and 23% of our portfolio investments are in unsponsored investments. Our portfolio investments as of September 30, 2013 have used our capital for change of control transactions (38%), acquisitions/growth capital (13%), refinancings (11%), recapitalizations (21%) and other (17%).

The following table summarizes the amortized cost and fair value of investments as of September 30, 2013 (in millions).

Description	Amortized Cost	Percentage of Total	Fair Value (1)	Percentage of Total
First lien debt	\$ 183.4	32.1%	\$ 183.7	32.1%
Subordinated debt	175.8	30.8%	170.4	29.8%
Second lien debt	153.6	26.9%	154.4	27.0%
CLO residual interest	33.5	5.9%	33.4	5.9%
Investment in payment rights	12.3	2.1%	14.4	2.5%
Investments in funds	8.6	1.5%	8.9	1.6%
Equity investments	4.0	0.7%	6.5	1.1%
Total investments	\$ 571.2	100.0%	\$ 571.7	100.0%

The following table summarizes the amortized cost and fair value of investments as of December 31, 2012 (in millions).

Description	Amortized Cost	Percentage of Total	Fair Value(1)	Percentage of Total
Subordinated debt	\$ 184.1	47.1%	\$ 183.3	46.4%
First lien secured debt	101.8	26.0%	102.2	26.0%
Second lien debt	70.6	18.0%	70.0	17.8%

Edgar Filing: THL Credit, Inc. - Form 10-Q

Investment in payment rights	12.3	3.1%	12.3	3.1%
Investments in funds	9.6	2.4%	10.3	2.6%
CLO residual interests	9.4	2.4%	9.4	2.4%
Equity investments	3.9	1.0%	6.8	1.7%
Total investments	\$ 391.7	100.0%	\$ 394.3	100.0%

(1) All investments are categorized as Level 3 in the fair value hierarchy.

Table of Contents

The following is a summary of the industry classification in which the Company invests as of September 30, 2013 (in millions).

Industry	Cost	Fair Value	% of Net Assets
Financial services	\$ 96.5	\$ 97.5	21.49%
IT services	77.0	77.4	17.06%
Industrials	58.7	58.7	12.93%
Healthcare	49.4	50.7	11.18%
Business services	51.2	50.3	11.08%
Manufacturing	49.3	49.1	10.82%
Food & beverage	44.9	44.5	9.80%
Energy / utilities	33.2	33.1	7.29%
Media, entertainment and leisure	28.8	31.0	6.84%
Consumer products	30.5	30.9	6.82%
Retail & grocery	26.7	23.3	5.14%
Restaurants	20.8	20.8	4.58%
Aerospace & defense	4.2	4.4	0.96%
Total Investments	\$ 571.2	\$ 571.7	125.99%

The following is a summary of the industry classification in which the Company invests as of December 31, 2012 (in millions)⁽¹⁾.

Industry	Cost	Fair Value	% of Net Assets
Healthcare	\$ 55.0	\$ 56.5	16.27%
Consumer products	50.0	50.0	14.39%
Food & beverage	44.1	43.5	12.54%
Industrials	43.1	43.1	12.40%
Manufacturing	39.0	38.1	10.98%
IT services	34.6	34.8	10.01%
Financial services	31.2	31.9	9.19%
Business services	32.5	31.5	9.05%
Retail & grocery	26.5	27.0	7.76%
Media, entertainment and leisure	13.7	15.7	4.51%
Energy / utilities	9.8	9.8	2.81%
Restaurants	8.2	8.4	2.42%
Aerospace & defense	4.0	4.0	1.16%
	\$ 391.7	\$ 394.3	113.49%

- (1) We have changed the industry classification of certain investments to conform to new industry classifications adopted as of September 30, 2013.

Table of Contents**Investment Activity**

The following is a summary of our investment activity, presented on a cost basis, for the three and nine months ended September 30, 2013 and 2012 (in millions).

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
New portfolio transactions	\$ 91.7	\$ 70.3	\$ 280.5	\$ 154.2
Existing portfolio investments				
Follow-on investments	4.6		15.2	14.9
Delayed draw and revolver investments	0.8		1.5	3.0
Total existing portfolio investments	5.4		16.7	17.9
Total portfolio investment activity	\$ 97.1	\$ 70.3	\$ 297.2	\$ 172.1
Number of new portfolio investments	5	5	11	13
Number of existing portfolio investments	4		9	4
First lien secured debt	\$ 39.4	\$ 50.9	\$ 121.2	\$ 54.0
Second lien debt	44.0		100.7	19.6
Subordinated debt	4.2	19.4	49.6	85.3
Investments in funds	0.2		0.4	
Investment in payment rights				12.5
Equity investments	0.2		0.2	0.7
CLO residual interests	9.1		25.1	
Total portfolio investments	\$ 97.1	\$ 70.3	\$ 297.2	\$ 172.1
Weighted average yield of new debt investments	11.6%	12.4%	11.7%	13.7%
Weighted average yield, including all new income-producing investments	11.9%	12.4%	11.9%	13.9%

Table of Contents

The following is a summary of the proceeds received from prepayments and sales of our investments (in millions).

Investment	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
20-20 Technologies Inc.	\$ 0.1	\$	\$ 0.3	\$
AIM Media Texas Operating, LLC	0.5		4.2	
Charming Charlie, Inc.				11.6
Chuy's Opco, Inc.		8.3		8.7
Connecture, Inc. ^(c)			1.0	
CRS Reprocessing, LLC		0.5	0.5	2.7
Cydcor LLC ^(a)	0.3		15.2	
Duff & Phelps Corporation				
Embarcadero Technologies, Inc. ^(c)	0.1		5.0	
Firebirds International, LLC			8.3	
Food Processing Holdings, LLC				12.6
Gold, Inc. ^(c)			19.8	
Gryphon Partners 3.5, L.P.	0.4		1.3	
Harrison Gypsum, LLC	0.3		0.9	
Hart InterCivic, Inc.			0.8	0.8
HEALTHCAREfirst, Inc.	0.3	14.0	0.6	14.0
Hickory Farms, Inc.				9.5
Holland Intermediate Acquisition Corp. ^(c)	4.9		7.1	
IMDS Corporation ^(e)	13.5		13.5	
Ingenio Acquisition, LLC ^(c)			1.5	
LCP Capital Fund LLC				3.6
Loadmaster Derrick & Equipment, Inc.			1.0	
MModal MQ Inc.		6.9		6.9
Octagon Income Note XIV, Ltd.	0.7		0.7	
Pinnacle Operating Corporation	10.3		10.3	
Purple Communications, Inc.		0.3		0.8
Sheridan Square CLO, Ltd	0.4		0.5	
Surgery Center Holdings, Inc. ^(b)			19.3	
T&D Solutions, LLC				0.1
Tri Starr Management Services, Inc. ^(c)			2.4	
Wingspan Portfolio Holdings, Inc. ^(c)			7.1	
YP Equity Investors, LLC ^(f)			3.4	
Total ^(d)	\$ 31.8	\$ 30.0	\$ 124.7	\$ 71.3

- (a) Proceeds include \$14.3 million received in connection with the prepayment of our initial first lien debt investment as part of a refinancing and subsequently closed on another \$14.3 million first lien debt investment.
- (b) Proceeds include \$19.3 million, including a prepayment premium, received in connection with the prepayment of our subordinated debt investment as part of a refinancing. We subsequently closed on a \$15.0 million second lien investment.
- (c) Proceeds received in connection with the sale of investments to Greenway II and co-investors.
- (d) For the three months ended September 30, 2013 and 2012, proceeds included \$0.3 and \$1.2 million, respectively, of prepayment premiums. For the nine months ended September 30, 2013 and 2012, proceeds included \$1.1 and \$1.5 million, respectively, of prepayment premiums.
- (e) Proceeds include \$1.5 million recorded as an escrow receivable.
- (f) Excludes dividend income and realized gains, net of tax received in connection with our equity investment in June 2013. Proceeds shown reflect amounts received in connection with the repayment of our debt investment.

Table of Contents

The frequency or volume of any prepayments may fluctuate significantly from period to period. The increase between the three and nine months ended September 30, 2013 and 2012 are primarily the result of the sale of certain investments to Greenway II and a co-investor and portfolio company refinancings.

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.

We had an increase in the number of unsponsored investment transactions closing in 2013, having closed 4 for the nine months ended September 30, 2013 compared to two for all of 2012.

Investment Risk

The value of our investments will generally fluctuate with, among other things, changes in prevailing interest rates, federal tax rates, counterparty risk, 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 Funds

The Advisor and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. For example, the Advisor may serve as investment adviser to one or more registered closed-end funds. In addition, our officers may serve in similar capacities for one or more registered closed-end funds. The Advisor and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Advisor or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Advisor's allocation procedures.

We do not have the ability to redeem our investment in funds but distributions are expected to be received until the dissolution of the funds, which is anticipated to be between 2013 and 2021, as the underlying investments are expected to be liquidated.

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 had a two year investment period. Greenway has \$150 million of capital committed by affiliates of a single institutional investor, and is managed by the Company. The Company's capital commitment to Greenway is \$0.02 million. As of September 30, 2013 and December 31, 2012, all of the capital had been called by Greenway. Our nominal investment in Greenway is reflected in the September 30, 2013 and December 31, 2012 Consolidated Schedule of Investments.

As manager of Greenway, the Company acts as the investment adviser to Greenway and is entitled to receive certain fees relating to investment management services, provided including a base management fee, a performance fee and a portion of the closing fees on each investment transaction. As a result, Greenway is classified as an affiliate of the Company. For the three months ended September 30, 2013 and 2012, the Company earned \$0.4 million and \$0.6 million in fees related to Greenway, respectively, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. For the nine months ended September 30, 2013 and 2012, the Company earned \$1.4 million and \$1.8 million in fees related to Greenway, respectively, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of September 30, 2013 and December 31, 2012, \$0.4 million and \$0.4 million of fees related to Greenway, respectively, were included in due from affiliate on the Consolidated Statements of Assets

and Liabilities.

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.

Table of Contents***Greenway II***

On January 31, 2013, THL Credit Greenway Fund II, LLC, or Greenway II LLC, was formed as a Delaware limited liability company and is a portfolio company of the Company. Greenway II LLC is a closed-end investment fund which provides for no liquidity or redemption options and is not readily marketable. Greenway II operates under a limited liability agreement dated February 11, 2013, as amended, or the Greenway II Agreement. Greenway II LLC will continue in existence for eight years from the final closing date, subject to earlier termination pursuant to certain terms of the Greenway II LLC Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Greenway II LLC Agreement. Greenway II LLC has a two year investment period.

Greenway II LLC has \$186.5 million of commitments primarily from institutional investors. The Company's capital commitment to Greenway II is \$0.004 million. Our nominal investment in Greenway II LLC is reflected in the September 30, 2013 Consolidated Schedule of Investments. Greenway II LLC is managed by the Company. As contemplated in the Greenway II LLC Agreement, we have established a related investment vehicle and entered into an investment management agreement with an account set up by an unaffiliated third party investor to invest alongside Greenway II LLC pursuant to similar economic terms. The account is also managed by the Company. References to Greenway II herein include Greenway II LLC and the accounts of related investment vehicles.

The Company acts as the investment adviser to Greenway II and is entitled to receive certain fees relating to investment management services provided, including a base management fee, a performance fee and a portion of the closing fees on each investment transaction. As a result, Greenway II is classified as an affiliate of the Company. For the three and nine months ended September 30, 2013, we earned \$0.5 million and \$0.7 million, respectively, in fees related to Greenway II, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of September 30, 2013, \$0.4 million of fees related to Greenway II were included in due from affiliate on the Consolidated Statements of Assets and Liabilities. During the nine months ended September 30, 2013, the Company sold a portion of its investments in seven portfolio companies at fair value, for total proceeds of \$19.5 million, to Greenway II determined in accordance with the normal valuation policies with no significant realized gains on the transactions.

Greenway II 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 II and the Company. However, the Company has the discretion to invest in other securities.

Investment in Funds***LCP Capital Fund LLC***

We have invested in a membership interest of 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 September 30, 2013 and December 31, 2012, 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. On May 1, 2012, we received \$3.6 million 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. Our exposure is limited to the amount of its remaining contributed capital. As of September 30, 2013 and December 31, 2012, the value of our interest in LCP was \$8.4 million, and is reflected in the Consolidated Schedules of Investments.

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 18 years; however, it is currently expected that Series 2005-01 will terminate on February 15, 2015, 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.

CLO Residual Interests

Edgar Filing: THL Credit, Inc. - Form 10-Q

We invested \$33.5 million in the residual interest in the subordinated notes, which can also be structured as income notes, of four CLOs. We own between 10.4% and 23.1% of the subordinated notes of these CLOs. The subordinated notes are subordinated to the secured notes issued in connection with each CLO. The secured notes in each structure are collateralized by portfolios consisting primarily of broadly syndicated senior secured bank loans. The first investment was in the income notes of a \$625.9 million CLO of

Table of Contents

Octagon Investment Partners XIV, Ltd. The income notes are part of a class of subordinated notes, which are paid equal with other subordinated notes within this class. The subordinated notes are subordinated to the claims of \$569.3 million in secured notes issued by the structure. The second investment was in the income notes of a \$724.5 million CLO of Sheridan Square CLO Ltd. The income notes are part of a class of subordinated notes, which are paid equal with other subordinated notes within this class. The subordinated notes are subordinated to the claims of \$658.7 million in secured notes issued by the structure. The third investment was in the subordinated notes of the \$517.0 million CLO of Adirondack Park CLO Ltd. There is only one class of subordinated notes that are subordinated to the claims of \$463.5 million in secured notes issued by the structure. The fourth investment was in the subordinated notes of a \$516.4 million CLO of Dryden 30 Senior Loan Fund. The subordinated notes are subordinated to the claims of \$473.2 million in secured notes issued by the structure.

In each case, the subordinated notes do not have a stated rate of interest, but are entitled to receive distributions on quarterly payment dates subject to the priority of payments to secured note holders in the structures if and to the extent funds are available for such purpose. The payments on the subordinated notes are subordinated not only to the interest and principal claims of all secured notes issued, but to certain administrative expenses, taxes, and the base and subordinated fees paid to the collateral manager. Payments to the subordinated notes may vary significantly quarter to quarter for a variety of reasons and may be subject to 100% loss. Investments in subordinated notes, due to the structure of the CLO, can be significantly impacted by change in the market value of the assets, the distributions on the assets, defaults and recoveries on the assets, capital gains and losses on the assets along with prices, interest rates and other risks associated with the assets.

Investment in Tax Receivable Agreement Payment Rights

In June 2012, we invested in a TRA that entitles us to certain payment rights, or TRA Payment Rights, from Duff & Phelps Corporation, or Duff & Phelps. The TRA transfers the economic value of certain tax deductions, or tax benefits, taken by Duff & Phelps to us and entitles us to a stream of payments to be received. The TRA payment right is, in effect, a subordinated claim on the issuing company which can be valued based on the credit risk of the issuer, which includes projected future earnings, the liquidity of the underlying payment right, risk of tax law changes, the effective tax rate and any other factors which might impact the value of the payment right.

Through the TRA, we are entitled to receive an annual tax benefit payment based upon 85% of the savings from certain deductions along with interest. The payments that we are entitled to receive result from cash savings, if any, in U.S. federal, state or local income tax that Duff & Phelps realizes (i) from the tax savings derived from the goodwill and other intangibles created in connection with the Duff & Phelps initial public offering and (ii) from other income tax deductions. These tax benefit payments will continue until the relevant deductions are fully utilized, which is projected to be 17 years. Pursuant to the TRA, we maintain the right to enforce Duff & Phelps payment obligations as a transferee of the TRA contract. If Duff & Phelps chooses to pre-pay and terminate the TRA, we will be entitled to the present value of the expected future TRA payments. If Duff & Phelps breaches any material obligation than all obligations are accelerated and calculated as if an early termination occurred. Failure to make a payment is a breach of a material obligation if the failure occurs for more than three months.

The projected annual tax benefit payment will be accrued on a quarterly basis and paid annually. The payment will be allocated between a reduction in the cost basis of the investment and interest income based upon an amortization schedule. Based upon the characteristics of the investment, we have chosen to categorize the investment in the TRA payment rights as investment in payment rights in the fair value hierarchy.

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

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.

Edgar Filing: THL Credit, Inc. - Form 10-Q

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.

Table of Contents

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 and interest payments are 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 and interest payments are 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. In 2013, we assigned an investment score of 4 to two portfolio companies.

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 2.08 as of September 30, 2013 and 2.12 as of December 31, 2012, respectively. The following is a distribution of the investment scores of our portfolio companies at September 30, 2013 (in millions):

Investment Score	September 30, 2013		December 31, 2012	
	Fair Value	% of Total Portfolio	Fair Value	% of Total Portfolio
1 ^(a)	\$ 67.4	11.79%	\$ 20.0	5.1%
2 ^(b)	415.7	72.71%	312.4	79.2%
3 ^(c)	72.0	12.60%	55.5	14.1%
4 ^(d)	16.6	2.90%	6.4	1.6%
5				
Total	\$ 571.7	100.00%	\$ 394.3	100.0%

- (a) As of September 30, 2013, Investment Score 1 included no loans to companies in which we also hold equity securities. As of December 31, 2012, Investment Score 1 included \$8.2 million of loans to companies in which we also hold equity securities.
- (b) As of September 30, 2013 and December 31, 2012, Investment Score 2 included \$39.1 million and \$49.4 million, respectively, of loans to companies in which we also hold equity securities.
- (c) As of September 30, 2013 and December 31, 2012, Investment Score 3 included \$14.3 million and \$27.0 million, respectively, of loans to companies in which we also hold equity securities.
- (d) As of September 30, 2013, Investment Score 4 included \$10.2 million of loans to companies in which we also hold equity securities. As of December 31, 2012, Investment Score 4 included no 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 it is no longer probable 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. As of September 30, 2013, we had two loans on non-accrual with an amortized cost basis of \$21.0 million and fair value of \$16.6 million. As of December 31, 2012, 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), net unrealized appreciation (depreciation) and interest rate derivative periodic interest payments, net. 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. Net unrealized appreciation (depreciation) on interest rate derivative is the net change in the fair value of the interest rate derivative agreement. Interest rate derivative periodic interest payments, net are the difference between the proceeds received or the amounts paid on the interest rate derivative.

Comparison of the Three and Nine Months Ended September 30, 2013 and 2012

Investment Income

We generate revenues primarily in the form of interest on the debt and other income-producing securities we hold. Income-producing securities include investments in funds, investment in payment rights and collateralized loan obligation, or CLO, residual interests. Our investments in fixed income instruments generally have an expected maturity of five to seven years, and typically bear

Table of Contents

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. In addition to interest income, we may receive dividends and other distributions related to our equity investments. We may also generate revenue in the form of fees from the management of Greenway and Greenway II, prepayment premiums, commitment, loan origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

The following shows the breakdown of investment income for the three and nine months ended September 30, 2013 and 2012 (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income on debt securities				
Cash interest on debt securities	\$ 13.8	\$ 9.6	\$ 36.9	\$ 26.2
PIK interest	0.6	1.1	2.6	3.0
Prepayment premiums	0.3	1.2	1.0	1.5
Accretion of discounts and other fees	1.2	0.8	3.3	2.0
Total interest on debt securities	15.9	12.7	43.8	32.7
Dividend income	0.4		4.9	
Interest income and accretion of discounts on income-producing securities	1.8	0.9	4.7	2.0
Fees related to Greenway and Greenway II	0.9	0.5	2.1	1.8
Other income	0.1	0.1	0.7	0.2
Total	\$ 19.1	\$ 14.2	\$ 56.2	\$ 36.7

The increases in investment income from the respective periods were due to the growth in the overall investment portfolio and dividends received from our equity investments in YP Equity Investors, LLC, or YP, and Surgery Center Holdings, Inc., or Surgery for each of the respective periods.

The following shows a rollforward of PIK income activity for the nine months ended September 30, 2013 and for the year ended December 31, 2012 (in millions):

Accumulated PIK balance at December 31, 2011	\$ 3.5
PIK income capitalized/receivable	4.1
PIK received in cash from full repayments	(1.8)
Accumulated PIK balance at December 31, 2012	5.8
PIK income capitalized/receivable	2.6
PIK received in cash from full repayments	(2.3)
Accumulated PIK balance at September 30, 2013	\$ 6.1

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 related to portfolio companies for the three and nine months ended September 30, 2013 and 2012.

Expenses

Edgar Filing: THL Credit, Inc. - Form 10-Q

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 and investment management agreements (administrator expenses). The base management fee compensates the Advisor for work in identifying,

Table of Contents

evaluating, negotiating, 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.

The following shows the breakdown of expenses for the three and nine months ended September 30, 2013 and 2012 (in millions):

Expenses	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Incentive fees ^(a)	\$ 2.1	\$ 1.7	\$ 8.1	\$ 4.8
Base management fees	2.1	1.3	5.3	3.4
Administrator expenses	0.8	0.7	2.5	2.2
Credit facility fees and expenses	1.7	1.3	4.9	2.9
Other general and administrative expenses	0.9	0.8	2.7	2.3
Total expenses before taxes	7.6	5.8	23.5	15.6
Income tax (benefit) provision	(0.1)		0.4	
Total expenses after taxes	\$ 7.5	\$ 5.8	\$ 23.9	\$ 15.6

- (a) For the three months ended September 30, 2013 and 2012, incentive fees include the effect of unrealized depreciation of (\$0.7) million and (\$0.3) million, respectively. For the nine months ended September 30, 2013 and 2012, incentive fees include the effect of unrealized depreciation of (\$0.3) million and (\$0.4) million, respectively. There can be no assurance that such unrealized depreciation will be realized in the future.

The increase in operating expenses for the respective periods was due primarily to the increase in base management fees and incentive fee, which was the result of growing the size of our portfolio and resultant performance, and credit facility expenses, which was a result of an increase in the credit facility commitments and usage.

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.

Net Investment Income

Net investment income was \$11.6 million, or \$0.34 per common share based on a weighted average of 33,905,202 common shares outstanding for the three months ended September 30, 2013, as compared to \$8.5 million, or \$0.41 per common share based on a weighted average of 20,617,702 common shares outstanding for the three months ended September 30, 2012.

Net investment income was \$32.3 million, or \$1.11 per common share based on a weighted average of 29,067,620 common shares outstanding for the nine months ended September 30, 2013, as compared to \$21.2 million, or \$1.04 per common share based on a weighted average of 20,353,668 common shares outstanding for the nine months ended September 30, 2012.

The increase in net investment income is primarily attributable to the growth in the portfolio, increase in fees related to our managed fund Greenway II, and dividend income received from our equity investments in YP and Surgery for each of the respective periods.

Net Realized Gains and Losses on Investments

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.

Edgar Filing: THL Credit, Inc. - Form 10-Q

We recognized realized (losses) gains on our portfolio investments of \$(0.4) million and \$2.4 million during the three and nine months ended September 30, 2013, respectively, related primarily to the proceeds received from YP. We recorded an estimated tax benefit related to the realized gain of \$1.1 million and \$0 million during the three and nine months ended September 30, 2013, respectively. Realized losses of (\$0.4) million for the three months ended September 30, 2013, reflect a revision to previously recognized estimated realized gains and dividend income as a result of adjusted tax estimates from YP.

Table of Contents

We did not recognize any realized gains or losses on our portfolio investments during the three and nine months ended September 30, 2012.

Net Change in Unrealized Appreciation of Investments

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

The following shows the breakdown in the changes in unrealized appreciation of investments for the three and nine months ended September 30, 2013 and 2012 (in millions):

	Three Months ended September 30,		Nine Months ended September 30,	
	2013	2012	2013	2012
Gross unrealized appreciation on investments	\$ 2.1	\$ 1.2	\$ 7.3	\$ 2.1
Gross unrealized depreciation on investments	(5.2)	(1.8)	(8.6)	(2.9)
Reversal of prior period net unrealized appreciation upon a realization		(1.1)	(0.8)	(1.3)
Total	\$ (3.1)	\$ (1.7)	\$ (2.1)	\$ (2.1)

The change in unrealized appreciation on our investments was driven primarily by changes in the capital market conditions, financial performance of certain portfolio companies and the reversal of unrealized appreciation of investments repaid or recapitalized in 2013.

Provision for Taxes on Unrealized Gain on Investments

Certain consolidated subsidiaries of ours are subject to U.S. federal and state income taxes. These taxable entities are not consolidated with the Company for income tax purposes and may generate income tax liabilities or assets from temporary differences in the recognition of items for financial reporting and income tax purposes at the subsidiaries. For the three and nine months ended September 30, 2013, the Company recognized a provision for tax on unrealized gain on investments of \$1.1 million and \$1.0 million, respectively, for two consolidated subsidiaries. For the three and nine months ended September 30, 2012, the Company did not recognize a provision for tax on unrealized gain on investments. As of September 30, 2013 and December 31, 2012, \$1.4 million and \$0.5 million, respectively, were included in deferred tax liability on the Consolidated Statements of Assets and Liabilities relating to deferred tax on unrealized gain on investments.

Realized and Unrealized Gain (Loss) of Interest Rate Derivative

The interest rate derivative was entered into on May 10, 2012. Unrealized depreciation reflects the value of the interest rate derivative agreement during the reporting period. For the three months ended September 30, 2013 and 2012, the net change of unrealized depreciation on interest rate derivative totaled (\$0.3) million and (\$0.5) million, respectively. For the nine months ended September 30, 2013 and 2012, the net change of unrealized depreciation on interest rate derivative totaled \$0.7 million and (\$1.1) million, respectively. The changes were due to capital market changes impacting swap rates.

We measure realized gains or losses on the interest rate derivative based upon the difference between the proceeds received or the amount paid on the interest rate derivative. For the three months ended September 30, 2013 and 2012, we realized a loss of \$0.1 million and \$0.1 million, respectively, as interest rate derivative periodic interest payments, net. For the nine months ended September 30, 2013 and 2012, we realized a loss of \$0.3 million and \$0.1 million, respectively, as interest rate derivative periodic interest payments, net.

Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled \$7.8 million, or \$0.23 per common share based on a weighted average of 33,905,202 common shares for the three months ended September 30, 2013, as compared to \$6.2 million, or \$0.30 per common share based on a weighted average of 20,617,702 common shares outstanding, for the three months ended September 30, 2012.

Net increase in net assets resulting from operations totaled \$32.0 million, or \$1.10 per common share based on a weighted average of 29,067,620 common shares for the nine months ended September 30, 2013, as compared to \$17.8 million, or \$0.88 per common share based on a weighted

Edgar Filing: THL Credit, Inc. - Form 10-Q

average of 20,353,668 common shares outstanding, for the nine months ended September 30, 2012.

Table of Contents

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, dividends and realized gains from YP as well as changes in the unrealized values of our investments and interest rate derivative.

Financial condition, liquidity and capital resources

Cash Flows from Operating and Financing Activities

Our liquidity and capital resources are derived from our credit facilities, equity raises 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, payment of dividends to the holders of our common stock and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our borrowings and the proceeds from the turnover in our portfolio and from public and private offerings of securities to finance our investment objectives, to the extent permitted by the 1940 Act.

We may raise additional equity or debt capital through both registered offerings off our effective shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowings. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2013 Annual Stockholder Meeting held on June 10, 2013, our stockholders authorized us, with the approval of our Board of Directors, to sell up to 25% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. There can be no assurance that these capital resources will be available.

On June 24, 2013, we received \$106.2 million in proceeds, net of offering fees and underwriting discount, from our public equity offering of common stock and used \$92.3 million to pay down outstanding loans on our Revolving Facility.

On March 15, 2013, we closed an additional \$50 million of commitments to our Facilities, which brings the aggregate size to \$240 million of commitments. As of September 30, 2013, we had a total of \$70.0 million outstanding on our Term Loan Facility and \$55.9 million outstanding under the Revolving Facility. The total amount outstanding had a weighted average interest rate of 4.41%. We borrowed \$291.6 million under our Revolving Facility and \$20.0 million under our Term Loan Facility for the nine months ended September 30, 2013 and repaid \$235.7 million on our Revolving Facility from proceeds received from the equity offering, term loan and investment income. We borrowed \$134.9 million under our Revolving Facility and \$50.0 million under our Term Loan Facility for the nine months ended September 30, 2012 and repaid \$139.9 million on our Revolving Facility from proceeds received from the Term Loan Facility and investment income.

Our operating activities used cash of \$143.5 million and \$84.3 million for the nine months ended September 30, 2013 and 2012, respectively, primarily in connection with the purchase of portfolio investments. For nine months ended September 30, 2013, our financing activities provided cash of \$182.1 million from our common stock offering, net of offering costs, and net borrowings and used cash of \$31.9 million for distributions to stockholders and \$1.5 million for the payment of financing costs. For the nine months ended September 30, 2012, our financing activities provided cash of \$127.0 million from our common stock offering, net of offering costs, and net borrowings and used cash of \$19.4 million for distributions to stockholders and \$2.9 million for the payment of financing costs.

As of September 30, 2013 and December 31, 2012, we had cash of \$10.0 million and \$4.8 million, respectively. We had no cash equivalents as of September 30, 2013 and December 31, 2012.

We believe cash balances, our Revolving Facility capacity and any proceeds generated from the sale or pay down of investments provides us with ample liquidity to acquit our pipeline for the coming quarters.

Credit Facility

On March 15, 2013, we entered into an amendment, or the Revolver Amendment, to our existing revolving credit agreement, or Revolving Facility, and entered into an amendment, or the Term Loan Amendment, to our term loan agreement credit facility, or Term Loan Facility, and together with the Revolving Facility, the Facilities, with ING Capital LLC.

The Revolver Loan Amendment revised the Revolving Facility dated May 10, 2012 to among other things, increase the amount available for borrowing under the Revolving Facility from \$140.0 million to \$170.0 million and extend the maturity date from May 2016 to May 2017 (with a one year term out period beginning in May 2016). The one year term out period is the one year anniversary between the revolver termination date, or the end of the availability period, and the maturity date. During this time, we are required to

Table of Contents

make mandatory prepayments on our loans from the proceeds we receive from the sale of assets, extraordinary receipts, returns of capital or the issuances of equity or debt. The Revolver Amendment also changes the interest rate of the Revolving Facility to (i) when the facility is more than or equal to 35% drawn and the step-down condition is satisfied, LIBOR plus 2.75%, (ii) when the facility is more than or equal to 35% drawn and the step-down condition is not satisfied, LIBOR plus 3.00%, (iii) when the facility is less than 35% drawn and the step-down condition is satisfied, LIBOR plus 2.75%, and (iv) when the facility is less than 35% drawn and the step-down condition is not satisfied, LIBOR plus 3.25%. The non-use fee is 1.00% annually if we use 35% or less of the Revolving Facility and 0.50% annually if we use more than 35% of the Revolving Facility. We elect the LIBOR rate on the loans outstanding on our Revolving Facility, which can have a maturity date that is one, two, three or six months.

The Term Loan Amendment revised the Term Loan Facility dated May 10, 2012 to increase the \$50.0 million senior secured term loan, or Term Loan, to \$70.0 million and extend the maturity date from May 2017 to May 2018. The Term Loan bears interest at LIBOR plus 4.00% (with no LIBOR Floor) and has substantially similar terms to our existing Revolving Facility (as amended by the Amendment). We elect the LIBOR rate on our Term Loan, which can have a maturity date that is one, two, three or six months. The LIBOR rate on our Term Loan currently has a one month maturity.

Each of the Facilities includes an accordion feature permitting us to expand the Facilities, if certain conditions are satisfied; provided, however, that the aggregate amount of the Facilities, collectively, is capped at \$400.0 million. The Facilities generally require payment of interest on a quarterly basis for ABR loans, and at the end of the applicable interest period for Eurocurrency loans bearing interest at LIBOR, the interest rate benchmark used to determine the variable rates paid on the Facilities. LIBOR maturities can range between one and six months at the election of the Company. All outstanding principal is due upon each maturity date. The Facilities also require a mandatory prepayment of interest and principal upon certain customary triggering events (including, without limitation, the disposition of assets or the issuance of certain securities).

Borrowings under the Facilities are subject to, among other things, a minimum borrowing/collateral base. The Facilities have 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 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 not represented by senior securities) to the aggregate amount of senior securities representing indebtedness, of us and our 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 Facilities (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.

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

For the nine months ended September 30, 2013, we borrowed \$311.6 million and repaid \$235.7 million under the Facilities. For the nine months ended September 30, 2012, we borrowed \$184.9 million and repaid \$139.9 million under the Facilities.

As of September 30, 2013 and December 31, 2012, there were \$125.9 million and \$50.0 million of borrowings outstanding under the Facilities at a weighted average interest rate of 4.41% and 4.21%, respectively. The fair values of our Facilities are determined in accordance with ASC 820, which defines fair value in terms of the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of our Facilities are estimated based upon market interest rates and entities with similar credit risk. As of September 30, 2013 and December 31, 2012, the Facilities would be deemed to be level 3 of the fair value hierarchy.

Interest expense and related fees of \$1.4 million and \$1.0 million were incurred in connection with the Facilities during the three months ended September 30, 2013 and 2012, respectively. Interest expense and related fees of \$3.9 million and \$2.2 million were incurred in connection with the Facilities during the nine months ended September 30, 2013 and 2012, respectively.

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. The asset coverage as of September 30, 2013 is in excess of 200%.

Edgar Filing: THL Credit, Inc. - Form 10-Q

See Recent Developments for a discussion of a recent amendment to the Facilities.

Table of Contents**Interest Rate Derivative**

On May 10, 2012, we entered into a five-year interest rate swap agreement, or swap agreement, with ING Capital Markets, LLC in connection with its Term Loan Facility. Under the swap agreement, with a notional value of \$50 million, we pay a fixed rate of 1.1425% and receive a floating rate based upon the current three-month LIBOR rate. We entered into the swap agreement to manage interest rate risk and not for speculative purposes.

We record the change in valuation of the swap agreement in unrealized appreciation (depreciation) as of each measurement period. When the quarterly swap amounts are paid or received under the swap agreement, the amounts are recorded as a realized gain (loss) as interest rate derivative periodic interest payments, net on the Consolidated Statement of Operations.

For the three months ended September 30, 2013 and 2012, we recognized \$0.1 million and \$0.1 million, respectively, of realized loss from the swap agreement, which is reflected as interest rate derivative periodic interest payments, net in the Consolidated Statements of Operations. For the nine months ended September 30, 2013 and 2012, we recognized \$0.3 million and \$0.1 million, respectively, of realized loss from the swap agreement, which is reflected as interest rate derivative periodic interest payments, net in the Consolidated Statements of Operations.

For the three months ended September 30, 2013 and 2012, we recognized (\$0.2) million and (\$0.5) million of net change in unrealized depreciation from the swap agreement, respectively, which is listed under net change in unrealized depreciation on interest rate derivative in the Consolidated Statements of Operations. For nine months ended September 30, 2013 and 2012, we recognized \$0.7 million and (\$1.1) million of net change in unrealized depreciation from the swap agreement, respectively, which is listed under net change in unrealized depreciation on interest rate derivative in the Consolidated Statements of Operations. As of September 30, 2013 and December 31, 2012, our fair value of the swap agreement is \$(0.3) million and \$(1.1) million, respectively, which is listed as an interest rate derivative liability on the Consolidated Statements of Assets and Liabilities.

Commitments and Contingencies

From time to time, we, 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 we, nor the Advisor, are currently subject to any material legal proceedings.

Unfunded commitments to provide funds to portfolio companies are not reflected in our Consolidated Statements of Assets and Liabilities. Our unfunded commitments may be significant from time to time. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We intend to use cash flow from normal and early principal repayments and proceeds from borrowings and offerings to fund these commitments.

As of September 30, 2013 and December 31, 2012, we have the following unfunded commitments to portfolio companies (in millions):

	As of	
	September 30, 2013	December 31, 2012
Unfunded revolving commitments	\$ 10.7	\$ 10.9
Unfunded delayed draw and capital expenditure facilities	8.0	12.0
Unfunded commitments to investments in funds	4.7	4.0
Total unfunded commitments	\$ 23.4	\$ 26.9

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 distribute at least 90% of our investment company taxable income. To avoid a 4% excise tax on undistributed earnings, we are required to distribute each calendar year the sum of (i) 98% of our ordinary income for such calendar year (ii) 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year (iii) any income recognized, but not distributed, in preceding years and on which we paid no federal income 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,

Edgar Filing: THL Credit, Inc. - Form 10-Q

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

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.

Table of Contents

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
July 26, 2012	September 14, 2012	September 28, 2012	\$ 0.32
November 2, 2012	December 14, 2012	December 28, 2012	\$ 0.33
December 20, 2012	December 31, 2012	January 28, 2013	\$ 0.05
February 27, 2013	March 15, 2013	March 29, 2013	\$ 0.33
May 2, 2013	June 14, 2013	June 28, 2013	\$ 0.34
August 2, 2013	September 16, 2013	September 30, 2013	\$ 0.34
August 2, 2013	September 16, 2013	September 30, 2013	\$ 0.08
October 30, 2013	December 16, 2013	December 31, 2013	\$ 0.34

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. 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 2013 distributions as of September 30, 2013, 93.7% would be from ordinary income, 6.3% would be from capital gains and 0% would be a return of capital. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2013 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.

Table of Contents

The following table shows our contractual obligations as of September 30, 2013 (in millions):

Contractual Obligations ⁽¹⁾	Total	Payments due by period			After 5 years
		Less than 1 year	1 - 3 years	3 - 5 years	
Term Loan Facility	\$ 70.0			\$ 70.0	

⁽¹⁾ Excludes commitments to extend credit to our portfolio companies.

We entered into an interest rate derivative to manage interest rate risk. We record the change in valuation of the swap agreement in unrealized appreciation (depreciation) as of each measurement period. When the quarterly interest rate swap amounts are paid or received under the swap agreement, the amounts are recorded as a realized gain (loss). Further discussion of the interest rate derivative is included in Note 1 Significant Accounting Policies and Note 7 Interest Rate Derivative in the Notes to Consolidated Financial Statements .

Off-Balance sheet arrangements

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

Related Party Transactions**Investment Management Agreement**

On February 27, 2013, 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. 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.

For the three months ended September 30, 2013 and 2012, we incurred base management fees payable to the Advisor of \$2.1 million, and \$1.3 million, respectively. For the nine months ended September 30, 2013 and 2012, we incurred base management fees payable to the Advisor of \$5.3 million, and \$3.4 million, respectively. As of September 30, 2013 and December 31, 2012, \$2.1 million and \$1.5 million, 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 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, for the immediately preceding calendar quarter, 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

Edgar Filing: THL Credit, Inc. - Form 10-Q

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

Table of Contents

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 September 30, 2013 and 2012, we incurred \$2.7 million and \$2.0 million, respectively, of incentive fees related to ordinary income. For the nine months September 30, 2013 and 2012, we incurred \$7.9 million and \$5.2 million, respectively, of incentive fees related to ordinary income.

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. The capital gains incentive fee payable to our Advisor under the investment management agreement as of September 30, 2013 and December 31, 2012 was \$0 and \$0.04 million, respectively.

As of September 30, 2013 and December 31, 2012, \$2.7 million and \$2.3 million, respectively, of such incentive fees are currently payable to the Advisor. For the three months ended September 30, 2013, \$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.

GAAP requires that the incentive fee accrual considers the cumulative aggregate unrealized capital appreciation or depreciation of investments or other financial instruments, such as an interest rate derivative, in the calculation, as an incentive fee would be payable if such unrealized capital appreciation or depreciation were realized, even though such unrealized capital appreciation or depreciation 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 incentive fee that would be payable for a given period as if all unrealized gains or losses were realized, we have accrued incentive fees of \$0.04 million and \$0.3 million as of September 30, 2013 and December 31, 2012, respectively, based upon unrealized appreciation or depreciation of investments and the interest rate derivative for that period (in accordance with the terms of the investment management agreement). There can be no assurance that such unrealized appreciation or depreciation 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 incentive fees in subsequent periods.

Administration Agreement

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.

Table of Contents

For the three months ended September 30, 2013 and 2012 we incurred administrator expenses payable to the Advisor of \$0.8 million and \$0.7 million, respectively. For the nine months ended September 30, 2013 and 2012 we incurred administrator expenses payable to the Advisor of \$2.5 million and \$2.2 million, respectively. As of September 30, 2013 and December 31, 2012, \$0.05 million and \$0.3 million, respectively, was payable 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 and from Affiliates

The Advisor paid certain other general and administrative expenses on our behalf. As of September 30, 2013, \$0.1 million of expenses were included in due to affiliate on the Consolidated Statements of Assets and Liabilities. There were no amounts due to affiliate as of December 31, 2012.

We act as the investment adviser to Greenway and Greenway II and are entitled to receive certain fees. As a result, Greenway and Greenway II are classified as an affiliate. As of September 30, 2013 and December 31, 2012, \$0.9 million and \$0.4 million of fees related to Greenway and Greenway II, respectively, were included in due from affiliate on the Consolidated Statements of Assets and Liabilities.

Managed Funds

Greenway

On January 14, 2011, 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. 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 had a two year investment period.

Greenway has \$150.0 million of capital committed by affiliates of a single institutional investor, and is managed by the Company. Our capital commitment to Greenway is \$0.02 million. As of September 30, 2013 and December 31, 2012, all of the capital had been called by Greenway. Our nominal investment in Greenway LLC is reflected in the September 30, 2013 and December 31, 2012 Consolidated Schedule of Investments.

As manager of Greenway, we act as the investment adviser to Greenway and are entitled to receive certain fees relating to investment management services provided, including a base management fee, a performance fee and a portion of the closing fees on each investment transaction. As a result, Greenway is classified as an affiliate of the Company. For the three months ended September 30, 2013 and 2012, we earned \$0.4 million and \$0.6 million in fees related to Greenway, respectively, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. For the nine months ended September 30, 2013, and 2012, we earned \$1.4 million and \$1.8 million in fees related to Greenway, respectively, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of September 30, 2013 and December 31, 2012, \$0.4 million and \$0.4 million, respectively, 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.

Greenway II

On January 31, 2013, Greenway II LLC was formed as a Delaware limited liability company and is a portfolio company of the Company. Greenway II LLC is a closed-end investment fund which provides for no liquidity or redemption options and is not readily marketable. Greenway II operates under a limited liability agreement dated February 11, 2013, as amended, or the Greenway II

Table of Contents

Agreement. Greenway II LLC will continue in existence for eight years from the final closing date, subject to earlier termination pursuant to certain terms of the Greenway II LLC Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Greenway II LLC Agreement. Greenway II LLC has a two year investment period.

Greenway II LLC has \$186.5 million of commitments primarily from institutional investors. The Company's capital commitment to Greenway II is \$0.004 million. Our nominal investment in Greenway II LLC is reflected in the September 30, 2013 Consolidated Schedule of Investments. Greenway II LLC is managed by the Company. As contemplated in the Greenway II LLC Agreement, we have established a related investment vehicle and entered into an investment management agreement with an account set up by an unaffiliated third party investor to invest alongside Greenway II LLC pursuant to similar economic terms. The account is also managed by the Company. References to Greenway II herein include Greenway II LLC and the accounts of related investment vehicles.

The Company acts as the investment adviser to Greenway II and is entitled to receive certain fees relating to investment management services provided, including a base management fee, a performance fee and a portion of the closing fees on each investment transaction. As a result, Greenway II is classified as an affiliate of the Company. For the three and nine months ended September 30, 2013, we earned \$0.5 million and \$0.7 million, respectively, in fees related to Greenway II, which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of September 30, 2013, \$0.4 million of fees related to Greenway II were included in due from affiliate on the Consolidated Statements of Assets and Liabilities. During the nine months ended September 30, 2013, the Company sold a portion of its investments in seven portfolio companies at fair value, for a total of \$19.5 million, to Greenway II determined in accordance with the normal valuation policies with no significant realized gains on the transactions.

Greenway II 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 II and the Company. However, the Company has the discretion to invest in other securities.

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.

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;

Edgar Filing: THL Credit, Inc. - Form 10-Q

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.

Table of Contents

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 flows, 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, the Advisor and 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, which valuation is then approved by our board of directors. 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.

We value our interest rate derivative agreement using an income approach that analyzes the discounted cash flows associated with the interest rate derivative agreement. Significant inputs to the discounted cash flows methodology include the forward interest rate yield curves in effect as of the end of the measurement period and an evaluation of the counterparty's credit risk.

We value our residual interest investments in collateralized loan obligations using an income approach that analyzes the discounted cash flows of our residual interest. The discounted cash flows model utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute to form the basis for the valuation of our residual interest. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. The assumptions are based on available market data and projections provided by third parties as well as management estimates.

We value our investment in payment rights using an income approach that analyzes the discounted projected future cash flow streams assuming an appropriate discount rate, which will among other things consider other transactions in the market, the current credit environment, performance of the underlying portfolio company and the length of the remaining payment stream.

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.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, we disclose the fair value of our 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.

We consider 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 we determine 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

Edgar Filing: THL Credit, Inc. - Form 10-Q

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.

Table of Contents

We have 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, we estimate 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.

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 cease accruing PIK interest if there is insufficient value to support the accrual or if it does not expect amounts to be 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 it is no longer probable 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. 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.

Interest income from our investment in TRA and CLO residual interest investments are recorded based upon an estimation of an effective yield to expected maturity using anticipated cash flows with any remaining amount recorded to the cost basis of the investment. We monitor the anticipated cash flows from our TRA and CLO residual interest investments and will adjust our effective yield periodically.

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. We measure realized gains or losses on the interest rate derivative based upon the difference between the proceeds received or the amounts paid on the interest rate derivative. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values or value of the interest rate derivative during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Federal Income Taxes, including excise tax

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 a 4% federal excise tax, we must distribute each calendar year the sum of (i) 98% of our ordinary income for each such calendar year, and (ii) 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year, and (iii) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax. 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. 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. We will accrue excise tax on undistributed taxable income as required. Please refer to [Dividends](#) above for a summary of the distributions made in 2012 and 2013. For the three and nine months ended September 30, 2013 and 2012, we did not incur any excise tax expense.

Certain consolidated subsidiaries are subject to U.S. federal and state income taxes. These taxable entities are not consolidated for income tax purposes and may generate income tax liabilities or assets from permanent and temporary differences in the recognition of items for financial reporting and income tax purposes at the subsidiaries.

For the three months ended September 30, 2013, we recognized a current income tax benefit of (\$1.2) million, which is shown as income tax (benefit) provision of (\$0.1) million and income tax (benefit) provision, realized gain of (\$1.1) million in the Consolidated Statements of Operations. For the nine months ended September 30, 2013, we recognized a current income tax provision of \$0.4 million, which is shown as income tax (benefit) provision in the Consolidated Statements of Operations. These income taxes relate primarily to the proceeds received in June 2013 from our equity investment in YP into one of our wholly owned tax blocker corporations. The expense reflects the tax impact of a

Edgar Filing: THL Credit, Inc. - Form 10-Q

revision to previously recognized estimated realized gains and dividend income as a result of adjusted tax estimates provided by YP during the quarter and may be subject to further change once tax information is finalized for the year. We did not recognize current tax expense for the three or nine months ended September 30, 2012. As of September 30, 2013, \$0.4 million of income tax receivable was included in prepaid expenses and other assets and \$0.1 million was included as income taxes payable on the Consolidated Statements of Assets and Liabilities relating to dividend income and other projected earnings of tax blocker corporations. As of December 31, 2012, there were no income taxes receivable or payable.

Table of Contents

For the three and nine months ended September 30, 2013, we recognized a provision for tax on unrealized gain on investments of \$1.1 million and \$1.0 million, respectively, for consolidated subsidiaries in the Consolidated Statements of Operations. We did not recognize a benefit or provision for tax on unrealized gain on investments during the three and nine months ended September 30, 2012. As of September 30, 2013 and December 31, 2012, \$1.4 million and \$0.5 million, respectively, were included in deferred tax liability on the Consolidated Statements of Assets and Liabilities relating to deferred tax on unrealized gain on investments held in tax blocker corporations.

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.

Recent Developments

From October 1, 2013 through November 4, 2013, we made new investments of \$25.8 million in the financial services, food and beverage and media, entertainment and leisure industries. Of the \$25.8 million of new investments, 97.5% were in first lien senior secured debt and 2.5% was an investment in funds. All of the new debt investments were floating rate and had a weighted average yield based upon cost at the time of investment of 10.8%.

From October 1, 2013 through November 4, 2013, we received proceeds of \$21.6 million from prepayments, sales or refinancings of investments in energy/utilities, financial services, food and beverage and media, entertainment and leisure industries, including prepayment premiums of \$0.2 million. Of the aggregate principal amount of investments repaid, sold or refinanced, 4.1% were first lien senior secured debt, 27.2% were second lien debt, 66.0% were subordinated debt and 2.8% were CLO residual interests. Of the debt investments prepaid, based upon par value, 4.2% were floating rate and 95.8% were fixed rate investments and 95.8% had a PIK election and 4.2% did not have a PIK election.

On October 9, 2013, we closed on an additional \$85.0 million of commitments to our Facilities, which increased the commitments on the Revolving Facility from \$170.0 million to \$232.0 million and commitments on the Term Loan Facility from \$70.0 million to \$93.0 million.

On October 30, 2013, our board of directors declared a dividend of \$0.34 per share payable on December 31, 2013 to stockholders of record at the close of business on December 16, 2013.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of September 30, 2013, 50.0%, or twenty, of the debt investments in our portfolio bore interest at fixed rates. Twenty 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. Our borrowings as well as the amount we receive under the interest rate derivative agreement are based upon floating rates.

Based on our September 30, 2013 Consolidated Statement of Assets and Liabilities, the following table shows the annual impact on net income of changes in interest rates, which assumes no changes in our investments and borrowings (in millions):

Change in Basis Points	Interest Income	Interest Expense	Net Income
Up 300 basis points	\$ 5.1	\$ 0.6	\$ 4.5
Up 200 basis points	\$ 2.5	\$ 0.4	\$ 2.1
Up 100 basis points	\$ 0.2	\$ 0.2	\$
Down 300 basis points	\$	\$	\$
Down 200 basis points	\$	\$	\$
Down 100 basis points	\$	\$	\$

Based upon the current three month LIBOR rate, a hypothetical decrease in LIBOR would not affect our net income, due to the aforementioned floors in place on our debt investments. We currently hedge against interest rate fluctuations by using an interest rate swap whereby we pay a

Edgar Filing: THL Credit, Inc. - Form 10-Q

fixed rate of 1.1425% and receive three-month LIBOR on a notional amount of \$50 million related to our Term Loan. In the future, we may use other 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.

Table of Contents

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.

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

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.

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

In addition to the risks discussed below, important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on March 4, 2013.

A failure or the perceived risk of a failure to raise the statutory debt limit of the United States could have a material adverse effect on our business, financial condition and results of operations.

As has been widely reported, the United States Treasury Secretary has stated that the federal government may not be able to meet its debt payments in the relatively near future (currently February 2014) unless the federal debt ceiling is raised. If legislation increasing the debt ceiling is not enacted and the debt ceiling is reached, the federal government may stop or delay making payments on its obligations. A failure by Congress to raise the debt limit would increase the risk of default by the United States on its obligations, as well as the risk of other economic dislocations. If the U.S. Government fails to complete its budget process or to provide for a continuing resolution before the expiration of the current continuing resolution (currently January 2014), another federal government shutdown may result. Such a failure or the perceived risk of such a failure consequently could have a material adverse effect on the financial markets and economic conditions in the United States and throughout the world. It could also limit our ability and the ability of our portfolio companies to obtain financing, and it could have a material adverse effect on the valuation of our portfolio companies. Consequently, the continued uncertainty in the general economic environment, including the recent government shutdown and potential debt ceiling implications, as well in specific economies of several individual geographic markets in which our portfolio companies operate, could adversely affect our business, financial condition and results of operations.

We are exposed to risks associated with changes in interest rates, including fluctuations in interest rates which could adversely affect our profitability.

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities, and, accordingly, may have a material adverse effect on our investment objective and rate of return on investment capital. A portion of our income will depend upon the difference between the rate at which we borrow funds and the interest rate on the debt securities in which we invest. Because we will borrow money to make investments and may issue debt securities, preferred stock or other securities, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities, preferred stock or other securities and the rate at which we invest these funds. Typically, we anticipate that our interest earning investments will accrue and pay interest at both variable and fixed rates, and that our interest-bearing liabilities will accrue interest at variable rates. The benchmarks used to determine the floating rates earned on our interest earning investments are LIBOR with maturities that range between one and twelve months and alternate base rate, or ABR, (commonly based on the Prime Rate or the Federal Funds Rate), with no fixed maturity date. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities.

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. We expect that a portion of our investments in debt will be at floating rates with a floor. However, in the event that we make investments in debt at variable rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. In periods of rising interest rates, our cost of funds would increase, resulting in a decrease in our net investment income. In addition, a decrease in interest rates may reduce net income, because new investments may be made at lower rates despite the increased demand for our capital that the decrease in interest rates may produce. We may, but will not be required to, hedge against the risk of adverse movement in interest rates in our short-term and long-term borrowings relative to our portfolio of assets. If we engage in hedging activities, it may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition, and results of operations.

Table of Contents

Because we borrow money, there could be increased risk in investing in our company.

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged.

Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity.

On May 10, 2012, we entered into the Amendment to our \$50.0 million Term Loan Facility expiring in May 2017 with ING Capital LLC, or ING. The Amendment revised the Revolving Facility, dated March 11, 2011, to, among other things, increase the amount available for borrowing from \$125.0 million to \$140.0 million and extended the maturity date from May 2014 to May 2016 (with a one year term out period beginning in May 2015). The Revolving Facility and Term Loan facility, together the Facilities contain financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

On March 15, 2013, we amended our Revolving Facility and Term Loan Facility with ING. The Revolver Amendment revised the Revolving Facility to, among other things, increase the amount available for borrowing under the Revolving Facility from \$140.0 million to \$170.0 million and extend the maturity date from May 2016 to May 2017, with a one year term out period beginning in May 2016. The one year term out period is the one year anniversary between the revolver termination date, or the end of the availability period, and the maturity date. During this time, we are required to make mandatory prepayments on our loans from the proceeds we receive from the sale of assets, extraordinary receipts, returns of capital or the issuances of equity or debt. The Term Loan Amendment revised the Term Loan Facility to, among other things, increase the amount of the term loan commitments from \$50 million to \$70 million and extend the maturity date from May 2017 to May 2018. The amendments also modified the accordion feature in the Facilities to permit the Company to increase the Facilities, if certain conditions are satisfied, to an aggregate amount not to exceed the lesser of \$400.0 million and the Company's net worth, as determined under the Facilities. ING serves as administrative agent, lead arranger and bookrunner under each of the Facilities. As of September 30, 2013, there was \$125.9 million of borrowings outstanding against the Facilities and our asset coverage ratio was over 200%. Our borrowings had a weighted average interest rate at the time of 4.41% exclusive of non-use and other fees associated with the Facilities. Accordingly, to cover the annual interest on our borrowings outstanding at September 30, 2013, at the then current rate, we would have to receive an annual yield of at least 0.23% (net of expenses). This example is for illustrative purposes only, and actual interest rates on our Facility borrowing are likely to fluctuate. See Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital resources Credit Facility for additional information about the Amendment and the Term Loan Facility and the Facilities.

On October 9, 2013, we closed on an additional \$85.0 million of commitments to our Facilities, which increased the commitments on the Revolving Facility from \$170.0 million to \$232.0 million and commitments on the Term Loan Facility from \$70.0 million to \$93.0 million.

As a BDC, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions.

Table of Contents

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

For federal income tax purposes, we may include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to our overall investment activities, or increases in loan balances as a result of PIK arrangements are included in income before we receive any corresponding cash payments. In addition, the PIK interest of many subordinated loans effectively operates as negative amortization of loan principal, thereby increasing credit risk exposure over the life of the loan because more will be owed at the end of the term of the loan than was owed when the loan was initially originated. We also may be required to include in income certain other amounts that we do not receive in cash.

Since we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to maintain our status as a RIC. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements.

We may pay an incentive fee on income we do not receive in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, while we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a formal clawback right against our investment adviser per se, the amount of accrued income written off in any period will reduce the income in the period in which such write-off was taken and thereby reduce such period's incentive fee payment, but only to the extent that such an incentive fee is payable for that period because the write-off will not be carried forward to reduce any incentive fee payable in subsequent quarters.

We are dependent upon senior management personnel of our investment adviser for our future success, and if our investment adviser is unable to retain qualified personnel or if our investment adviser loses any member of its senior management team, our ability to achieve our investment objective could be significantly harmed.

We depend on the members of senior management of THL Credit Advisors, particularly its Chief Executive Officer and Chief Investment Officer, James K. Hunt, its Co-Presidents, W. Hunter Stropp and Sam W. Tillinghast, its Chief Operating Officer and Chief Financial Officer, Terrence W. Olson, its Chief Compliance Officer and General Counsel, Stephanie Paré Sullivan, its Managing Director, Christopher J. Flynn, collectively, the THL Credit Principals. Messrs. Hunt, Stropp, Tillinghast and Flynn constitute the investment principals of THL Credit Advisors, or the THL Credit Investment Principals. The THL Credit Investment Principals and other investment professionals make up our investment team and are responsible for the identification, final selection, structuring, closing and monitoring of our investments. These investment team members have critical industry experience and relationships that we will rely on to implement our business plan. Our future success depends on the continued service of the THL Credit Principals and the rest of our investment adviser's senior management team. The departure of any of the members of THL Credit Advisors' senior management or a significant number of the members of its investment team could have a material adverse effect on our ability to achieve our investment objective. As a result, we may not be able to operate our business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer. In addition, we can offer no assurance that THL Credit Advisors will remain our investment adviser or our administrator.

Our investment adviser and its affiliates, senior management and employees may have certain conflicts of interest.

Our investment adviser, its senior management and employees serve or may serve as investment advisers, officers, directors or principals of entities that operate in the same or a related line of business. For example, THL Credit Advisors may serve as investment adviser to one or more registered closed-end funds. In addition, our officers may serve in similar capacities for one or more registered closed-end funds. Accordingly, these individuals may have obligations to investors in those entities or funds, the fulfillment of which might not be in our best interests or the best interests of our stockholders. In addition, certain of the personnel employed by our investment adviser or focused on our business may change in ways that are detrimental to our business. Any affiliated investment vehicle formed in the future and managed by THL Credit Advisors or its affiliates may invest in asset classes similar to those targeted by us. As a result, THL Credit Advisors may face conflicts in allocating investment opportunities between us and such other entities. Although THL Credit Advisors will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in such investments. In any such case, if THL Credit Advisors forms other affiliates in the future, it is possible we may co-invest on a concurrent basis with such other affiliates, subject to compliance with applicable regulations and regulatory guidance, as well as applicable allocation procedures. In certain

Edgar Filing: THL Credit, Inc. - Form 10-Q

circumstances, negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance when any such order would be obtained or that one will be obtained at all.

Table of Contents

There are potential conflicts of interest between us and the fund managed by us which could impact our investment returns.

THL Credit Greenway Fund LLC, or Greenway, is an investment fund with \$150 million of capital committed by affiliates of a single institutional investor, which has been called and invested by Greenway, and is managed by us. THL Credit Greenway Fund II LLC, or Greenway II LLC, is an investment fund with \$186.5 million of capital commitments from primarily institutional investors. Greenway II LLC is also managed by us. As contemplated in the Greenway II limited liability agreement, we established a related investment vehicle and entered into an investment management agreement with an account set up by an unaffiliated third party investor to invest alongside Greenway II LLC pursuant to similar economic terms. The account is also managed by us. References to Greenway II herein include Greenway II LLC and the accounts of related investment vehicles.

Certain of our officers serve or may serve in an investment management capacity to Greenway and Greenway II. As a result, investment professionals may allocate such time and attention as is deemed appropriate and necessary to carry out operations of Greenway and Greenway II. In this respect, they may experience diversions of their attention from us and potential conflicts of interest between their work for us and their work for Greenway and Greenway II in the event that the interests of Greenway and Greenway II run counter to our interests.

Greenway and Greenway II invests in the same or similar asset classes that we target. These investments may be made at the direction of the same individuals acting in their capacity on behalf of us, Greenway and Greenway II. As a result, there may be conflicts in the allocation of investment opportunities between us, Greenway and Greenway II. We may or may not participate in investments made by funds managed by us or one of our affiliates.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating rate debt securities

Concerns about under-reporting of inter-bank lending rates, which are used to calculate LIBOR, have existed since 2008. Following a review conducted at the request of U.K. Government, in September 2012 recommendations, known as the Wheatley Review, were published for reforming the setting and governing of LIBOR. The Wheatley Review made a number of recommendations for changes with respect to LIBOR, including the introduction of statutory regulation of LIBOR, the transfer of responsibility for LIBOR from the British Bankers Association to an independent administrator, changes to the method of compilation of lending rates and new regulatory oversight and enforcement mechanisms for rate-setting and reduction in the number of currencies and tenors for which LIBOR is published. In October 2012, the Financial Secretary to the U.K. Treasury endorsed the report's recommendations and indicated that the U.K. Government would act without delay to implement them. However, it is not possible to predict the effect of any changes, including those recommended by the Wheatley Review, in the methods pursuant to which the LIBOR rates are determined. Any such changes or reforms to LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR rates, which could have an adverse impact on the value of your investment and/or our results of operations. In addition, uncertainty as to the extent and mechanism by which any reforms will be adopted and the timing of such changes may adversely affect the current trading market for LIBOR-based securities. Any uncertainty in the value of LIBOR or the development of a widespread market view that LIBOR has been or is being manipulated may adversely affect the liquidity of our loan portfolio in the secondary market. An increase in alternative types of financing at the expense of LIBOR-based syndicated commercial loans may make it more difficult for us to source secured floating rate loans or reinvest proceeds in secured floating rate loans that satisfy our investment criteria or increase interest expense.

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

We issued a total of 0 shares and 2 share of common stock under our dividend reinvestment plan during the nine months ended September 30, 2013 and 2012, 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 and nine months ended September 30, 2012 was approximately \$0 and \$26, respectively. No shares of common stock were issued under the dividend reinvestment plan during the three and nine months ended September 30, 2013.

Item 3. Defaults Upon Senior Securities

None.

Table of Contents

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):

- 10.1 Amendment No. 4 to Senior Secured Revolving Credit Agreement, dated as of October 9, 2013, among THL Credit, Inc. as borrower, the subsidiaries of THL Credit, Inc. party thereto, the lenders from time to time party thereto and ING Capital LLC as administrative agent.*
- 10.2 Amendment No. 3 to Senior Secured Term Loan Credit Agreement, dated as of October 9, 2013, among THL Credit, Inc. as borrower, the subsidiaries of THL Credit, Inc. party thereto, the lenders party thereto, and ING Capital LLC as administrative agent.*
- 11 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 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: November 4, 2013

By:

/s/ JAMES K. HUNT
James K. Hunt
Chief Executive Officer

Date: November 4, 2013

By:

/s/ TERRENCE W. OLSON
Terrence W. Olson
Chief Financial Officer