

THL Credit, Inc.  
Form 10-Q  
May 12, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2014

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)

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

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

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

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

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

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding at May 12, 2014 was 33,905,202.

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**THL CREDIT, INC.**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014**

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**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Statements of Assets and Liabilities**

(in thousands, except per share data)

	March 31, 2014 (unaudited)	December 31, 2013
<b>Assets:</b>		
Investments at fair value:		
Non-controlled, non-affiliated investments (cost of \$736,678 and \$645,911, respectively)	\$ 739,019	\$ 648,860
Non-controlled, affiliated investments (cost of \$8 and \$7, respectively)	8	7
<b>Total investments at fair value (cost of \$736,686 and \$645,918, respectively)</b>	<b>\$ 739,027</b>	<b>\$ 648,867</b>
Cash	13,951	7,829
Deferred financing costs	4,297	4,604
Interest receivable	7,641	7,225
Escrow receivable	1,800	1,800
Receivable for paydown of investments	1,006	275
Due from affiliate	839	1,025
Other deferred assets	779	825
Prepaid expenses and other assets	392	441
<b>Total assets</b>	<b>\$ 769,732</b>	<b>\$ 672,891</b>
<b>Liabilities:</b>		
Loans payable	\$ 305,350	\$ 204,300
Payable for investment purchased		4,400
Accrued incentive fees	4,486	3,421
Base management fees payable	2,524	2,243
Deferred tax liability	1,329	2,414
Accrued expenses	1,393	1,617
Income taxes payable	630	71
Due to affiliate	498	474
Accrued administrator expenses	427	158
Other deferred liabilities	247	
Accrued credit facility fees and interest	223	567
Interest rate derivative	230	284
<b>Total liabilities</b>	<b>317,337</b>	<b>219,949</b>
Commitments and contingencies (Note 8)		
<b>Net Assets:</b>		
Preferred stock, par value \$.001 per share, 100,000 preferred shares authorized, no preferred shares issued and outstanding		
Common stock, par value \$.001 per share, 100,000 common shares authorized, 33,905 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	34	34
Paid-in capital in excess of par	449,164	450,043
Net unrealized appreciation on investments, net of provision for taxes of \$1,443 and \$2,414, respectively	897	535
Net unrealized depreciation on interest rate derivative	(230)	(284)
Interest rate derivative periodic interest payments, net	(726)	(613)
Accumulated undistributed net realized gains		2,023
Accumulated undistributed net investment income	3,256	1,204

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Total net assets	452,395	452,942
Total liabilities and net assets	\$ 769,732	\$ 672,891
Net asset value per share	\$ 13.34	\$ 13.36

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)

	For the three months ended March 31,	
	2014	2013
<b>Investment Income:</b>		
From non-controlled, non-affiliated investments:		
Interest income	\$ 17,552	\$ 13,890
Dividend income	2,147	
Other income	442	35
From non-controlled, affiliated investment:		
Other income	754	498
Total investment income	20,895	14,423
<b>Expenses:</b>		
Incentive fees	2,745	2,312
Base management fees	2,524	1,523
Credit facility interest and fees	2,089	1,094
Administrator expenses	927	889
Other general and administrative expenses	585	349
Amortization of deferred financing costs	307	496
Professional fees	311	227
Directors fees	149	127
Total expenses	9,637	7,017
Income tax provision and excise tax	558	
Net investment income	10,700	7,406
<b>Realized Gain (Loss) and Change in Unrealized Appreciation on Investments:</b>		
Net realized gain on non-controlled, non-affiliated investments	299	
Net change in unrealized appreciation on investments:		
Non-controlled, non-affiliated investments	(609)	1,699
Non-controlled, affiliated investments		
Net change in unrealized appreciation on investments	(609)	1,699
Net realized and unrealized (loss) gain from investments	(310)	1,699
Provision for taxes on realized gain on investments	(321)	
Benefit (provision) for taxes on unrealized gain on investments	971	(529)
Interest rate derivative periodic interest payments, net	(113)	(104)
Net change in unrealized appreciation (depreciation) on interest rate derivative	54	142
Net increase in net assets resulting from operations	\$ 10,981	\$ 8,614
<b>Net investment income per common share:</b>		
Basic and diluted	\$ 0.32	\$ 0.28
<b>Net increase in net assets resulting from operations per common share:</b>		
Basic and diluted	\$ 0.32	\$ 0.33
Dividends declared and paid	\$ 0.34	\$ 0.33
<b>Weighted average shares of common stock outstanding:</b>		
Basic and diluted	33,905	26,315

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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)**

	<b>For the three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Increase in net assets from operations:		
Net investment income	\$ 10,700	\$ 7,406
Interest rate derivative periodic interest payments, net	(113)	(104)
Net realized gain on investments	299	
Income tax provision, realized gain	(321)	
Net change in unrealized appreciation on investments	(609)	1,699
Benefit (provision) for taxes on unrealized appreciation on investments	971	(529)
Net change in unrealized appreciation (depreciation) on interest rate derivative	54	142
Net increase in net assets resulting from operations	10,981	8,614
Distributions to stockholders from net investment income	(9,244)	(8,684)
Distribution to stockholders from net realized gain	(2,284)	
Total decrease in net assets	(547)	(70)
Net assets at beginning of period	452,942	347,485
Net assets at end of period	\$ 452,395	\$ 347,415
Common shares outstanding at end of period	33,905	26,315

See accompanying notes to these consolidated financial statements



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

(in thousands)

	<b>For the three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 10,981	\$ 8,614
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in unrealized appreciation on investments	609	(1,699)
Net change in unrealized (appreciation) depreciation on interest rate derivative	(54)	(142)
Realized loss on investments	455	
Increase in investments due to PIK	(535)	(1,002)
Amortization of deferred financing costs	307	496
Accretion of discounts on investments and other fees	(1,106)	(438)
Changes in operating assets and liabilities:		
Purchases of investments	(128,636)	(59,418)
Proceeds from sale and paydown of investments	38,322	25,076
Increase in interest receivable	(416)	(3,946)
Decrease (increase) in due from affiliate	186	(246)
Decrease in other deferred assets	56	
Increase in prepaid expenses and other assets	49	(41)
Decrease in payable for investment purchased	(4,400)	
Decrease in accrued expenses	(234)	(157)
(Decrease) increase in accrued credit facility fees and interest	(344)	158
Increase in income taxes payable	559	
(Decrease) increase in deferred tax liability	(1,085)	529
Increase in base management fees payable	281	9
Increase (decrease) in accrued administrator expenses	269	(296)
Increase in other deferred liabilities	247	
Increase (decrease) in incentive fees payable	1,065	(19)
Increase in due to affiliate	24	23
Decrease in dividend payable		(1,316)
Net cash used in operating activities	(83,400)	(33,815)
Cash flows from financing activities		
Borrowings under credit facility	122,550	107,700
Repayments under credit facility	(21,500)	(67,850)
Distributions paid to stockholders	(11,528)	(8,684)
Financing and offering costs paid		(1,342)
Net cash provided by financing activities	89,522	29,824
Net increase (decrease) in cash and cash equivalents	6,122	(3,991)
Cash and cash equivalents, beginning of period	7,829	4,819
Cash and cash equivalents, end of period	\$ 13,951	\$ 828
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash interest paid	\$ 1,916	\$ 599
PIK income earned	\$ 535	\$ 1,002

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**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (unaudited)****March 31, 2014****(dollar amounts in thousands)**

Portfolio company/Type of Investment <sup>(1)(21)</sup>	Industry	Interest Rate <sup>(2)</sup>	Initial Acquisition Date	Maturity/Dissolution Date	Principal <sup>(3)</sup> No. of Shares / No. of Units	Amortized Cost	Fair Value
<b>Non-controlled/non-affiliated investments 163.36% of net asset value</b>							
20-20 Technologies Inc.							
Senior Secured Term Loan <sup>(4)</sup>	IT services	10.8% <sup>(5)</sup>	09/12/12	03/31/19	\$ 32,000	\$ 31,630	\$ 31,680
						31,630	31,680
Adirondack Park CLO Ltd.							
Subordinated Notes, Residual Interest <sup>(4)</sup>	Financial services	12.40% <sup>(12)</sup>	03/27/13	04/15/24		\$ 8,731	\$ 9,000
						8,731	9,000
AIM Media Texas Operating, LLC							
Member interest <sup>(7)(8)</sup>	Media, entertainment and leisure		06/21/12		0.763636	\$ 764	\$ 934
						764	934
Airborne Tactical Advantage Company, LLC							
Senior Secured Note	Aerospace & defense	11.0%	09/07/11	03/07/16	\$ 4,000	\$ 3,904	\$ 3,980
Class A Warrants <sup>(9)</sup>			09/07/11		511,812	113	100
Series A Preferred Stock <sup>(9)</sup>			09/17/13		225,000	169	243
						4,186	4,323
Allen Edmonds Corporation							
Second Lien Term Loan	Consumer products	10% (LIBOR + 9.0%)	11/26/13	05/27/19	\$ 7,333	\$ 7,194	\$ 7,194
						7,194	7,194
Allied Wireline Services, LLC							
Senior Secured Term Loan	Energy / Utilities	9.5% (LIBOR + 8.0%)	02/28/14	02/28/19	\$ 10,314	\$ 9,837	\$ 9,837
Class A Common Equity <sup>(7)(8)(9)</sup>					618,868	619	619
Warrant for Common <sup>(7)(8)(9)</sup>					501,159	175	175
						10,631	10,631
BeneSys Inc.							
Senior Secured Term Loan	Business services	10.8% (LIBOR + 9.8%)	03/31/14	03/31/19	\$ 8,333	\$ 8,167	\$ 8,167
						8,167	8,167

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Blue Coat Systems, Inc.								
Second Lien Term Loan	IT services	9.5% (LIBOR + 8.5%)	06/27/13	06/27/20	\$	15,000	\$ 14,865	\$ 15,450
							14,865	15,450
C&K Market, Inc.								
Senior Subordinated Note	Retail & grocery	18.0% <sup>(18)</sup>	11/3/2010	11/3/2015	\$	13,650	\$ 13,302	\$ 10,237
Warrant for Class B			11/3/2010			156,552	349	
							13,651	10,237
Charming Charlie, LLC.								
Senior Secured Term Loan	Retail & grocery	9.0% (LIBOR + 8.0%)	12/18/13	12/31/19	\$	27,000	\$ 26,608	\$ 27,000
							26,608	27,000
Connecture, Inc.								
Second Lien Term Loan	Healthcare	10.0% (LIBOR + 9.0%)	03/18/13	07/15/18	\$	7,000	\$ 6,881	\$ 6,860
Second Lien Term Loan	Healthcare	12.5% (LIBOR + 11.5%)	03/19/14	07/15/18	\$	4,900	4,790	4,949
							11,671	11,809
Copperweld Bimetallics LLC								
Senior Secured Term Loan	Industrials	12.0%	12/11/13	12/11/18	\$	21,450	\$ 20,630	\$ 21,023
							20,630	21,023

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See accompanying notes to these consolidated financial statements

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (unaudited) (Continued)****March 31, 2014****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)(21)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Country Pure Foods, LLC Subordinated Term Loan	Food & beverage	13.0%	08/13/10	02/13/17	\$ 16,181	\$ 16,181	\$ 16,019
						16,181	16,019
CRS Reprocessing, LLC Senior Secured Term Loan	Manufacturing	10.3% (LIBOR + 9.3%)	06/16/11	06/16/15	\$ 16,554	\$ 16,511	\$ 16,554
						16,511	16,554
Cydcor LLC Senior Secured Term Loan <sup>(20)</sup>	Business services	9.8% (LIBOR +7.3%)	06/17/13	06/12/17	\$ 13,156	\$ 13,156	\$ 13,156
						13,156	13,156
Dr. Fresh, LLC Subordinated Term Loan	Consumer products	14.0% <sup>(6)</sup> (12.0% Cash and 2.0% PIK)	05/15/12	11/15/17	\$ 14,520	\$ 14,306	\$ 14,520
						14,306	14,520
Dryden CLO, Ltd. Subordinated Notes, Residual Interest <sup>(4)</sup>	Financial services	13.6% <sup>(12)</sup>	09/12/13	11/15/25		\$ 9,159	\$ 9,400
						9,159	9,400
Duff & Phelps Corporation Tax Receivable Agreement Payment Rights <sup>(11)</sup>	Financial services	17.0% <sup>(12)</sup>	06/01/12	12/31/29		\$ 12,163	\$ 13,853
Senior Secured Term Loan <sup>(11)</sup>		4.5% (LIBOR + 3.5%)	05/15/13	04/23/20	\$ 248	251	249
						12,414	14,102
Embarcadero Technologies, Inc. Senior Secured Term Loan	IT services	10.5% <sup>(5)</sup>	02/15/13	12/28/17	\$ 9,688	\$ 9,571	\$ 9,639
						9,571	9,639
Expert Global Solutions, Inc. Second Lien Term Loan		12.5% <sup>(6)</sup> (LIBOR	06/21/13	10/03/18	\$ 18,727	\$ 18,977	\$ 18,353

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	Business services	+ 10.2% and 0.8% PIK)					18,977	18,353
Express Courier International, Inc.								
Secured Subordinated Term Loan	Business services	15.0% <sup>(13)</sup> (PIK)	01/17/12	07/17/16	\$ 8,922	\$ 7,652	\$ 6,601	
							7,652	6,601
Firebirds International, LLC								
Common stock <sup>(9)</sup>	Restaurants		05/17/11		1,906	\$ 191	\$ 249	
							191	249
Flagship VII, Ltd.								
Subordinated Notes, Residual Interest <sup>(4)</sup>	Financial services	14.2% <sup>(12)</sup>	12/18/13	01/20/26	\$ 4,409	\$ 4,450		
							4,409	4,450
Food Processing Holdings, LLC								
Senior Secured Term Loan <sup>(14)</sup>	Food & beverage	10.5% (LIBOR + 9.5%)	10/31/13	10/31/18	\$ 22,202	\$ 21,787	\$ 21,980	
Senior Secured Delayed Draw Loan <sup>(10)</sup>		10.5% (LIBOR + 9.5%)	10/31/13	10/31/18				
Class A Units <sup>(9)</sup>			04/20/10		162.44	163	210	
Class B Units <sup>(9)</sup>			04/20/10		406.09	408	300	
							22,358	22,490
Freeport Financial SBIC Fund LP								
Member interest <sup>(16)</sup>	Financial services		06/14/13		\$ 1,649	\$ 1,649		
							1,649	1,649

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See accompanying notes to these consolidated financial statements

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (unaudited) (Continued)****March 31, 2014****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)(21)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Gold, Inc.</b>							
Subordinated Term Loan	Consumer products	11.0%	12/31/12	06/30/19	\$ 16,788	\$ 16,788	\$ 16,788
						16,788	16,788
<b>Gryphon Partners 3.5, L.P.</b>							
Partnership interest <sup>(16)</sup>	Financial services		11/20/12	12/21/18		\$ 199	\$ 438
						199	438
<b>Harrison Gypsum, LLC</b>							
Senior Secured Term Loan	Industrials	10.5% <sup>(6)</sup> (LIBOR + 8.5% and 0.5% PIK)	12/21/12	12/21/17	\$ 24,114	\$ 23,829	\$ 23,993
						23,829	23,993
<b>Hart InterCivic, Inc.</b>							
Senior Secured Term Loan	IT services	11.5% (LIBOR + 9.0% and 1% PIK)	07/01/11	07/01/16	\$ 8,717	\$ 8,628	\$ 8,543
Senior Secured Revolving Loan <sup>(10)</sup>		10.5% (LIBOR + 9.0%)	07/01/11	07/01/16	\$ 800	773	800
						9,401	9,343
<b>HEALTHCAREfirst, Inc.</b>							
Senior Secured Term Loan	Healthcare	12.5% <sup>(5)</sup>	08/31/12	08/30/17	\$ 9,050	\$ 8,848	\$ 8,462
						8,848	8,462
<b>Holland Intermediate Acquisition Corp.</b>							
Senior Secured Term Loan	Energy / Utilities	10.0% (LIBOR + 9.0%)	05/29/13	05/29/18	\$ 24,227	\$ 23,772	\$ 24,227
Senior Secured Revolving Loan <sup>(10)</sup>		10.0% (LIBOR + 9.0%)	05/29/13	05/29/18			
						23,772	24,227
<b>Hostway Corporation</b>							
Senior Secured Term Loan	IT services	6.0% (LIBOR + 4.8%)	12/27/13	12/13/19	\$ 9,938	\$ 9,842	\$ 9,842
Second Lien Term Loan			12/27/13	12/13/20	\$ 12,000	11,766	11,766

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		10.0% (LIBOR + 8.8%)						
Class A Common Equity <sup>(9)</sup>			12/27/13		20,000	200	200	
Class A Preferred Equity <sup>(9)</sup>			12/27/13		1,800	1,800	1,800	
							23,608	23,608
<b>Igloo Products Corp.</b>								
Senior Secured Term Loan	Consumer products	10.3% (LIBOR + 8.8%)	03/28/14	03/28/20	\$ 24,922	\$ 24,362	\$ 24,362	
							24,362	24,362
<b>Ingenio Acquisition, LLC</b>								
Senior Secured Term Loan	Media, entertainment and leisure	11.3% (10.3% Cash + 1.0% PIK)	05/09/13	05/09/18	\$ 9,199	\$ 9,040	\$ 9,199	
							9,040	9,199
<b>Key Brand Entertainment, Inc.</b>								
Senior Secured Term Loan	Media, entertainment and leisure	9.8% (LIBOR + 8.5%)	08/08/13	08/08/18	\$ 13,178	\$ 12,942	\$ 13,046	
Senior Secured Revolving Loan <sup>(10)(15)</sup>		9.8% (LIBOR + 8.5%)	08/08/13	08/08/18			(26)	
							12,916	13,046
<b>Loadmaster Derrick &amp; Equipment, Inc.</b>								
Senior Secured Term Loan	Energy / Utilities	9.3% (LIBOR + 8.3%)	09/28/12	09/28/17	\$ 8,828	\$ 8,652	\$ 8,784	
Senior Secured Revolving Loan <sup>(10)(14)</sup>	Energy / Utilities	9.3% (LIBOR + 8.3%)	09/28/12	09/28/17	\$ 1,750	1,750	1,750	
Senior Secured Delayed Draw Term Loans <sup>(10)</sup>		9.3% (LIBOR + 8.3%)	09/28/12	09/28/17				
							10,402	10,534

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See accompanying notes to these consolidated financial statements



**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (unaudited) (Continued)****March 31, 2014****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)(21)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/ Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Martex Fiber Southern Corp. Subordinated Term Loan	Industrials	13.5% <sup>(6)</sup> (12.0% Cash and 1.5% PIK)	04/30/12	10/31/19	\$ 8,923	\$ 8,815	\$ 8,388
						8,815	8,388
NCM Group Holdings, LLC Senior Secured Term Loan	Industrials	12.5% (LIBOR + 11.5%)	08/29/13	08/29/18	\$ 26,727	\$ 25,751	\$ 27,796
						25,751	27,796
Oasis Legal Finance Holding Company LLC Second Lien Term Loan	Financial services	10.5%	09/30/13	09/30/18	\$ 13,943	\$ 13,686	\$ 13,804
						13,686	13,804
Octagon Income Note XIV, Ltd. Income Notes, Residual Interest <sup>(4)</sup>	Financial services	15.5% <sup>(12)</sup>	12/19/12	01/15/24		\$ 8,254	\$ 8,600
						8,254	8,600
OEM Group, Inc. Senior Secured Note	Manufacturing	15.0% <sup>(6)</sup> (12.5% Cash and 2.5% PIK)	10/07/10	10/07/15	\$ 15,257	\$ 15,092	\$ 14,494
Warrant for Common			10/07/10				
						15,092	14,494
Sheplers, Inc. Senior Secured Second Lien Term Loan	Retail & grocery	13.2% (LIBOR + 11.7%)	12/20/11	12/20/16	\$ 11,426	\$ 11,247	\$ 11,484
Subordinated Term Loan		17.0% <sup>(17)</sup> (10.0% Cash and 7.0% PIK)	12/20/11	12/20/17	\$ 1,937	1,913	1,947
						13,160	13,431
Sheridan Square CLO, Ltd Income Notes, Residual Interest <sup>(4)</sup>	Financial services	13.2% <sup>(12)</sup>	03/12/13	04/15/25		\$ 5,871	\$ 6,097

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						5,871	6,097	
Specialty Brands Holdings, LLC								
Second Lien Term Loan	Restaurants	11.3% (LIBOR + 9.8%)	07/16/13	07/16/18	\$ 20,977	\$ 20,604	\$ 20,610	
								20,604 20,610
The Studer Group, L.L.C.								
Senior Subordinated Note	Healthcare	12.0%	09/29/11	01/31/19	\$ 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	\$ 10,000	\$ 9,775	\$ 9,925	
Member interest <sup>(8)(9)</sup>			04/20/10		469,673		1,300	
								9,775 11,225
Synarc-Biocore Holdings, LLC								
Second Lien Term Loan	Healthcare	9.3% (LIBOR + 8.3%)	03/13/14	03/13/22	\$ 11,000	\$ 10,890	\$ 10,890	
								10,890 10,890
Tectum Holdings, Inc.								
Second Lien Term Loan	Transportation	9.0% (LIBOR + 8.0%)	03/12/14	03/12/19	\$ 12,000	\$ 11,941	\$ 11,941	
								11,941 11,941
Tri Starr Management Services, Inc.								
Senior Subordinated Note	IT services	15.8% <sup>(6)</sup> (12.5% Cash and 3.3% PIK)	03/04/13	03/04/19	\$ 18,456	\$ 18,141	\$ 18,086	
								18,141 18,086

(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)****March 31, 2014****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)(21)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
TriMark USA, LLC							
Second Lien Term Loan	Food & beverage	10.0% (LIBOR + 9.0%)	02/18/14	08/11/19	\$ 20,000	19,606	19,606
						19,606	19,606
Trinity Services Group, Inc.							
Senior Subordinated Note	Food & beverage	14.5% <sup>(6)</sup> (12.0% Cash and 2.5% PIK)	03/29/12	09/29/17	\$ 22,911	\$ 22,636	\$ 22,796
						22,636	22,796
Vision Solutions, Inc.							
Second Lien Term Loan	IT services	9.5% (LIBOR + 8.0%)	03/31/11	07/23/17	\$ 11,625	\$ 11,565	\$ 11,625
						11,565	11,625
Washington Inventory Service							
Senior Secured Term Loan	Business services	10.3% (LIBOR + 9.0%)	12/27/12	06/20/19	\$ 11,000	\$ 10,867	\$ 11,055
						10,867	11,055
Wheels Up Partners, LLC							
Senior Secured Term Loan	Transportation	9.6% (LIBOR + 8.6%)	01/31/14	10/15/20	\$ 5,377	5,240	5,240
Common stock <sup>(7)(8)(9)</sup>					1,000,000	1,000	1,000
						6,240	6,240
Wingspan Portfolio Holdings, Inc.							
Subordinated Term Loan	Financial services	15.5% <sup>(19)</sup>	05/21/13	11/21/16	\$ 18,768	\$ 18,447	\$ 14,545
						18,447	14,545
YP Equity Investors, LLC							
Member interest <sup>(7)(8)</sup>	Media, entertainment and leisure		05/08/12			\$	\$ 2,250
							2,250

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**Non-controlled/non-affiliated investments 163.36% of net asset value** **\$ 736,678 \$ 739,019**

**Non-controlled/affiliated investments 0.00% of net asset value**

THL Credit Greenway Fund LLC							
Member interest <sup>(8)(16)</sup>	Financial services	01/27/11	1/14/2021		\$ 5	\$	5
						5	5
THL Credit Greenway Fund II LLC							
Member interest <sup>(8)(16)</sup>	Financial services	03/01/13	10/10/2021		\$ 3	\$	3
						3	3

**Total investments 163.36% of net asset value** **\$ 736,686 \$ 739,027**

**Derivative Instruments**

Counterparty	Instrument	Interest Rate	Expiration Date	# of Contracts	Notional	Cost	Fair Value
ING Capital Markets, LLC	Interest Rate Swap Pay Fixed/Receive Floating	1.1425%/LIBOR	5/10/2017	1	\$ 50,000	\$	\$ (230)

**Total derivative instruments 0.05% of net asset value** **\$ \$ (230)**

(Continued on next page)

See accompanying notes to these consolidated financial statements

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**THL Credit, Inc. and Subsidiaries**

**Consolidated Schedule of Investments (unaudited)**

**March 31, 2014**

**(dollar amounts in thousands)**

- (1) All debt investments are income-producing, unless otherwise noted. 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 March 31, 2014. 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 implied interest rate 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 the effective yield to expected maturity as of March 31, 2014.
- (13) Loan was on non-accrual status as of March 31, 2014. Issuer's contractual rate was 15.0% PIK until December 31, 2013 and then for each of the quarters ending March 31, 2014 and June 30, 2014, the lesser of excess cash flow for the quarter or 12% paid in cash with the remainder amount paid in PIK up to a total rate of 15%.
- (14) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan.
- (15) Debt investment interest held in companies related to the portfolio company.
- (16) Non-registered investment company at the time of investment and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (17) 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.
- (18) C&K Market, Inc. filed for bankruptcy in November 2013. Loan was on non-accrual status as of March 31, 2014. Contractual default rate of interest is 18.0%.
- (19) Contractual default rate of interest is 15.5%. Loan was on non-accrual status as of March 31, 2014. Previously accrued and unpaid interest totaling \$1,391 that was deferred until April 15, 2014 was reversed during the quarter against interest income in connection with the loan going on non-accrual status.
- (20) Of the \$13,156 senior secured term loans outstanding, \$11,695 is based in the United States and \$1,461 is based in Canada. The Canadian investment is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (21) All investments are pledged as collateral under the Revolving Facility and Term Loan Facility.

See accompanying notes to these consolidated financial statements

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments****December 31, 2013****(dollar amounts in thousands)**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Interest Rate <sup>(2)</sup>	Initial Acquisition Date	Maturity/Dissolution Date	Principal <sup>(3)</sup> No. of Shares / No. of Units	Amortized Cost	Fair Value
<b>Non-controlled/non-affiliated investments 143.26% of net asset value</b>							
20-20 Technologies Inc.							
Senior Secured Term Loan <sup>(4)</sup>	IT services	13.6% <sup>(5)</sup>	09/12/12	09/12/17	\$ 13,650	\$ 13,378	\$ 13,582
						13,378	13,582
Adirondack Park CLO Ltd.							
Subordinated Notes, Residual Interest <sup>(4)</sup>	Financial services	13.7% <sup>(12)</sup>	03/27/13	04/15/24		\$ 9,171	\$ 9,110
						9,171	9,110
AIM Media Texas Operating, LLC							
Member interest <sup>(7)(8)</sup>	Media, entertainment and leisure		06/21/12		0.763636	\$ 764	\$ 1,000
						764	1,000
Airborne Tactical Advantage Company, LLC							
Senior Secured Note	Aerospace & defense	11.0%	09/07/11	03/07/16	\$ 4,000	\$ 3,894	\$ 3,970
Class A Warrants <sup>(9)</sup>			09/07/11		512	113	135
Series A Preferred Stock <sup>(9)</sup>			09/17/13		225	169	255
						4,176	4,360
Allen Edmonds Corporation							
Second Lien Term Loan	Consumer products	10% (LIBOR + 9.0%)	11/26/13	05/27/19	\$ 7,333	\$ 7,189	\$ 7,189
						7,189	7,189
Blue Coat Systems, Inc.							
Second Lien Term Loan	IT services	9.5% (LIBOR + 8.5%)	06/27/13	06/27/20	\$ 15,000	\$ 14,860	\$ 15,150
						14,860	15,150
C&K Market, Inc.							
Senior Subordinated Note	Retail & grocery	18.0% <sup>(18)</sup>	11/3/2010	11/3/2015	\$ 13,650	\$ 13,303	\$ 10,237
Warrant for Class B			11/3/2010		156,552	349	
						13,652	10,237
Charming Charlie, LLC.							

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Senior Secured Term Loan	Retail & grocery	9.0% (LIBOR + 8.0%)	12/18/13	12/31/19	\$ 27,000	\$ 26,595	\$ 26,595
						26,595	26,595
Connecture, Inc.							
Second Lien Term Loan	Healthcare	10.0% (LIBOR + 9.0%)	03/18/13	07/15/18	\$ 7,000	\$ 6,875	\$ 7,000
						6,875	7,000
Copperweld Bimetallics LLC							
Senior Secured Term Loan	Industrials	12.0%	12/11/13	12/11/18	\$ 21,725	\$ 20,863	\$ 20,863
						20,863	20,863
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	\$ 17,647	\$ 17,588	\$ 17,647
						17,588	17,647
Cydcor LLC							
Senior Secured Term Loan <sup>(20)</sup>	Business services	9.8% (LIBOR + 7.3%)	06/17/13	06/12/17	\$ 13,442	\$ 13,442	\$ 13,442
						13,442	13,442

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See accompanying notes to these consolidated financial statements

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (continued)****December 31, 2013****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Dr. Fresh, LLC</b>							
Subordinated Term Loan	Consumer products	14.0% <sup>(6)</sup> (12.0% Cash and 2.0% PIK)	05/15/12	11/15/17	\$ 14,447	\$ 14,223	\$ 14,375
						14,223	14,375
<b>Dryden CLO, Ltd.</b>							
Subordinated Notes, Residual Interest <sup>(4)</sup>	Financial services	13.6% <sup>(12)</sup>	09/12/13	11/15/25		\$ 9,128	\$ 9,300
						9,128	9,300
<b>Duff &amp; Phelps Corporation</b>							
Tax Receivable Agreement Payment Rights <sup>(11)</sup>	Financial services	16.2% <sup>(12)</sup>	06/01/12	12/31/29		\$ 12,163	\$ 13,844
Senior Secured Term Loan <sup>(11)</sup>		4.5% (LIBOR + 3.5%)	05/15/13	04/23/20	\$ 249	252	249
						12,415	14,093
<b>Embarcadero Technologies, Inc.</b>							
Senior Secured Term Loan	IT services	10.7% <sup>(5)</sup>	02/15/13	12/28/17	\$ 9,817	\$ 9,692	\$ 9,743
						9,692	9,743
<b>Expert Global Solutions, Inc.</b>							
Second Lien Term Loan	Business services	12.5% <sup>(6)</sup> (LIBOR + 10.2% and 0.8% PIK)	06/21/13	10/03/18	\$ 18,727	\$ 18,988	\$ 18,821
						18,988	18,821
<b>Express Courier International, Inc.</b>							
Secured Subordinated Term Loan	Business services	15.0% <sup>(13)</sup> (PIK)	01/17/12	07/17/16	\$ 8,595	\$ 7,652	\$ 6,601
						7,652	6,601
<b>Firebirds International, LLC</b>							
Common stock <sup>(9)</sup>	Restaurants		05/17/11		1,906	\$ 191	\$ 257
						191	257
<b>Flagship VII, Ltd.</b>							
Subordinated Notes, Residual Interest <sup>(4)</sup>	Financial services	13.9% <sup>(12)</sup>	12/18/13	01/20/26		\$ 4,400	\$ 4,400



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						4,400	4,400	
Food Processing Holdings, LLC								
Senior Secured Term Loan <sup>(14)</sup>	Food & beverage	10.5% (LIBOR + 9.5%)	10/31/13	10/31/18	\$ 22,202	\$ 21,770	\$ 21,770	
Senior Secured Delayed Draw Loan <sup>(10)</sup>		10.5% (LIBOR + 9.5%)	10/31/13	10/31/18				
Class A Units <sup>(9)</sup>			04/20/10		162.44	163	202	
Class B Units <sup>(9)</sup>			04/20/10		406.09	408	150	
						22,341	22,122	
Freeport Financial SBIC Fund LP								
Member interest <sup>(16)</sup>	Financial services		06/14/13		\$ 801	\$ 801		
						801	801	
Gold, Inc.								
Subordinated Term Loan	Consumer products	11.0%	12/31/12	06/30/19	\$ 16,788	\$ 16,788	\$ 16,788	
						16,788	16,788	
Gryphon Partners 3.5, L.P.								
Partnership interest <sup>(16)</sup>	Financial services		11/20/12	12/21/18	\$ 199	\$ 384		
						199	384	
Harrison Gypsum, LLC								
Senior Secured Term Loan	Industrials	10.5% <sup>(6)</sup> (LIBOR + 8.5% and 0.5% PIK)	12/21/12	12/21/17	\$ 24,369	\$ 24,065	\$ 24,247	
						24,065	24,247	
Hart InterCivic, Inc.								
Senior Secured Term Loan	IT services	11.5% (LIBOR + 9.0% and 1% PIK) <sup>(6)</sup>	07/01/11	07/01/16	\$ 8,696	\$ 8,597	\$ 8,522	
Senior Secured Revolving Loan <sup>(10)</sup>		10.5% (LIBOR + 9.0%)	07/01/11	07/01/16	\$ 800	770	800	
						9,367	9,322	
HEALTHCAREfirst, Inc.								
Senior Secured Term Loan	Healthcare	11.9% <sup>(5)</sup>	08/31/12	08/30/17	\$ 9,175	\$ 8,958	\$ 8,624	
						8,958	8,624	

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See accompanying notes to these consolidated financial statements

**Table of Contents****THL Credit, Inc. and Subsidiaries****Consolidated Schedule of Investments (Continued)****December 31, 2013****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/ Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Holland Intermediate Acquisition Corp.</b>							
Senior Secured Term Loan	Energy / Utilities	10.0% (LIBOR + 9.0%) 10.0% (LIBOR + 9.0%)	05/29/13	05/29/18	\$ 24,227	\$ 23,751	\$ 24,227
Senior Secured Revolving Loan <sup>(10)</sup>			05/29/13	05/29/18			
						23,751	24,227
<b>Hostway Corporation</b>							
Senior Secured Term Loan	IT services	6.0% (LIBOR + 4.8%) 10.0% (LIBOR + 8.8%)	12/27/13	12/13/19	\$ 10,000	\$ 9,900	\$ 9,900
Second Lien Term Loan			12/27/13	12/13/20	\$ 12,000	11,760	11,760
Class A Common Equity <sup>(9)</sup>			12/27/13		20	200	200
Class A Preferred Equity <sup>(9)</sup>			12/27/13		2	1,800	1,800
						23,660	23,660
<b>Ingenio Acquisition, LLC</b>							
Senior Secured Term Loan	Media, entertainment and leisure	12.8% <sup>(6)</sup> (11.3% Cash and 1.5% PIK)	05/09/13	05/09/18	\$ 9,606	\$ 9,433	\$ 9,558
						9,433	9,558
<b>Jefferson Management Holdings, LLC</b>							
Member interest <sup>(7)(8)</sup>	Healthcare		04/20/10		1,393	\$ 1,393	\$ 938
						1,393	938
<b>Key Brand Entertainment, Inc.</b>							
Senior Secured Term Loan	Media, entertainment and leisure	9.8% (LIBOR + 8.5%) 9.8% (LIBOR + 8.5%)	08/08/13	08/08/18	\$ 13,178	\$ 12,931	\$ 12,947
Senior Secured Revolving Loan <sup>(10)</sup>			08/08/13	08/08/18	\$ 1,478	1,451	1,478
						14,382	14,425
<b>LCP Capital Fund LLC</b>							
Member interest <sup>(8)(15)(16)</sup>	Financial services	12.6% <sup>(12)</sup>	04/20/10	02/15/15	\$ 8,354	\$ 8,354	\$ 8,354

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							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	\$ 8,828	\$ 8,642	\$ 8,608	
		9.3% (LIBOR + 8.3%)						
		9.3% (LIBOR + 8.3%)						
Senior Secured Revolving Loan <sup>(10)</sup>			09/28/12	09/28/17				
Senior Secured Delayed Draw Term Loans <sup>(10)</sup>			09/28/12	09/28/17				
							8,642	8,608
Martex Fiber Southern Corp.								
Subordinated Term Loan	Industrials	13.5% <sup>(6)</sup> (12.0% Cash and 1.5% PIK)	04/30/12	10/31/19	\$ 8,890	\$ 8,778	\$ 8,445	
							8,778	8,445
NCM Group Holdings, LLC								
Senior Secured Term Loan	Industrials	12.5% (LIBOR + 11.5%)	08/29/13	08/29/18	\$ 26,727	\$ 25,711	\$ 26,193	
							25,711	26,193
Oasis Legal Finance Holding Company LLC								
Second Lien Term Loan	Financial services	10.5%	09/30/13	09/30/18	\$ 13,943	\$ 13,676	\$ 13,676	
							13,676	13,676
Octagon Income Note XIV, Ltd.								
Income Notes, Residual Interest <sup>(4)</sup>	Financial services	15.5% <sup>(12)</sup>	12/19/12	01/15/24		\$ 8,579	\$ 8,656	
							8,579	8,656
OEM Group, Inc.								
Senior Secured Note	Manufacturing	15.0% <sup>(6)</sup> (12.5% Cash and 2.5% PIK)	10/07/10	10/07/15	\$ 15,162	\$ 14,974	\$ 14,480	
Warrant for Common			10/07/10					
							14,974	14,480

(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, 2013****(dollar amounts in thousands)**

<b>Portfolio company/Type of Investment<sup>(1)</sup></b>	<b>Industry</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Initial Acquisition Date</b>	<b>Maturity/ Dissolution Date</b>	<b>Principal<sup>(3)</sup> No. of Shares / No. of Units</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
SeaStar Solutions (f.k.a. Marine Acquisition Corp)							
Senior Subordinated Note	Manufacturing	13.5% <sup>(6)</sup> (11.5% Cash and 2.0% PIK)	09/18/12	05/18/17	\$ 16,500	\$ 16,209	\$ 16,830
						16,209	16,830
Sheplers, Inc.							
Senior Secured Second Lien Term Loan	Retail & grocery	13.2% (LIBOR + 11.7%)  17.0% <sup>(17)</sup> (10.0% Cash and 7.0% PIK)	12/20/11	12/20/16	\$ 11,426	\$ 11,233	\$ 11,426
Subordinated Term Loan			12/20/11	12/20/17	\$ 1,904	1,879	1,904
						13,112	13,330
Sheridan Square CLO, Ltd							
Income Notes, Residual Interest <sup>(4)</sup>	Financial services	13.2% <sup>(12)</sup>	03/12/13	04/15/25		\$ 6,064	\$ 6,152
						6,064	6,152
Specialty Brands Holdings, LLC							
Second Lien Term Loan	Restaurants	11.3% (LIBOR + 9.8%)	07/16/13	07/16/18	\$ 20,977	\$ 20,587	\$ 20,587
						20,587	20,587
The Studer Group, L.L.C.							
Senior Subordinated Note	Healthcare	12.0%	09/29/11	01/31/19	\$ 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	\$ 14,652	\$ 15,000
Member interest <sup>(8)(9)</sup>			04/20/10		469,673		2,000
						14,652	17,000
Tri Starr Management Services, Inc.							
Senior Subordinated Note	IT services	15.8% <sup>(6)</sup> (12.5% Cash and 3.3% PIK)	03/04/13	03/04/19	\$ 18,307	\$ 17,981	\$ 17,941

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							17,981	17,941
Trinity Services Group, Inc.								
Senior Subordinated Note	Food & beverage	14.5% <sup>(6)</sup> (12.0% Cash and 2.5% PIK)	03/29/12	09/29/17	\$ 14,411	\$ 14,252	\$ 14,122	
							14,252	14,122
Vision Solutions, Inc.								
Second Lien Term Loan	IT services	9.5% (LIBOR + 8.0%)	03/31/11	07/23/17	\$ 11,625	\$ 11,561	\$ 11,625	
							11,561	11,625
Washington Inventory Service								
Senior Secured Term Loan	Business services	10.3% (LIBOR + 9.0%)	12/27/12	06/20/19	\$ 11,000	\$ 10,861	\$ 11,165	
							10,861	11,165
Wingspan Portfolio Holdings, Inc.								
Subordinated Term Loan	Financial services	15.5% <sup>(19)</sup>	05/21/13	11/21/16	\$ 18,768	\$ 18,447	\$ 15,765	
							18,447	15,765
YP Equity Investors, LLC								
Member interest <sup>(7)(8)</sup>	Media, entertainment and leisure		05/08/12		\$	\$	4,100	
								4,100
<b>Non-controlled/non-affiliated investments 143.26% of net asset value</b>							<b>\$ 645,911</b>	<b>\$ 648,860</b>

(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, 2013****(dollar amounts in thousands)**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Interest Rate <sup>(2)</sup>	Initial Acquisition Date	Maturity/ Dissolution Date	Principal <sup>(3)</sup> No. of Shares / No. of Units	Amortized Cost	Fair Value
<b>Non-controlled/affiliated investments 0.00% of net asset value</b>							
THL Credit Greenway Fund LLC							
Member interest <sup>(8)(16)</sup>	Financial services		01/27/11	1/14/2021		\$ 5	\$ 5
						5	5
THL Credit Greenway Fund II LLC							
Member interest <sup>(8)(16)</sup>	Financial services		03/01/13	10/10/2021		\$ 2	\$ 2
						2	2
<b>Total investments 143.26% of net asset value</b>						<b>\$ 645,918</b>	<b>\$ 648,867</b>

**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	\$	\$ (284)
	Pay Fixed/Receive Floating						
<b>Total derivative instruments 0.06% of net asset value</b>						<b>\$</b>	<b>\$ (284)</b>

- (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 December 31, 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 implied interest rate 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.

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- (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 the effective yield to expected maturity as of December 31, 2013.
- (13) Loan was on non-accrual status as of December 31, 2013. Issuer's contractual rate is 15.0% PIK until December 31, 2013 and then for each of the quarters ending March 31, 2014 and June 30, 2014, the lesser of excess cash flow for the quarter or 12% paid in cash with the remainder amount paid in PIK up to a total rate of 15%.
- (14) Debt investment interest held in companies related to the portfolio company.
- (15) 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.
- (16) Non-registered investment company at the time of investment and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (17) 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.
- (18) C&K Market, Inc. filed for bankruptcy in November 2013. Loan was on non-accrual status as of December 31, 2013. Contractual default rate of interest is 18.0%.
- (19) Contractual default rate of interest is 15.5%. Certain interest payments have been deferred until April 15, 2014.
- (20) Of the \$13,442 senior secured term loans outstanding, \$11,981 is based in the United States and \$1,461 is based in Canada.

See accompanying notes to these consolidated financial statements.

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**THL Credit, Inc. and Subsidiaries**

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

**March 31, 2014**

**(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.

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 \$106,179 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. and THL Corporate Finance, LLC, its wholly owned subsidiary, 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 SBIC LP and SBIC GP remain consolidated wholly owned subsidiaries of the Company.

**2. Significant Accounting Policies**

***Basis of Presentation***



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The Company is an investment company following the accounting and reporting guidance under the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 946, *Financial Services Investment Companies*.

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.

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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, 2014. The financial results of our portfolio companies are not consolidated in the financial statements. The accounting records of the Company are maintained in U.S. dollars.

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

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

### ***Cash***

Cash consists of funds held in demand deposit accounts at several financial institutions and, at certain times, balances may exceed the Federal Deposit Insurance Corporation insured limit and is therefore subject to credit risk. There were no cash equivalents as of March 31, 2014 and December 31, 2013.

### ***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 may not be ultimately collected by the Company. A current claim against the escrow in excess of the company's reserve against the receivable is in arbitration.

### ***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.

### ***Partial Loan Sales***

The Company follows the guidance in ASC Topic 860 when accounting for loan participations and other partial loan sales. Such guidance requires a participation or other partial loan sale to meet the definition of a participating interest, as defined in the guidance as a pro-rata ownership interest in an entire financial asset, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain on the Company's consolidated statements of asset and liabilities and the proceeds are recorded as a secured borrowing until the definition is met.

### ***Fair Value of Financial Instruments***

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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.

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### ***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 or are not considered to be the best estimate of fair value, are valued at fair value as determined in good faith by the Company's board of directors. Because the Company expects that there will not be a readily available market value for many of the investments in the Company's portfolio, it is expected that many of the Company's portfolio investments' values will be determined in good faith by the Company's board of directors in accordance with a documented valuation policy that has been reviewed and approved by our board of directors in accordance with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

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 the Company's 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

the Company's board of directors discusses valuations and determines the fair value of each investment in the Company's 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

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collateralized loan obligation fund subordinated notes or equity, when available. Specifically, the Company uses Intex cash flow models, or an 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.

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

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

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

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

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

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

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

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

### ***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.

### ***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

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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 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.

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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, the Company may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. The Company records the reversal of any previously accrued income against the same income category reflected in the Consolidated Statement of Operations. As of March 31, 2014, the Company had three loans on non-accrual with an amortized cost basis of \$39,401 and fair value of \$31,384. As of December 31, 2013, the Company had two loans on non-accrual with an amortized cost basis of \$20,954 and fair value of \$16,838.

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 three months ended March 31, 2014 and 2013:

	<b>Three months ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Accumulated PIK balance, beginning of period	\$ 6,064	\$ 5,807
PIK income capitalized/receivable	535	1,092
Accumulated PIK balance, end of period	\$ 6,599	\$ 6,899

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 months ended March 31, 2014 and 2013.

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. These fees are recognized as income when earned by the Company per the terms of the applicable management or credit agreements.



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The following is a summary of the levels within the fair value hierarchy in which the Company invests as of March 31, 2014:

Description	Fair Value	Level 1	Level 2	Level 3
First lien secured debt	\$ 329,307	\$	\$	\$ 329,307
Subordinated debt	146,839			146,839
Second lien debt	200,006			200,006
CLO residual interests	37,547			37,547
Investment in payment rights	13,853			13,853
Investments in funds	2,095			2,095
Equity investments	9,380			9,380
Total investments	\$ 739,027	\$	\$	\$ 739,027
Interest rate derivative	(230)		(230)	
Total liability at fair value	\$ (230)	\$	\$ (230)	\$

The following is a summary of the levels within the fair value hierarchy in which the Company invests as of December 31, 2013:

Description	Fair Value	Level 1	Level 2	Level 3
First lien secured debt	\$ 262,965	\$	\$	\$ 262,965
Subordinated debt	155,979			155,979
Second lien debt	157,878			157,878
CLO residual interests	37,618			37,618
Investment in payment rights	13,844			13,844
Investments in funds	9,546			9,546
Equity investments	11,037			11,037
Total investments	\$ 648,867	\$	\$	\$ 648,867
Interest rate derivative	(284)		(284)	
Total liability at fair value	\$ (284)	\$	\$ (284)	\$

The following is a summary of the industry classification in which the Company invests as of March 31, 2014:

Industry	Cost	Fair Value	% of Net Assets
IT services	\$ 118,781	\$ 119,431	26.39%
Financial services	82,828	82,095	18.15%
Industrials	79,025	81,198	17.95%
Food & beverage	80,782	80,912	17.89%
Consumer products	62,650	62,863	13.90%
Healthcare	58,094	59,297	13.11%
Business services	58,818	57,332	12.67%
Retail & grocery	53,419	50,668	11.20%
Energy / utilities	44,805	45,392	10.03%
Manufacturing	31,603	31,047	6.86%
Media, entertainment and leisure	22,720	25,429	5.62%

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Restaurants	20,794	20,859	4.61%
Transportation	18,181	18,181	4.02%
Aerospace & defense	4,186	4,323	0.96%
<b>Total Investments</b>	<b>\$ 736,686</b>	<b>\$ 739,027</b>	<b>163.36%</b>

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The following is a summary of the geographical concentration of our investment portfolio as of March 31, 2014:

<b>Region</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Northeast	\$ 154,143	\$ 155,988	34.49%
Southwest	152,906	149,529	33.05%
Midwest	143,506	143,527	31.73%
West	126,109	129,666	28.66%
Southeast	114,741	118,400	26.17%
International	31,630	31,680	7.00%
Northwest	13,651	10,237	2.26%
Total Investments	\$ 736,686	\$ 739,027	163.36%

The following is a summary of the industry classification in which the Company invests as of December 31, 2013:

<b>Industry</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
IT services	\$ 100,501	\$ 101,023	22.31%
Financial services	91,242	90,698	20.02%
Industrials	79,418	79,748	17.61%
Food & beverage	52,774	52,304	11.55%
Healthcare	48,790	50,472	11.14%
Retail & grocery	53,358	50,163	11.07%
Business services	50,941	50,029	11.05%
Manufacturing	48,770	48,956	10.81%
Consumer products	38,200	38,352	8.47%
Energy / utilities	32,393	32,835	7.25%
Media, entertainment and leisure	24,578	29,083	6.42%
Restaurants	20,778	20,844	4.60%
Aerospace & defense	4,175	4,360	0.96%
Total Investments	\$ 645,918	\$ 648,867	143.26%

The following is a summary of the geographical concentration of our investment portfolio as of December 31, 2013:

<b>Region</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Northeast	\$ 138,835	\$ 140,292	30.97%
West	126,770	128,423	28.35%
Midwest	124,248	124,817	27.56%
Southwest	119,357	116,573	25.74%
Southeast	109,679	114,943	25.38%
International	13,378	13,582	3.00%
Northwest	13,651	10,237	2.26%
Total Investments	\$ 645,918	\$ 648,867	143.26%



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The following table rolls forward the changes in fair value during the three months ended March 31, 2014 for investments classified within Level 3:

	First lien secured debt	Second lien debt	Subordinated debt	Investments in Funds	Equity investments	Investment in payment rights	CLO residual interest	Totals
Beginning balance, January 1, 2014	\$ 262,965	\$ 157,878	\$ 155,979	\$ 9,546	\$ 11,037	\$ 13,844	\$ 37,618	\$ 648,867
Purchases	70,499	47,220	8,275	849	1,793			128,636
Sales and repayments	(7,316)	(4,887)	(16,500)	(8,354)	(938)		(1,058)	(39,053)
Unrealized appreciation (depreciation) <sup>(1)</sup>	2,569	(404)	(1,629)	54	(2,057)	9	849	(609)
Realized loss <sup>(1)</sup>					(455)			(455)
Net amortization of premiums, discounts and fees	538	104	326				138	1,106
PIK	52	95	388					535
Ending balance, March 31, 2014	\$ 329,307	\$ 200,006	\$ 146,839	\$ 2,095	\$ 9,380	\$ 13,853	\$ 37,547	\$ 739,027
Net change in unrealized appreciation from investments still held as of the reporting date <sup>(1)</sup>	2,569	(404)	(1,008)	54	(1,602)	9	849	467

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

The following table rolls forward the changes in fair value during the three months ended March 31, 2013 for investments classified within Level 3:

	First lien secured debt	Second lien debt	Subordinated debt	Investments in Funds	Equity investments	Investment in payment rights	CLO residual interest	Totals
Beginning balance, January 1, 2013	\$ 102,255	\$ 70,035	\$ 183,319	\$ 10,259	\$ 6,818	\$ 12,262	\$ 9,400	\$ 394,348
Purchases	15,525	7,892	19,986	1			16,014	59,418
Sales and repayments	(6,033)	(1,952)	(17,866)					(25,851)
Unrealized appreciation (depreciation) <sup>(1)</sup>	98	49	541	5	1,008			1,701
Net amortization of premiums, discounts and fees	154	123	137				25	439
PIK	36	117	850					1,003
Ending balance, March 31, 2013	\$ 112,035	\$ 76,264	\$ 186,967	\$ 10,265	\$ 7,826	\$ 12,262	\$ 25,439	\$ 431,058
Net change in unrealized appreciation from investments still held as of the reporting date <sup>(1)</sup>	98	49	540	4	1,008			1,699

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

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The following provides quantitative information about Level 3 fair value measurements as of March 31, 2014:

<b>Description:</b>	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Average) <sup>(1)</sup></b>
First lien secured debt	\$ 329,307	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	11% - 12% (11%)
Second lien debt	200,006	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	10% - 11% (11%)
Subordinated debt	146,839	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	15% - 17% (15%)
Investments in funds	2,095	Net asset value, as a practical expedient	Net asset value	N/A
Equity investments	9,380	Market comparable companies (market approach)	EBITDA multiple	6.5x - 7.3x (6.9x)
Investment in payment rights <sup>(2)</sup>	13,853	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14% - 15% (15%)
			Federal tax rates	35% - 40% (38%)
CLO residual interests	37,547	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14%
<b>Total investments</b>	<b>\$ 739,027</b>			

(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

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The following provides quantitative information about Level 3 fair value measurements as of December 31, 2013:

Description:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average) <sup>(1)</sup>
First lien secured debt	\$ 262,965	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	11% - 13% (12%)
Second lien debt	157,878	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	12% - 14% (13%)
Subordinated debt	155,979	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14% - 17% (15%)
Investments in funds	8,361	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	13%
	1,185	Net asset value, as a practical expedient	Net asset value	N/A
Equity investments	10,100	Market comparable companies (market approach)	EBITDA multiple	6.7x - 7.4x (7.1x)
	937	Recent transaction	Sale price	N/A
Investment in payment rights <sup>(2)</sup>	13,844	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14% - 15% (15%)
			Federal tax rates	35% - 40% (38%)
CLO residual interests	37,618	Discounted cash flows (income approach)	Weighted average cost of capital (WACC)	14%
<b>Total investments</b>	<b>\$ 648,867</b>			

(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.

The primary significant unobservable input used in the fair value measurement of the Company's equity investments is the EBITDA multiple adjusted by management for differences between the investment and referenced comparables, 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.





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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 16 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 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

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 private funds or registered closed-end funds, and presently serves as an investment adviser to a collateralized loan obligation (CLO), THL Credit Wind River 2013-2 CLO, Ltd., and a subadviser to a closed-end fund, THL Credit Senior Loan Fund (NYSE: TSLF). In addition, our officers may serve in similar capacities for one or more private funds or 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 as the underlying investments are expected to be liquidated at the dissolution of the funds, which is anticipated to be between 2014 and 2021.

### ***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 and is managed by the Company. The Company's capital commitment to Greenway is \$15. As of March 31, 2014 and December 31, 2013, all of the capital had been called by Greenway. The Company's nominal investment in Greenway is reflected in the March 31, 2014 and December 31, 2013 Consolidated Schedules of Investments. As of March 31, 2014, distributions representing 85.5% of the committed capital of the investor have been made from Greenway. Distributions from Greenway, including returns of capital and earnings, to its members from inception through March 31, 2014 totaled \$128,284.

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 months ended March 31, 2014 and 2013, the Company earned \$207 and \$474, respectively, in fees related to Greenway which are included in other income from non-controlled, affiliated investment in the Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, \$265 and \$240 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.

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**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 LLC operates under a limited liability agreement dated February 11, 2013, as amended, or the Greenway II LLC 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.

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 account of the related investment vehicle. Greenway II has \$186,505 of commitments primarily from institutional investors. The Company's capital commitment to Greenway II is \$5. The Company's nominal investment in Greenway II LLC is reflected in the March 31, 2014 and December 31, 2013 Consolidated Schedules of Investments. Greenway II LLC is managed by the Company. Distributions from Greenway II to its members, including returns of capital and earnings, from inception through March 31, 2014 totaled \$5,368.

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 months ended March 31, 2014 and 2013, the Company earned \$547 and \$24, 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 March 31, 2014 and December 31, 2013, \$570 and \$760, respectively, of fees related to Greenway II were included in due from affiliate on the Consolidated Statements of Assets and Liabilities. During the three months ended March 31, 2013, the Company sold a portion of its investments in two portfolio companies at fair value, for total proceeds of \$6,639, to Greenway II. There were no transfers to Greenway II for the three months ended March 31, 2014. Fair value was determined in accordance with the Company's valuation policies.

Other deferred costs consist of placement agent expenses incurred in connection with the offer and sale of partnership interests in Greenway II. These costs are capitalized when the partner signs the Greenway II subscription agreement and are recognized as an expense over the period when the Company expects to collect management fees from Greenway II. For the three months ended March 31, 2014 and 2013, the Company recognized \$56 and \$0, respectively, in expenses related to placement agent expenses, which are included in other general and administrative expenses in the Consolidated Statements of Operations. As of March 31, 2014 and 2013, \$769 and \$825, respectively, was included in other deferred costs on the Consolidated Statements of Assets and Liabilities.

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 March 31, 2014 and December 31, 2013, 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 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 expected that Series 2005-01 would terminate on February 15, 2015; however, on February 3, 2014, LCP was liquidated and the Company received proceeds of \$8,354, which was the remaining value of the

Company's interest.

*CLO Residual Interests*

As of March 31, 2014, the Company had investments, at amortized cost of \$36,423 in the CLO residual interests, or the subordinated notes, which can also be structured as income notes, of five 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

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consisting primarily of broadly syndicated senior secured bank loans. The following table shows a summary of our investments in CLO residual interests:

<b>Issuer</b>	<b>Security Description</b>	<b>Ownership Interest</b>	<b>Total CLO Amount at Initial Par</b>	<b>THL Credit Residual Amount at Amortized Cost</b>	<b>THL Credit Residual Amount at Fair Value</b>
Adirondack Park CLO Ltd.	Subordinated Notes, Residual Interest	18.7%	\$ 517,000	\$ 8,731	\$ 9,000
Dryden CLO, Ltd.	Subordinated Notes, Residual Interest	23.1%	516,400	9,158	9,400
Flagship VII, Ltd.	Subordinated Notes, Residual Interest	12.6%	441,810	4,409	4,450
Octagon Income Note XIV, Ltd.	Income Notes, Residual Interest	17.7%	625,900	8,254	8,600
Sheridan Square CLO, Ltd	Income Notes, Residual Interest	10.4%	724,534	5,871	6,097
Total CLO Residual Interests				\$ 36,423	\$ 37,547

The subordinated notes and income 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 and income 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 and income notes may vary significantly quarter to quarter for a variety of reasons and may be subject to 100% loss. Investments in subordinated notes and income 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. Accordingly, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to stockholders.

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% federal 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, 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 months ended March 31, 2014 and 2013, the Company incurred excise tax expense of \$50 and \$0, respectively.

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.

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For the three months ended March 31, 2014 and 2013, the Company recognized a current income tax provision of \$508 and \$0, respectively, which is shown in income tax provision and excise tax in the Consolidated Statements of Operations. These income taxes relate primarily to the proceeds received into one of the Company's tax blocker corporations established to hold equity or equity-like portfolio company investments organized as pass-through entities and may be subject to further change once tax information is finalized for the year. As of March 31, 2014 and December 31, 2013, \$0 and \$381, respectively, of income tax receivable was included in prepaid expenses and other assets and \$630 and \$71, respectively, 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.

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For the three months ended March 31, 2014 and 2013, the Company recognized a benefit (provision) for tax on unrealized gain on investments of \$971 and (\$529), respectively, for consolidated subsidiaries in the Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, \$1,329 and \$2,414, respectively, were included in deferred tax liability on the Consolidated Statements of Assets and Liabilities primarily relating to deferred taxes on unrealized gains 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.

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

In June 2013, the FASB issued ASU 2013-08, *Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act will be automatically deemed an investment company under the new GAAP definition. The Company has adopted this standard effective January 1, 2014. The adoption resulted in no additional disclosure requirements.

## **3. Related Party Transactions**

### ***Investment Management Agreement***

On March 4, 2014, 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 months ended March 31, 2014 and 2013, the Company incurred base management fees of \$2,524 and \$1,523, respectively. As of March 31, 2014 and December 31, 2013, \$2,524 and \$2,243, respectively, was payable to the Advisor.

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

The ordinary income component is calculated, and payable, quarterly in arrears based on the Company's preincentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The preincentive fee net investment income, which is expressed as a rate of return on the value of the Company's net assets attributable to the Company's common stock, for the immediately preceding calendar quarter, will have a 2.0% (which is 8.0% annualized) hurdle rate (also

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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

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

For the three months ended March 31, 2014 and 2013, the Company incurred \$2,689 and \$1,944, respectively, of incentive fees related to ordinary income. As of March 31, 2014 and December 31, 2013, \$2,810 and \$2,074, respectively, of such incentive fees are currently payable to the Advisor. As of March 31, 2014 and December 31, 2013, \$936 and \$1,277, respectively, of incentive fees incurred but not paid by the Company were generated from deferred interest (i.e. PIK, certain discount accretion and deferred interest) and are not payable until such amounts are received in cash.

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

GAAP requires that the incentive fee accrual considers the cumulative aggregate realized gains and losses and 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 realized gains and losses and unrealized capital appreciation or depreciation were realized, even though such realized gains and losses and unrealized capital appreciation or depreciation is not permitted to be considered in calculating the fee actually payable under the investment management agreement (GAAP incentive fee). There can be no assurance that 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.

For the three months ended March 31, 2014 and 2013, the Company incurred \$56 and \$347, respectively, of incentive fees related to the GAAP Incentive Fee. As of March 31, 2014 and December 31, 2013, \$740 and \$70, respectively, of GAAP Incentive Fees incurred by the Company are not currently payable until the end of each calendar year and the hurdle is met.

### ***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 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





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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. The Company's board of directors reviews the allocation methodologies with respect to such expenses. Such costs are reflected as administrator expenses in the accompanying Consolidated Statements of Operations. Under the administration agreement, the Advisor provides, on behalf of the Company, managerial assistance to those portfolio companies to which the Company is required to provide such assistance. To the extent that our Advisor outsources any of its functions, the Company pays the fees associated with such functions on a direct basis without profit to the Advisor.

For the three months ended March 31, 2014 and 2013, the Company incurred administrator expenses of \$927 and \$889, respectively. As of March 31, 2014 and December 31, 2013, \$427 and \$158, 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 March 31, 2014 and December 31, 2013, \$35 and \$14, 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 March 31, 2014 and December 31, 2013, \$835 and \$1,011 of total fees and expenses related to Greenway and Greenway II, respectively, were included in due from affiliate on the Consolidated Statements of Assets and Liabilities. As of March 31, 2014 and December 31, 2013, \$463 was included in due to affiliate on the Consolidated Statements of Assets and Liabilities related to the portion of the escrow receivable, due to THL Corporate Finance, Inc., as the administrative agent, to Greenway.

**4. Realized Gains and Losses on Investments**

The Company recognized net realized gains on its portfolio investments of \$299 during the three months ended March 31, 2014 related primarily to a gain of \$754 from distributions from Surgery Center Holdings, Inc., or Surgery, less a realized loss of \$455 recognized from the sale of the Company's equity holdings in Jefferson Management Holdings, LLC. In addition, during the three months ended March 31, 2014, we recognized a current tax provision related to realized gains in connection with an adjustment to tax estimates of \$321. The Company did not recognize realized gains or tax provisions related to realized gains during the three months ended March 31, 2013.

**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 March 31,	
	2014	2013
Numerator net increase in net assets resulting from operations:	\$ 10,981	\$ 8,614
Denominator basic and diluted weighted average common shares:	33,905	26,315
Basic and diluted net increase in net assets per common share resulting from operations:	\$ 0.32	\$ 0.33

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**

There is \$232,000 available to borrow under the Company's revolving credit agreement, or Revolving Facility, and \$93,000 million available to borrow under the Company's term loan agreement, or Term Loan Facility.

The Revolving Facility has a maturity date of 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 it receive from the sale of assets, extraordinary receipts, returns of capital or the issuances of equity or debt. The Revolving Facility has an interest rate of (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 Facility has a maturity date of 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 (commonly based on the Prime Rate or the Federal Funds Rate), 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, (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.

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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 it 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.

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For the three months ended March 31, 2014, the Company borrowed \$122,550 and repaid \$21,500 under the Facilities. For the three months ended March 31, 2013, the Company borrowed \$107,700 and repaid \$67,850 under the Facilities.

The following shows a summary of our Revolving Facility and Term Loan Facility as of March 31, 2014 and December 31, 2013:

**As of March 31, 2014**

Facility	Commitments	Borrowings Outstanding	Weighted Average Interest Rate
Revolving Facility	\$ 232,000	\$ 212,350	3.45%
Term Loan Facility	93,000	93,000	4.15%
<b>Total</b>	<b>\$ 325,000</b>	<b>\$ 305,350</b>	<b>3.66%</b>

**As of December 31, 2013**

Facility	Commitments	Borrowings Outstanding	Weighted Average Interest Rate
Revolving Facility	\$ 232,000	\$ 111,300	3.19%
Term Loan Facility	93,000	93,000	4.17%
<b>Total</b>	<b>\$ 325,000</b>	<b>\$ 204,300</b>	<b>3.63%</b>

As of March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the Facilities would be deemed to be level 3 of the fair value hierarchy.

Interest expense and related fees, excluding amortization of deferred financing costs, of \$2,089 and \$1,094 were incurred in connection with the Facilities for the three months ended March 31, 2014 and 2013, 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 March 31, 2014 is in excess of 200%. See also the disclosure in Note 11, Subsequent Events, for recent amendments 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 three months ended March 31, 2014 and 2013 of \$113 and \$104, respectively, which is reflected as interest rate derivative periodic interest payments, net on the Consolidated Statements of Operations.

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For the three months ended March 31, 2014 and 2013, the Company recognized \$54 and \$142, respectively, of net change in unrealized appreciation (depreciation) from the swap agreement, which is listed under net change in unrealized appreciation (depreciation) on interest rate derivative in the Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, the Company's fair value of its swap agreement is (\$230) and (\$284), 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. A claim against the escrow receivable is proceeding to arbitration. There is a risk that some or all of the \$1,800 escrow receivable as of March 31, 2014 may not ultimately be collectible.

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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.

As of March 31, 2014 and December 31, 2013, the Company has the following unfunded commitments to portfolio companies:

	March 31, 2014	As of December 31, 2013
Unfunded revolving commitments	\$ 13,691	\$ 9,200
Unfunded delayed draw facilities	9,500	9,500
Unfunded commitments to investments in funds	3,121	3,970
Total unfunded commitments	\$ 26,312	\$ 22,670

**9. Dividends**

The Company has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC, it 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, 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, including dividends reinvested, if any:

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

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October 30, 2013	December 16, 2013	December 31, 2013	\$	0.34
March 4, 2014	March 17, 2014	March 31, 2014	\$	0.34
May 7, 2014	June 16, 2014	June 30, 2014	\$	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.



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The Company maintains 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. There were no dividends reinvested for the three months ended March 31, 2014 and 2013 under the dividend reinvestment plan.

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, the Company 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 2014 distributions as of March 31, 2014, 80.2% would be from ordinary income, 19.8% 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 2014 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**

	<b>For the three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 13.36	\$ 13.20
Net investment income, after taxes <sup>(1)</sup>	0.32	0.28
Net change in unrealized appreciation on investments <sup>(1) (2) (3)</sup>	(0.03)	0.06
Benefit (provision) for taxes on unrealized gain on investments <sup>(1)</sup>	0.03	(0.02)
Net change in unrealized (depreciation) appreciation of interest rate derivative <sup>(1)</sup>		0.01
<b>Net increase in net assets resulting from operations</b>	<b>0.32</b>	<b>0.33</b>
Distributions to stockholders from net investment income	(0.27)	(0.33)
Distributions to stockholders from net realized gains	(0.07)	
Net asset value, end of period	\$ 13.34	\$ 13.20
Per share market value at end of period	\$ 13.80	\$ 14.98
Total return <sup>(4) (5)</sup>	(14.25%)	3.52%
Shares outstanding at end of period	33,905	26,315
<b>Ratio/Supplemental Data:</b>		
Net assets at end of period	\$ 452,395	\$ 347,415
Ratio of operating expenses to average net assets <sup>(6)</sup>	8.66%	8.19%
Ratio of net investment income to average net assets <sup>(6)</sup>	9.55%	8.64%
Portfolio turnover <sup>(5)</sup>	5.73%	6.26%

(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. The Company has revised the previously reported total

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return of 1.28% to 3.52% for the three months ended March 31, 2013 to correct for an error related to the exclusion of assumed dividend reinvestments in periods during which there were no actual reinvestments. This change was determined not to be material to the financial statements taken as a whole.

- (5) Not annualized.
- (6) Annualized, except for dividend income, the reversal of previously accrued interest income on an investment placed on non-accrual and the related impact of incentive fees and taxes.

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**11. Subsequent Events**

From April 1, 2014 through May 12, 2014, the Company closed a floating rate senior secured debt investment of \$1,353 in an existing portfolio company in the transportation industry with a weighted average yield of 9.6% and an equity investment of \$1,686 in an existing portfolio company in the consumer products industry.

On April 1, 2014, the Company received proceeds of \$10,325 from a partial sale of the second lien term loan of Blue Coat Systems, Inc. A realized gain of \$325 was recognized.

On April 16, 2014, the Company received proceeds of \$13,156 in connection with the prepayment of the senior secured term loan of Cydcor LLC at par.

On April 24, 2014, the Company received proceeds of \$28,064 in connection with the prepayment of the senior secured term loan of NCM Group Holdings, LLC. The proceeds included a \$1,336 prepayment premium.

On April 30, 2014, the Company closed on an additional \$85,000 of commitments to its Facilities, which increased the commitments on the Revolving Facility from \$232,000 to \$303,500 and commitments on the Term Loan Facility from \$93,000 to \$106,500. The Company also extended the final maturity of the Revolving Facility from May 2017 to May 2018 and reduced pricing from LIBOR plus 3.00% to LIBOR (with no floor) plus 2.50%. The Company also extended the final maturity of the Term Loan Facility from May 2018 to May 2019 and reduced pricing from LIBOR plus 4.00% to LIBOR (with no floor) plus 3.25%.

On May 7, 2014, the Company's board of directors declared a dividend of \$0.34 per share payable on June 30, 2014 to stockholders of record at the close of business on June 16, 2014.

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

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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This report, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, potential, outlook, 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, the Advisor;

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

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our contractual arrangements and relationships with third parties;

any future financings by us;

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

fluctuations in foreign currency exchange rates; and

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

### **Overview**

THL Credit, Inc., 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 investments in privately negotiated investments debt and equity securities of 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 and direct equity investments in collateralized loan obligations, or CLOs, from time to time. We may also provide advisory services to managed fund.

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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.

We are also registered as an investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act.

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, over an aggregate \$1,260 million in commitments into 69 separate portfolio companies through a combination of both initial and follow-on investments. Since inception, we received \$531 million from paydowns of investments. The Company alone has received \$432 million from paydowns of 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 March 31, 2014, we had \$739.0 million of portfolio investments (at fair value), which represents a \$90.1 million, or 13.9% increase from the \$648.9 million (at fair value) as of December 31, 2013. We also increased our portfolio to fifty-eight investments, including THL Credit Greenway Fund LLC, or Greenway, and THL Credit Greenway Fund II LLC, or Greenway II, as of March 31, 2014, from fifty-four portfolio investments, including Greenway and Greenway II, as of December 31, 2013.

At March 31, 2014, our average portfolio company investment, exclusive of Greenway, Greenway II and portfolio investments where we only have an equity investment, at amortized cost and fair value was approximately \$14.4 million and \$14.4 million, respectively and our largest portfolio company investment by both amortized cost and fair value was approximately \$31.7 million. At December 31, 2013, our average portfolio company investment at both amortized cost and fair value was approximately \$14.0 million and \$13.9 million, respectively, and our largest portfolio company investment by both amortized cost and fair value was approximately \$26.6 million.

At March 31, 2014, 67.3% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 32.7% bore interest at fixed rates. At December 31, 2013, 59.1% of our debt investments bore interest based on floating rates (subject to interest rate floors), such as LIBOR, and 40.9% bore interest at fixed rates.

The following table shows the weighted average yield by investment category at their current cost.

Description:	As of	
	March 31, 2014	December 31, 2013
First lien secured debt	10.7%	11.0%
Second lien debt	11.1%	11.3%
Subordinated debt	10.3%	12.1%
Investments in funds <sup>(1)</sup>		12.6%
Investment in payment rights <sup>(2)</sup>	17.0%	17.0%

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CLO residual interests <sup>(2)</sup>	14.1%	14.0%
Debt and income-producing investments	11.0%	11.7%
Debt investments	10.7%	11.4%

- (1) As of December 31, 2013, investment in funds includes only our investment in LCP Capital Fund LLC, which is the only investment in funds where we receive regular payments.
- (2) Yields from investments in payment rights and CLO residual interest represents the implied internal rate of return (IRR) calculation expected from cash flow streams.

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As of March 31, 2014 and December 31, 2013, portfolio investments, in which we have debt investments, had an average EBITDA of approximately \$34 million and \$30 million, respectively, based on the latest available financial information provided by the portfolio companies for each of these periods. As of March 31, 2014 and December 31, 2013, our weighted average attachment point in the capital structure of our portfolio companies is approximately 4.0 times and 4.2 times EBITDA, respectively, for each of these based on our latest available financial information for each of these periods.

As of March 31, 2014, excluding investments in Greenway and Greenway II, 80.4% of our portfolio investments are in sponsored investments and 19.6% of our portfolio investments are in unsponsored investments. Our portfolio investments as of March 31, 2014 have used our capital for change of control transactions (30.4%), acquisitions/growth capital (19.6%), refinancings (14.3%), recapitalizations (19.6%) and other (16.1%). Since inception we have closed portfolio investments with 38 different sponsors.

As of December 31, 2013, excluding investments in Greenway and Greenway II, 78.8% of our portfolio investments are in sponsored investments and 21.2% of our portfolio investments are in unsponsored investments. Our portfolio investments as of December 31, 2013 have used our capital for change of control transactions (34.6%), acquisitions/growth capital (13.5%), refinancings (13.5%), recapitalizations (21.2%) and other (17.3%). Since inception we have closed portfolio investments with 34 different sponsors.

Consistent with our sourcing strategy, approximately 88% of the Company's investments this quarter were directly originated from our relationships with private equity firms, financial advisors, banks and other lending partners.

The following table summarizes the amortized cost and fair value of investments as of March 31, 2014 (in millions).

Description	Amortized Cost	Percentage of Total	Fair Value (1)	Percentage of Total
First lien secured debt	\$ 325.5	44.2%	\$ 329.3	44.4%
Second lien debt	199.7	27.1%	200.0	27.1%
Subordinated debt	155.1	21.1%	146.8	19.9%
CLO residual interest	36.4	4.9%	37.5	5.1%
Investment in payment rights	12.2	1.7%	13.9	1.9%
Equity investments	5.9	0.7%	9.4	1.3%
Investments in funds	1.9	0.3%	2.1	0.3%
Total investments	\$ 736.7	100.0%	\$ 739.0	100.0%

The following table summarizes the amortized cost and fair value of investments as of December 31, 2013 (in millions).

Description	Amortized Cost	Percentage of Total	Fair Value (1)	Percentage of Total
First lien secured debt	\$ 261.7	40.5%	\$ 263.1	40.6%
Subordinated debt	162.6	25.2%	156.0	24.0%
Second lien debt	157.2	24.3%	157.9	24.3%
CLO residual interests	37.3	5.8%	37.6	5.8%
Investment in payment rights	12.2	1.9%	13.8	2.1%
Investments in funds	9.4	1.4%	9.5	1.5%
Equity investments	5.5	0.9%	11.0	1.7%
Total investments	\$ 645.9	100.0%	\$ 648.9	100.0%

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





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The following is a summary of the industry classification in which the Company invests as of March 31, 2014 (in millions).

<b>Industry</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
IT services	\$ 118.8	\$ 119.4	26.39%
Financial services	82.8	82.1	18.15%
Industrials	79.0	81.2	17.95%
Food & beverage	80.8	80.9	17.89%
Consumer products	62.7	62.9	13.90%
Healthcare	58.1	59.3	13.11%
Business services	58.8	57.3	12.67%
Retail & grocery	53.4	50.7	11.20%
Energy / utilities	44.8	45.4	10.03%
Manufacturing	31.6	31.0	6.86%
Media, entertainment and leisure	22.7	25.4	5.62%
Restaurants	20.8	20.9	4.61%
Transportation	18.2	18.2	4.02%
Aerospace & defense	4.2	4.3	0.96%
<b>Total Investments</b>	<b>\$ 736.7</b>	<b>\$ 739.0</b>	<b>163.36%</b>

The following is a summary of the industry classification in which the Company invests as of December 31, 2013 (in millions).

<b>Industry</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
IT services	\$ 100.5	\$ 101.0	22.31%
Financial services	91.2	90.7	20.02%
Industrials	79.4	79.7	17.61%
Food & beverage	52.8	52.3	11.55%
Healthcare	48.8	50.5	11.14%
Retail & grocery	53.4	50.2	11.07%
Business services	50.9	50.0	11.05%
Manufacturing	48.8	49.0	10.81%
Consumer products	38.1	38.4	8.47%
Energy / utilities	32.4	32.8	7.25%
Media, entertainment and leisure	24.6	29.1	6.42%
Restaurants	20.8	20.8	4.60%
Aerospace & defense	4.2	4.4	0.96%
<b>Total Investments</b>	<b>\$ 645.9</b>	<b>\$ 648.9</b>	<b>143.26%</b>

**Table of Contents****Investment Activity**

The following is a summary of our investment activity, presented on a cost basis, for the years ended March 31, 2014 and 2013 (in millions).

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
New portfolio investments	\$ 91.7	\$ 55.7
Existing portfolio investments		
Follow-on investments	32.1	
Delayed draw and revolver investments	1.8	0.7
<b>Total existing portfolio investments</b>	<b>33.9</b>	<b>0.7</b>
<b>Total portfolio investment activity</b>	<b>\$ 125.6</b>	<b>\$ 56.4</b>
Number of new portfolio investments	7	5
Number of existing portfolio investments	5	1
First lien secured debt	\$ 67.5	\$ 12.5
Second lien debt	47.2	7.9
Subordinated debt	8.3	20.0
Investments in funds	0.8	
Equity investments	1.8	
CLO residual interests		16.0
<b>Total portfolio investments</b>	<b>\$ 125.6</b>	<b>\$ 56.4</b>
Weighted average yield of new debt investments	10.6%	13.4%
Weighted average yield, including all new income-producing investments	10.6%	13.4%

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

Investment	Three months ended March 31,	
	2014	2013
20-20 Technologies Inc.	\$ 3.2	\$ 0.1
Adirondack Park CLO Ltd.	0.5	
AIM Media Texas Operating, LLC		0.3
Copperweld Bimetallies LLC	0.2	
CRS Reprocessing, LLC	1.1	0.5
Cydcor LLC	0.3	0.4
Embarcadero Technologies, Inc. <sup>(a)</sup>	0.1	3.1
Gold, Inc. <sup>(a)</sup>		17.8
Harrison Gypsum, LLC	0.3	0.3
Hart InterCivic, Inc.		0.8
HEALTHCAREfirst, Inc.	0.1	0.1
Hostway Corporation	0.1	
Ingenio Acquisition, LLC	0.4	
Jefferson Management Holdings, LLC	0.9	
LCP Capital Fund LLC	8.4	
Loadmaster Derrick & Equipment, Inc.		0.8
Key Brand Entertainment, Inc.	1.5	
Octagon Income Note XIV, Ltd.	0.3	
SeaStar Solutions (f.k.a. Marine Acquisition Corp)	16.8	
Sheridan Square CLO, Ltd	0.2	
Surgery Center Holdings, Inc.	4.9	
YP Intermediate Holdings Corp.		1.7
<b>Total <sup>(b)</sup></b>	<b>\$ 39.3</b>	<b>\$ 25.9</b>

(a) Proceeds received for the three months period ended March 31, 2013 in connection with the sale of investments to Greenway II and co-investors.

(b) For the three months ended March 31, 2014 and 2013, proceeds included \$0.3 million and \$0 million, respectively, of prepayment premiums.

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.

The decrease in weighted average yield of new investments is related primarily to an increase in first and second lien investments.

For both the three months ended March 31, 2014 and 2013, we had one unsponsored investment transaction.

**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

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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 private funds or registered closed-end funds, and presently serves as an investment adviser to a collateralized loan obligation (CLO), THL Credit Wind River 2013-2 CLO, Ltd., and a subadviser to a closed-end fund, THL Credit Senior Loan Fund (NYSE: TSLF). In addition, our officers may

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serve in similar capacities for one or more private funds or 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 as the underlying investments are expected to be liquidated at the dissolution of the funds, which is anticipated to be between 2014 and 2021.

### ***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 March 31, 2014 and December 31, 2013, all of the capital had been called by Greenway. Our nominal investment in Greenway is reflected in the March 31, 2014 and December 31, 2013 Consolidated Schedules of Investments. As of March 31, 2014, distributions representing 85.5% of the committed capital of the investor have been made from Greenway. Distributions from Greenway, including return of capital and earnings, to its members from inception through March 31, 2014 totaled \$128.3 million.

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 months ended March 31, 2014 and 2013, the Company earned \$0.2 million and \$0.5 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 March 31, 2014 and December 31, 2013, \$0.3 million and \$0.2 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.

### ***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 LLC operates under a limited liability agreement dated February 11, 2013, as amended, or the Greenway II LLC 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.

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 account of the related investment vehicle. Greenway II has \$186.5 million of commitments primarily from institutional investors. The Company's capital commitment to Greenway II is \$0.005 million. Our nominal investment in Greenway II LLC is reflected in the March 31, 2014 and December 31, 2013 Consolidated Schedules of Investments. Greenway II LLC is managed by the Company. Distributions from Greenway II to its members, including return of capital and earnings, from inception through March 31, 2014 totaled \$5.4 million.

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 months ended March 31, 2014 and 2013, we earned \$0.5 million and \$0.02 million, respectively, in fees related to Greenway II, which are included in other income from non-controlled, affiliated investment in the

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Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, \$0.6 million and \$0.7 million, respectively, of fees related to Greenway II were included in due from affiliate on the

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Consolidated Statements of Assets and Liabilities. During the three months ended March 31, 2013, the Company sold a portion of its investments in two portfolio companies at fair value, for total proceeds of \$6.6 million, to Greenway II. There were no transfers to Greenway II for the three months ended March 31, 2014. Fair value was determined in accordance with the Company's valuation policies.

Other deferred costs consist of placement agent expenses incurred in connection with the offer and sale of partnership interests in Greenway II. These costs are capitalized when commitments close and are recognized as an expense over the period when the Company expects to collect management fees from Greenway II. For the three months ended March 31, 2014 and 2013, we recognized \$0.1 million and \$0 million, respectively, in expenses related to placement agent expenses, which are included in other general and administrative expenses in the Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, \$0.8 million and \$0.8 million, respectively, were included in other deferred costs on the Consolidated Statements of Assets and Liabilities.

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 vehicle which provides for no liquidity or redemption options and is not readily marketable. LCP is managed by an unaffiliated third party. As of March 31, 2014 and December 31, 2013, 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 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 expected that Series 2005-01 would terminate on February 15, 2015 but, on February 3, 2014, LCP was liquidated pursuant to the terms of its governing documents and we received proceeds of \$8.4 million, representing the remaining value of our interest.

**CLO Residual Interests**

As of March 31, 2014, we had investments, at amortized cost, of \$36.4 million in the CLO residual interests, or subordinated notes, which can also be structured as income notes, of five CLOs. These 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 following table shows a summary of our investments in CLO residual interests (in millions):

Issuer	Security Description	Ownership Interest	Total CLO Amount at Initial Par	THL Credit Residual Amount at Amortized Cost	THL Credit Residual Amount at Fair Value
Adirondack Park CLO Ltd.	Subordinated Notes, Residual Interest	18.7%	\$ 517.0	\$ 8.7	\$ 9.0
Dryden CLO, Ltd.	Subordinated Notes, Residual Interest	23.1%	516.4	9.2	9.4
Flagship VII, Ltd.	Subordinated Notes, Residual Interest	12.6%	441.8	4.4	4.4
Octagon Income Note XIV, Ltd.	Income Notes, Residual Interest	17.7%	625.9	8.2	8.6
Sheridan Square CLO, Ltd	Income Notes, Residual Interest	10.4%	724.5	5.9	6.1
Total CLO Residual Interests				\$ 36.4	\$ 37.5



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The subordinated notes and income 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 and income 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

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the collateral manager. Payments to the subordinated notes and income notes may vary significantly quarter to quarter for a variety of reasons and may be subject to 100% loss. Investments in subordinated notes and income 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 16 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 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 is accrued on a quarterly basis and paid annually. The payment is 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 an investment in payment rights.

### ***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 investment performance scores, or IPS, are as follows:

- 1 The portfolio company is performing above our underwriting expectations.
- 2 The portfolio company is performing as expected at the time of underwriting. All new investments are initially scored a 2.
- 3 The portfolio company is operating below our underwriting expectations, and requires closer monitoring. The company may be out of compliance with financial covenants, however, principal or interest payments are generally not past due.
- 4 The portfolio company is performing materially below our underwriting expectations and returns on our investment are likely to be impaired. Principal or interest payments may be past due, however, full recovery of principal 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. As of March 31, 2014 and December 31, 2013, we had assigned an investment score of 4 or 5 to three portfolio companies.



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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 2.14 and 2.13 at March 31, 2014 and December 31, 2013, respectively. The following is a distribution of the investment scores of our portfolio companies at March 31, 2014 and December 31, 2013 (in millions):

Investment Score	March 31, 2014		December 31, 2013	
	Fair Value	% of Total Portfolio	Fair Value	% of Total Portfolio
1 <sup>(a)</sup>	\$ 49.1	6.6%	\$ 58.9	9.1%
2 <sup>(b)</sup>	581.5	78.7%	484.5	74.7%
3 <sup>(c)</sup>	77.1	10.4%	72.9	11.2%
4 <sup>(d)</sup>	16.8	2.3%	32.6	5.0%
5 <sup>(e)</sup>	14.5	2.0%		
<b>Total</b>	<b>\$ 739.0</b>	<b>100.00%</b>	<b>\$ 648.9</b>	<b>100.00%</b>

- (a) As of March 31, 2014 and December 31, 2013, Investment Score 1 included no loans to companies in which we also hold equity securities.
- (b) As of March 31, 2014 and December 31, 2013, Investment Score 2 included \$72.6 million and \$62.4 million, respectively, of loans to companies in which we also hold equity securities.
- (c) As of March 31, 2014 and December 31, 2013, Investment Score 3 included \$14.5 million and \$14.5 million, respectively, of loans to companies in which we also hold equity securities.
- (d) As of March 31, 2014 and December 31, 2013, Investment Score 4 included \$10.2 million and \$10.2 million, respectively, of loans to companies in which we also hold equity securities.
- (e) As of March 31, 2014 and December 31, 2013, Investment Score 5 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 March 31, 2014, we had three loans on non-accrual with an amortized cost basis of \$39.4 million and fair value of \$31.4 million. We record the reversal of any previously accrued income against the same income category reflected in the Consolidated Statement of Operations. For the three months ended March 31, 2014, we reversed previously accrued and unpaid interest income against interest income recognized during the quarter totaling \$1.4 million, in connection with the investment going on non-accrual status. As of December 31, 2013, we had two loans on non-accrual with an amortized cost basis of \$21.0 million and fair value of \$16.8 million.

**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 change in unrealized appreciation (depreciation), interest rate derivative periodic interest payments, net, and provisions for income taxes. 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 change in unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio. Net change in 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 Months Ended March 31, 2014 and 2013****Investment Income**

We generate revenues primarily in the form of interest on the debt and other income-producing securities we hold. Other income-producing securities include investments in funds, investment in payment rights and notional interest, or equity, of 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 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

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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

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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 years ended March 31, 2014 and 2013 (in millions):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Interest income on debt securities</b>		
Cash interest	\$ 14.0	\$ 11.2
PIK interest	0.5	1.1
Prepayment premiums	0.3	
Accretion of discounts and other fees	1.1	0.4
Total interest on debt securities	15.9	12.7
Dividend income	2.1	
Interest income on other income-producing securities	1.7	1.2
Fees related to Greenway and Greenway II	0.8	0.5
Other income	0.4	
<b>Total</b>	<b>\$ 20.9</b>	<b>\$ 14.4</b>

The increases in investment income from the respective periods were primarily due to the growth in the overall investment portfolio, dividends received from our equity investments, and fees related to our managed funds.

The following shows a rollforward of PIK income activity for the three months ended March 31, 2014 and 2013 (in millions):

	<b>Three months ended</b>		<b>Three months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2014</b>		<b>2013</b>	
Accumulated PIK balance, beginning of period	\$	6.1	\$	5.8
PIK income capitalized/receivable		0.5		1.1
PIK received in cash from repayments				
Accumulated PIK balance, end of period	\$	6.6	\$	6.9

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 months ended March 31, 2014 and 2013.

**Expenses**

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



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The following shows the breakdown of expenses for the years ended March 31, 2014 and 2013 (in millions):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Expenses		
Incentive fees <sup>(a)</sup>	\$ 2.7	\$ 2.3
Base management fees	2.5	1.5
Administrator expenses	0.9	0.9
Credit facility interest and fees <sup>(b)</sup>	2.4	1.6
Other expenses	1.1	0.7
<b>Total expenses before taxes</b>	<b>9.6</b>	<b>7.0</b>
Income tax provision and excise tax <sup>(c)</sup>	0.6	
<b>Total expenses after taxes</b>	<b>\$ 10.2</b>	<b>\$ 7.0</b>

- (a) For the three months ended March 31, 2014 and 2013, incentive fees include the effect of the GAAP Incentive Fee amounts, which are currently not payable under the Investment Management Agreement, in the amount of \$0.1 million and \$0.4 million, respectively. The GAAP Incentive Fee accrual considers the cumulative aggregate realized gains and losses and unrealized appreciation or depreciation of investments or other financial instruments. There can be no assurance that such amounts of unrealized appreciation or depreciation will be realized in the future. Accordingly, such GAAP Incentive 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 quarters.
- (b) Interest, fees and amortization of deferred financing costs related to our Revolving Facility and Term Loan Facility.
- (c) Amounts include the income taxes related to earnings by our consolidated wholly-owned tax blocker corporations established to hold equity or equity-like portfolio company investments organized as pass-through entities and excise taxes related to our undistributed earnings.

The increase in operating expenses for the respective periods was due primarily to the increase in base management and incentive fees related to the growth of the portfolio, credit facility expenses, which was a result of an increase in the credit facility commitments and usage, and taxes related to dividends and earnings on equity investments held in the tax blocker corporations.

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 \$10.7 million, or \$0.32 per common share based on a weighted average of 33,905,202 common shares outstanding for the three months ended March 31, 2014 as compared to \$7.4 million, or \$0.28 per common share based on a weighted average of 26,315,202 common shares outstanding for the three months ended March 31, 2013.

The increase in net investment income is primarily attributable to the growth in the portfolio, increase in fees related to our managed funds and dividend income received from our equity investments.

**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.



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We recognized net realized gains on our portfolio investments of \$0.3 million during the year ended March 31, 2014, related primarily to a gain of \$0.8 million from distributions from Surgery Center Holdings, Inc., or Surgery, less a realized loss of \$0.5 million recognized from the sale of our equity holdings in Jefferson Management Holdings, LLC. In addition, during the three months ended March 31, 2014, we recognized a current tax provision related to realized gains in connection with an adjustment to tax estimates of \$0.3 million. We did not recognize any net realized gains or tax provisions related to realized gains during the three months ended March 31, 2013.

**Table of Contents*****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 months ended March 31, 2014 and 2013 (in millions):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Gross unrealized appreciation on investments	\$ 4.9	\$ 2.8
Gross unrealized depreciation on investments	(5.3)	(1.1)
Reversal of prior period net unrealized appreciation upon a realization	(0.2)	
 Total	 \$ (0.6)	 \$ 1.7

The net 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.

***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 months ended March 31, 2014 and 2013, the Company recognized a benefit (provision) for tax on unrealized gain of \$1.0 million and (\$0.5) million for consolidated subsidiaries, respectively. As of March 31, 2014 and December 31, 2013, \$1.3 million and \$2.4 million, respectively, were included in deferred tax liability on the Consolidated Statements of Assets and Liabilities relating primarily to deferred tax on unrealized gain on investments. The decrease in provision for tax on unrealized gain relates primarily to changes to the unrealized appreciation (depreciation) of the investments held in these taxable consolidated subsidiaries as well as the change in the 2013 estimates received from certain portfolio companies.

***Realized and Unrealized Appreciation (Depreciation) 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 at the end of the reporting period. For the three months ended March 31, 2014 and 2013, the net change of unrealized appreciation (depreciation) on interest rate derivative totaled \$0.1 million and \$0.1 million, respectively, which is listed under net change in unrealized appreciation (depreciation) on interest rate derivatives in the Consolidated Statement of Operations. 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 March 31, 2014 and 2013, we realized a loss of \$0.1 million and \$0.1 million, respectively, as interest rate derivative periodic interest payments, net on the Consolidated Statement of Operations.

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

Net increase in net assets resulting from operations totaled \$11.0 million, or \$0.32 per common share based on a weighted average of 33,905,202 common shares for the three months ended March 31, 2014 as compared to \$8.6 million, or \$0.33 per common share based on a weighted average of 26,315,202 common shares outstanding for the three months ended March 31, 2013.

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 equity investments and unrealized appreciation on investments, including the benefit for taxes on unrealized gain on investments.



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### **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 investment 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 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.

We borrowed \$122.6 million under our Revolving Facility for the three months ended March 31, 2014 and repaid \$21.5 million on our Revolving Facility from proceeds received from investment income. We borrowed \$87.7 million under our Revolving Facility and \$20.0 million under our Term Loan Facility for the three months ended March 31, 2013 and repaid \$67.9 million on our Revolving Facility from proceeds received from the Term Loan Facility and investment income.

Our operating activities used cash of \$83.4 million and \$33.8 million for the three months ended March 31, 2014 and 2013, respectively, primarily in connection with the purchase and sales of portfolio investments. For the three months ended March 31, 2014, our financing activities provided cash of \$101.1 million from our net borrowings and used \$11.5 million for distributions to stockholders. For the three months ended March 31, 2013, our financing activities provided cash of \$39.9 million from net borrowings and used cash of \$8.7 million for distributions to stockholders and \$1.3 million for the payment of financing and offering costs.

As of March 31, 2014 and December 31, 2013, we had cash of \$14.0 million and \$7.8 million, respectively. We had no cash equivalents as of March 31, 2014 and December 31, 2013.

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***

There is \$232.0 million available to borrow under our revolving credit agreement, or Revolving Facility, and \$93.0 million available to borrow under our term loan agreement, or Term Loan Facility.

The Revolving Facility has a maturity date of 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 Revolving Facility has an the interest rate of (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 Facility has a maturity date of 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. 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.

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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 (commonly based on the Prime Rate or the Federal Funds Rate), 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).

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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 three months ended March 31, 2014, we borrowed \$122.6 million and repaid \$21.5 million under the Facilities. For the three months ended March 31, 2013, we borrowed \$107.7 million and repaid \$67.9 million under the Facilities.

The following shows a summary of our Revolving Facility and Term Loan Facility as of March 31, 2014 and December 2013 (in millions):

**As of March 31, 2014**

Facility	Commitments	Borrowings Outstanding	Weighted Average Interest Rate
Revolving Facility	\$ 232.0	\$ 212.4	3.45%
Term Loan Facility	93.0	93.0	4.15%
<b>Total</b>	<b>\$ 325.0</b>	<b>\$ 305.4</b>	<b>3.66%</b>

**As of December 31, 2013**

Facility	Commitments	Borrowings Outstanding	Weighted Average Interest Rate
Revolving Facility	\$ 232.0	\$ 111.3	3.19%
Term Loan Facility	93.0	93.0	4.17%
<b>Total</b>	<b>\$ 325.0</b>	<b>\$ 204.3</b>	<b>3.63%</b>

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 March 31, 2014 and December 31, 2013, the Facilities would be deemed to be level 3 of the fair value hierarchy.

Interest expense and related fees, excluding amortization of deferred financing costs, of \$2.1 million and \$1.1 million were incurred in connection with the Facilities during the three months ended March 31, 2014 and 2013, 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 March 31, 2014 is in excess of 200%. See "Recent Developments" for a discussion of recent amendments to the Facilities.

*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.

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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 March 31, 2014 and 2013, 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 three months ended March 31, 2014 and 2013, we recognized \$0.1 million and \$0.1 million of net change in unrealized appreciation (depreciation) from the swap agreement, respectively, which is listed under net change in unrealized appreciation (depreciation) on interest rate derivative in the Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, our fair value of the swap agreement is \$(0.2) million and \$(0.3) 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. There is a risk that some or all of the \$1.8 million escrow receivable as of March 31, 2014 may not ultimately be collectible.

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 March 31, 2014 and December 31, 2013, we have the following unfunded commitments to portfolio companies (in millions):

	As of	
	March 31, 2014	December 31, 2013
Unfunded revolving commitments	\$ 13.7	\$ 9.2
Unfunded delayed draw facilities	9.5	9.5
Unfunded commitments to investments in funds	3.1	4.0
Total unfunded commitments	\$ 26.3	\$ 22.7

**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, 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.

The following table summarizes our dividends declared and paid or to be paid on all shares, including dividends reinvested, if any:



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<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
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

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Date Declared	Record Date	Payment Date	Amount Per Share
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	March 31, 2014	\$ 0.34
March 4, 2014	March 17, 2014	March 31, 2014	\$ 0.34
May 7, 2014	June 16, 2014	June 30, 2014	\$ 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 the Company had determined the tax attributes of its 2014 distributions as of March 31, 2014, 80.2% would be from ordinary income, 19.8% 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 2014 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.

The following table shows our contractual obligations as of March 31, 2014 (in millions):

Contractual Obligations <sup>(1)</sup>	Total	Payments due by period			After 5 years
		Less than 1 year	1 - 3 years	3 - 5 years	
Term Loan Facility	\$ 93.0			\$ 93.0	

<sup>(1)</sup> 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

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Accounting Policies and Note 7 Interest Rate Derivative in the Notes to Consolidated Financial Statements .

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### **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 March 4, 2014, 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 March 31, 2014, 2013 and 2012, we incurred base management fees payable to the Advisor of \$2.5 million and \$1.5 million, respectively. As of March 31, 2014 and December 31, 2013, \$2.5 million and \$2.2 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 to the cumulative total return requirement described below, the Advisor receives 100% of our preincentive fee net investment income for any calendar quarter with respect to that portion of the preincentive net investment income for such quarter, if any, that exceeds the minimum income level but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the catch-up provision) and 20.0% of our preincentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of our preincentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which our preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the catch-up provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters minus (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the cumulative net increase in net assets resulting from operations is the amount, if positive, of the sum of our preincentive fee net investment income, base management fees, realized gains and losses and unrealized appreciation and depreciation for the then current and 11 preceding calendar quarters. In addition, the Advisor is not paid the portion of such incentive fee that is attributable to deferred interest until we actually receive such interest in cash.

For the three months ended March 31, 2014 and 2013, we incurred \$2.7 million and \$1.9 million, respectively, of incentive fees related to ordinary income. As of March 31, 2014 and December 31, 2013, \$2.8 million and \$2.1 million, respectively, of such incentive fees are currently payable to the Advisor. As of March 31, 2014 and December 31, 2013, \$0.9 million and \$1.3 million, respectively of incentive fees incurred by us were generated from deferred interest (i.e. PIK, certain discount accretion and deferred interest) and are not payable until such amounts are

received in cash.

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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.

GAAP requires that the incentive fee accrual considers the cumulative aggregate realized gains and losses and 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 realized gains and losses or unrealized capital appreciation or depreciation were realized, even though such realized gains and losses and unrealized capital appreciation or depreciation is not permitted to be considered in calculating the fee actually payable under the investment management agreement ( GAAP Incentive Fee ). 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.

For the three months ended March 31, 2014 and 2013, we incurred \$0.1 million and \$0.3 million, respectively, of incentive fees related to the GAAP Incentive Fee. As of March 31, 2014 and December 31, 2013, \$0.7 million and \$0.1 million, respectively, of GAAP Incentive Fees incurred by the Company are not currently payable until the end of each calendar year and the hurdle is met.

### ***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. Our board of directors reviews the allocation methodologies with respect to such expenses. 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.

For the three months ended March 31, 2014 and 2013, we incurred administrator expenses of \$0.9 million and \$0.9 million, respectively. As of March 31, 2014 and December 31, 2013, \$0.4 million and \$0.2 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.

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### ***Due to and from Affiliates***

The Advisor paid certain other general and administrative expenses on our behalf. As of March 31, 2014 and December 31, 2013, \$0.04 million and \$0.01 million of expenses were included in due to affiliate on the Consolidated Statements of Assets and Liabilities.

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 March 31, 2014 and December 31, 2013, \$0.8 million and \$1.0 million of fees related to Greenway and Greenway II, respectively, were included in due from affiliate on the Consolidated Statements of Assets and Liabilities. As of March 31, 2014 and December 31, 2013, \$0.5 million was included in due to affiliate on the Consolidated Statements of Assets and Liabilities related to the portion of the escrow receivable, due to THL Corporate Finance, Inc., as the administrative agent, to Greenway.

### **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 or are not considered to be the best estimate of fair value 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;

to the extent determined by the audit committee of our board of directors, independent valuation firm 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 firm 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 firm and the audit committee.

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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.



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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 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.

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.



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**Table of Contents*****Revenue Recognition***

We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect 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. We record the reversal of any previously accrued income against the same income category reflected in the Consolidated Statement of Operations. For the three months ended March 31, 2014, we reversed previously accrued and unpaid interest income against interest income recognized during the quarter, in connection with the investment going on non-accrual status. As of March 31, 2014, we had three loans on non-accrual with an amortized cost basis of \$39.4 million and fair value of \$31.4 million. As of December 31, 2013, we had two loans on non-accrual with an amortized cost basis of \$21.0 million and fair value of \$16.8 million.

We have investments in our 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. 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. To maintain our 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 we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash.

We capitalize and amortize 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.

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 as needed.

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. These fees are recognized as income when earned by us in accordance with the terms of the applicable management or credit agreement.

***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 (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

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accrue excise tax on undistributed taxable income as required. Please refer to [Dividends](#) above for a summary of the distributions. For the three months ended March 31, 2014 and 2013, we incurred excise tax expense of \$0.1 million and \$0.0 million, respectively.

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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 March 31, 2014 and 2013, we recognized a current income tax provision of \$0.5 million and \$0.0 million, respectively, which is shown as income tax provision in the Consolidated Statements of Operations. These income taxes relate primarily to the proceeds received into one of our wholly owned tax blocker corporations established to hold equity or equity-like portfolio company investments organized as pass-through entities and may be subject to further change once tax information is finalized for the year. As of March 31, 2014 and December 31, 2013, \$0.0 million and \$0.4 million, respectively, of income tax receivable was included in prepaid expenses and other assets and \$0.6 million and \$0.1 million, respectively, 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.

For the three months ended March 31, 2014 and 2013, we recognized a benefit (provision) for tax on unrealized gain on investments of \$1.0 million and \$(0.5) million, respectively, for consolidated subsidiaries in the Consolidated Statements of Operations. As of March 31, 2014 and December 31, 2013, \$1.3 million and \$2.4 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 April 1, 2014 through May 12, 2014, we closed a floating rate senior secured debt investment of \$1.4 million in an existing portfolio company in the transportation industry with a weighted average yield of 9.6% and an equity investment of \$1.7 million in an existing portfolio company in the consumer products industry.

On April 1, 2014, we received proceeds of \$10.3 million from a partial sale of the second lien term loan of Blue Coat Systems Inc. A realized gain of \$0.3 million was recognized.

On April 16, 2014, we received proceeds of \$13.2 million in connection with the prepayment of the senior secured term loan of Cydcor LLC at par.

On April 24, 2014, we received proceeds of \$28.1 million in connection with the prepayment of the senior secured term loan of NCM Group Holdings, LLC. The proceeds included a \$1.3 million prepayment premium.

On April 30, 2014, we closed on an additional \$85 million of commitments to its Facilities, which increased the commitments on the Revolving Facility from \$232.0 to \$303.5 million and commitments on the Term Loan Facility from \$93.0 to \$106.5 million. We also extended the final maturity of the Revolving Facility from May 2017 to May 2018 and reduced pricing from LIBOR plus 3.00% to LIBOR (with no floor) plus 2.50%. We also extended the final maturity of the Term Loan Facility from May 2018 to May 2019 and reduced pricing from LIBOR plus 4.00% to LIBOR (with no floor) plus 3.25%.

On May 7, 2014, our board of directors declared a dividend of \$0.34 per share payable on June 30, 2014 to stockholders of record at the close of business on June 16, 2014.

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

We are subject to financial market risks, including changes in interest rates. As of March 31, 2014, 30.9%, or seventeen, of the debt investments in our portfolio bore interest at fixed rates. All 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.



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Based on our March 31, 2014 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):

<b>Change in Basis Points</b>	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Net Income</b>
Up 300 basis points	\$ 8.7	\$ 7.4	\$ 1.3
Up 200 basis points	\$ 4.4	\$ 5.1	\$ (0.7)
Up 100 basis points	\$ 0.5	\$ 2.8	\$ (2.3)
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 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.

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, 2013 filed with the Securities and Exchange Commission on March 7, 2014.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.



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**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):

- 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

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**SIGNATURES**

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

THL CREDIT, INC.

Date: May 12, 2014

By:

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

Date: May 12, 2014

By:

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