

THL Credit, Inc.  
Form 10-Q  
May 09, 2011  
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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, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33559

**THL CREDIT, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**20-0344947**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**100 Federal St., 31<sup>st</sup> Floor, Boston, MA**  
(Address of Principal Executive Offices)

**02110**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: 800-454-4424**

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-Accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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, \$.001 par value per share, outstanding at May 9, 2011 was 20,220,197.

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**THL CREDIT, INC.**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011**

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

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

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

	March 31, 2011 (unaudited)	December 31, 2010
<b>Assets:</b>		
Investments at fair value:		
Non-controlled, non-affiliated investments (cost of \$185,137,772 and \$151,768,790, respectively)	\$ 187,646,536	\$ 153,529,179
Total investments at fair value (cost of \$185,137,772 and \$151,768,790, respectively)	187,646,536	153,529,179
Cash and cash equivalents	74,831,835	110,140,711
Deferred financing costs	2,468,738	
Interest receivable	1,022,943	632,368
Receivable for paydown of investment	258,621	
Prepaid expenses and other assets	89,963	86,917
Due from related party	29,336	
Total assets	\$ 266,347,972	\$ 264,389,175
<b>Liabilities:</b>		
Dividends payable	\$	\$ 2,987,416
Base management fees payable	991,460	979,316
Accrued incentive fee	501,753	
Accrued expenses	481,093	226,174
Due to affiliate	19,780	14,250
Accrued administrator expenses	14,655	166,250
Total liabilities	2,008,741	4,373,406
<b>Net Assets:</b>		
Preferred stock, par value \$.001 per share, 100,000,000 preferred shares authorized, no preferred shares issued and outstanding		
Common stock, par value \$.001 per share, 100,000,000 common shares authorized, 20,220,197 and 19,916,107 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	20,220	19,916
Paid-in capital in excess of par	262,358,285	258,310,016
Net unrealized appreciation on investments	2,508,764	1,760,389
Accumulated undistributed net investment loss	(548,038)	(74,552)
Total net assets	264,339,231	260,015,769
Total liabilities and net assets	\$ 266,347,972	\$ 264,389,175

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Net asset value per share	\$	13.07	\$	13.06
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See accompanying notes to these consolidated financial statements.

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

	<b>For the three months ended March 31, 2011</b>	<b>For the three months ended March 31, 2010</b>
<b>Investment Income:</b>		
From non-controlled, non-affiliated investments:		
Interest income	\$ 6,879,673	\$
Other income	178,789	
<b>Total investment income</b>	<b>7,058,462</b>	
<b>Expenses:</b>		
Base management fees	991,460	
Incentive fee	501,753	
Administrator expenses	568,065	
Professional fees	221,468	
Other general and administrative expenses	197,006	
Insurance expenses	191,608	
Directors' fees	134,875	
Credit facility fees	69,583	
Amortization of deferred financing costs	46,933	
Organizational expenses		20,000
<b>Total expenses</b>	<b>2,922,751</b>	<b>20,000</b>
<b>Net investment income (loss)</b>	<b>4,135,711</b>	<b>(20,000)</b>
<b>Net change in unrealized appreciation on investments</b>	<b>748,375</b>	
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 4,884,086</b>	<b>\$ (20,000)</b>
<b>Net investment income (loss) per common share:</b>		
Basic and diluted	\$ 0.21	\$ (2.99)
<b>Net increase (decrease) in net assets resulting from operations per common share:</b>		
Basic and diluted	\$ 0.24	\$ (2.99)
<b>Weighted average shares of common stock outstanding:</b>		
Basic and diluted	20,004,824	6,700

See accompanying notes to these consolidated financial statements.

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

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
Increase (decrease) in net assets from operations:		
Net investment income (loss)	\$ 4,135,711	\$ (20,000)
Net change in unrealized appreciation on investments	748,375	
Net increase (decrease) in net assets resulting from operations	4,884,086	(20,000)
Distributions to stockholders	(4,609,197)	
Capital share transactions:		
Reinvestment of dividends	4,048,573	
Net increase in net assets from capital share transactions	4,048,573	
Total increase (decrease) in net assets (deficit)	4,323,462	(20,000)
Net assets (deficit) at beginning of period	260,015,769	(71,093)
Net assets (deficit) at end of period	\$ 264,339,231	\$ (91,093)
Common shares outstanding at end of period	20,220,197	6,700
Capital share activity:		
Shares sold		
Shares issued from reinvestment of dividends	304,090	
Net increase in capital share activity	304,090	

See accompanying notes to these consolidated financial statements.

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

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
Cash flows from operating activities		
Net increase (decrease) in net assets resulting from operations	\$ 4,884,086	\$ (20,000)
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	(748,375)	
Purchases of investments	(41,815,786)	
Proceeds from paydown of investments	9,022,657	
Increase in investments due to PIK	(529,137)	
Amortization of deferred financing costs	46,933	
Accretion of discounts on investments and other fees	(506,787)	
Income from investment in member interest	(330,913)	
Distribution from investment in member interest	790,984	
Increase in interest receivable	(390,575)	
Increase in receivable for paydown of investment	(258,621)	
Increase in receivable for due from related party	(29,336)	
Increase in prepaid expenses and other assets	(3,046)	
Increase in accrued expenses	254,919	65,000
Increase in base management fees payable	12,144	
Decrease in accrued administrator expenses	(151,595)	
Increase in accrued incentive fee	501,753	
Increase in due to affiliate	5,530	
Net cash used for operating activities	(29,245,165)	45,000
Cash flows from financing activities		
Increase in deferred offering costs		(45,000)
Distributions paid (net of stock issued under dividend reinvestment plan of \$4,048,573)	(3,548,040)	
Financing costs paid	(2,515,671)	
Net cash used for financing activities	(6,063,711)	(45,000)
Net decrease in cash and cash equivalents	(35,308,876)	
Cash and cash equivalents, beginning of period	110,140,711	100,500
Cash and cash equivalents, end of period	\$ 74,831,835	\$ 100,500

See accompanying notes to these consolidated financial statements.



**Table of Contents****THL Credit, Inc.****Consolidated Schedule of Investments (unaudited)****March 31, 2011**

<b>Portfolio company/Type of Investment <sup>(1)</sup></b>	<b>Industry</b>	<b>Principal <sup>(2)</sup> No. of Shares / No. of Units</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Non-controlled/non-affiliated investments 70.99% of net asset value</b>				
Anytime Worldwide, LLC				
Senior Secured Note, 16.0%, due 12/11/14	Recreation &	\$ 12,900,000	\$ 12,419,225	\$ 12,900,000
Class A Units <sup>(3)</sup>		157,257.10	564,140	1,008,500
Warrant for Class B	leisure services			
			12,983,365	13,908,500
C&K Market, Inc.				
Senior Subordinated Note, 14.0% cash, 2.0% PIK, due 11/3/15	Retail, grocery &	\$ 13,107,824	12,532,264	12,532,264
Warrant for Class B	pharmaceuticals		349,000	349,000
			12,881,264	12,881,264
Charming Charlie, Inc.				
Subordinated Term Loan, 14.0% cash, due 7/27/15	Retail, grocery &	\$ 11,333,333	11,168,303	11,168,303
	pharmaceuticals		11,168,303	11,168,303
Country Pure Foods, Inc.				
Subordinated Term Loan, 12.5% cash, 2.5% PIK, due 2/13/16 <sup>(4)</sup>	Food &	\$ 13,922,412	13,668,809	13,668,809
	beverage		13,668,809	13,668,809
Food Processing Holdings, LLC				
Senior Subordinated Note, 13.5% cash, 3.0% PIK, due 8/10/15 <sup>(4)</sup>	Food processing	\$ 12,304,792	11,803,481	11,803,481
Class A Units <sup>(5)</sup>	services	162.44	163,268	163,268
Class B Units <sup>(5)</sup>		406.09	408,161	408,161
			12,374,910	12,374,910
HEALTHCAREfirst, Inc.				
Senior Subordinated Note, 13.5% cash, 3.0% PIK, due 12/4/15	Business services	\$ 13,624,174	13,257,241	13,257,241
			13,257,241	13,257,241
JDC Healthcare Management, LLC				
Senior Subordinated Note, 12.0% cash, 3.5% PIK, due 6/16/14	Healthcare,	\$ 10,652,389	10,141,061	10,570,467
Member interest <sup>(5)(9)</sup>	dental services	1,393.00	1,393,309	1,393,309
			11,534,370	11,963,776
LCP Capital Fund, LLC				
Member interest <sup>(5)(7)(10)</sup>	Financial	\$ 12,000,000	12,330,913	12,330,913
	services		12,330,913	12,330,913

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MedQuist Inc.				
Senior Subordinated Note, 13.0% cash, due 10/14/16 <sup>(11)</sup> (12)	Business services	\$ 6,000,000	5,829,412	6,000,000
			5,829,412	6,000,000
OEM Group, Inc.				
Senior Secured Note, 12.5% cash, 2.5% PIK, due 10/7/15 <sup>(14)</sup>	Manufacturing	\$ 12,146,276	11,810,369	11,978,323
Warrant for Common				
			11,810,369	11,978,323

*(Continued on next page)*

See accompanying notes to these consolidated financial statements.

**Table of Contents****THL Credit, Inc.****Consolidated Schedule of Investments (unaudited) (Continued)****March 31, 2011**

<b>Portfolio company/Type of Investment <sup>(1)</sup></b>	<b>Industry</b>	<b>Principal <sup>(2)</sup> No. of Shares / No. of Units</b>	<b>Cost</b>	<b>Fair Value</b>
Pomeroy IT Solutions, Inc. Senior Subordinated Note, 13.0% cash, 2.0% PIK, due 2/11/16	Business	\$ 13,035,389	12,780,295	12,780,295
	services		12,780,295	12,780,295
Purple Communications, Inc. Senior Secured Term Loan, LIBOR + 775, due 12/3/14 <sup>(8)</sup>	Communications	\$ 12,241,379	11,841,299	11,841,299
			11,841,299	11,841,299
SiVance, LLC Senior Secured Note, 13.0% cash, 2.0% PIK, due 6/15/16	Chemicals	\$ 8,018,667	7,900,478	7,900,478
			7,900,478	7,900,478
Surgery Center Holdings, Inc. Senior Subordinated Note, 13.5% cash, 2.0% PIK, due 6/24/15 Preferred Stock, 19.0% dividend rate Member interest <sup>(5)(6)</sup>	Healthcare, ambulatory surgery centers	\$ 13,421,625 913.04 389,821	13,097,362 895,545 389,821	13,421,625 1,154,784 622,000
			14,382,728	15,198,409
T&D Solutions, LLC Senior Secured Term Loan, 13.0% cash, due 1/29/15 <sup>(13) (16)</sup> Senior Secured Revolving loan, 9% cash, expiration date 1/29/15 <sup>(13) (15)</sup>	Energy /	\$ 9,950,151	9,780,291	9,780,291
	Utilities	\$ 712,120	712,120	712,120
			10,492,411	10,492,411
THL Credit Greenway Fund LLC Member interest <sup>(5)</sup>	Financial services		1,572	1,572
			1,572	1,572
Vision Solutions, Inc. Second Lien Term Loan, LIBOR + 800, due 7/23/17 <sup>(8)</sup>	Business	\$ 10,000,000	9,900,033	9,900,033
	services		9,900,033	9,900,033
<b>Total investments 70.99% of net asset value</b>			<b>\$ 185,137,772</b>	<b>\$ 187,646,536</b>

<sup>(1)</sup> All debt investments are income producing. Equity and member interests are non-income producing unless otherwise noted.

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- (2) Principal includes accumulated PIK interest and is net of repayments.
- (3) Comprised of 157,100 Class Financial Units and 157.10 Governance Units.
- (4) Interest held in companies related to the portfolio company.
- (5) Member interests of limited liability companies are the equity equivalents of the stock of corporations.
- (6) Equity ownership may be held in shares or units of companies related to the portfolio company.
- (7) Income producing security.
- (8) Coupon is subject to LIBOR floors ranging from 1.5% 3.0%.
- (9) Interest held by a wholly-owned subsidiary of THL Credit, Inc.
- (10) Non-registered investment company and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (11) 13.0% cash, or 2.0% PIK and 12.0% cash, at the option of the issuer on a quarterly basis
- (12) Publicly-traded company with a market capitalization in excess of \$250 million and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.
- (13) Stated coupon adjusted to achieve a combined yield of 13% for Revolving Loan and Term Loan.
- (14) At the option of the issuer on a quarterly basis 15.0% cash, or 2.5% PIK and 12.5% cash.
- (15) Issuer pays 2.0% unfunded commitment fee on revolving loan quarterly.

See accompanying notes to these consolidated financial statements.

**Table of Contents****THL Credit, Inc.****Consolidated Schedule of Investments****December 31, 2010**

<b>Portfolio company/Type of Investment <sup>(1)</sup></b>	<b>Industry</b>	<b>Principal <sup>(2)</sup> No. of Shares / No. of Units</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Non-controlled/non-affiliated investments 59.05% of net asset value</b>				
Anytime Worldwide, LLC				
Senior Secured Note, 16.0%, due 12/11/14	Recreation &	\$ 12,900,000	\$ 12,396,146	\$ 12,737,500
Class A Units <sup>(3)</sup>	leisure services	157,257.10	564,140	1,008,500
Warrant for Class B				
			12,960,286	13,746,000
C&K Market, Inc.				
Senior Subordinated Note, 14.0% cash, 2.0% PIK, due 11/3/15	Retail, grocery	\$ 13,042,611	12,446,852	12,446,852
Warrant for Class B			349,000	349,000
	&			
			12,795,852	12,795,852
	pharmaceuticals			
Country Pure Foods, Inc.				
Subordinated Term Loan, 12.5% cash, 2.5% PIK, due 2/13/16 <sup>(4)</sup>	Food &	\$ 13,835,938	13,573,749	13,573,749
	beverage		13,573,749	13,573,749
Food Processing Holdings, LLC				
Senior Subordinated Note, 13.5% cash, 2.0% PIK, due 8/10/15 <sup>(4)</sup> <sup>(14)</sup>	Food	\$ 12,215,105	11,694,590	11,694,590
Class A Units <sup>(5)</sup>		162.44	163,268	163,268
Class B Units <sup>(5)</sup>	processing	406.09	408,161	408,161
	services			
			12,266,019	12,266,019
HEALTHCAREfirst, Inc.				
Senior Subordinated Note, 13.5% cash, 3.0% PIK, due 12/4/15	Business	\$ 13,624,174	13,244,559	13,244,559
	services		13,244,559	13,244,559
Intelligrated, Inc.				
Senior Secured Second Lien Term Loan, LIBOR + 950, due 6/21/17 <sup>(8)</sup>	Industrial	\$ 8,738,889	8,427,015	9,001,056
			8,427,015	9,001,056
JDC Healthcare Management, LLC				
Senior Subordinated Note, 12.0% cash, 3.5% PIK, due 6/16/14	Healthcare,	\$ 10,559,989	10,019,125	10,019,125
Member interest <sup>(5)(9)</sup>	dental services	1,393.00	1,393,309	1,393,309
			11,412,434	11,412,434
LCP Capital Fund, LLC				

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Member interest <sup>(5)(7)(10)</sup>	Financial	\$ 12,000,000	12,790,984	12,790,984
	services		12,790,984	12,790,984
MedQuist Inc.				
Senior Subordinated Note, 13.0% cash, due 10/14/16 <sup>(11) (12)</sup>	Business	\$ 6,000,000	5,824,400	5,824,400
	services		5,824,400	5,824,400
OEM Group, Inc.				
Senior Secured Note, 12.5% cash, 2.5% PIK, due 10/7/15 <sup>(15)</sup>	Manufacturing	\$ 12,070,833	11,722,606	11,722,606
Warrant for Common				
			11,722,606	11,722,606

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See accompanying notes to these consolidated financial statements.

**Table of Contents****THL Credit, Inc.****Consolidated Schedule of Investments (Continued)****December 31, 2010**

Portfolio company/Type of Investment <sup>(1)</sup>	Industry	Principal <sup>(2)</sup> No. of Shares /	Cost	Fair Value
		No. of Units		
Purple Communications, Inc.				
Senior Secured Term Loan, LIBOR + 775, due 12/3/14 <sup>(8)</sup>	Communications	\$ 12,500,000	12,069,559	12,069,559
			12,069,559	12,069,559
Surgery Center Holdings, Inc.				
Senior Subordinated Note, 13.5% cash, 2.0% PIK, due 6/24/15	Healthcare,	\$ 13,355,761	13,018,174	13,018,174
Preferred Stock, 19.0% dividend rate		913.04	895,545	1,103,000
Member interest <sup>(5)(6)</sup>	ambulatory			
	surgery centers	389,821	389,821	583,000
			14,303,540	14,704,174
T&D Solutions, LLC				
Senior Secured Term Loan, 13.0% cash, due 1/29/15 <sup>(13) (16)</sup>				
Senior Secured Revolving loan, 9% cash, expiration date 1/29/15 <sup>(13) (16)</sup>		\$ 9,975,297	9,796,547	9,796,547
	Energy / Utilities	\$ 581,240	581,240	581,240
			10,377,787	10,377,787
<b>Total investments</b>	<b>59.05% of net asset value</b>		<b>\$ 151,768,790</b>	<b>\$ 153,529,179</b>

(1) All debt investments are income producing. Equity and member interests are non-income producing unless otherwise noted.

(2) Principal includes accumulated PIK interest and is net of repayments.

(3) Comprised of 157,100 Class Financial Units and 157.10 Governance Units.

(4) Interest held in companies related to the portfolio company.

(5) Member interests of limited liability companies are the equity equivalents of the stock of corporations.

(6) Equity ownership may be held in shares or units of companies related to the portfolio company.

(7) Income producing security.

(8) Coupon is subject to LIBOR floors ranging from 2.5% 3.0%.

(9) Interest held by a wholly-owned subsidiary of THL Credit, Inc.

(10) Non-registered investment company and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.

(11) 13.0% cash, or 2.0% PIK and 12.0% cash, at the option of the issuer on a quarterly basis

(12) Publicly-traded company with a market capitalization in excess of \$250 million and, as a result, is not a qualifying asset under Section 55(a) of the Investment Company Act of 1940.

(13) Stated coupon adjusted to achieve a combined yield of 13% for Revolving Loan and Term Loan.

(14) PIK interest rate increased to 3.0% as of January 1, 2011.

(15) At the option of the issuer on a quarterly basis 15.0% cash, or 2.5% PIK and 12.5% cash.

(16) Issuer pays 2.0% unfunded commitment fee on revolving loan quarterly.

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See accompanying notes to these consolidated financial statements.



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**THL Credit, Inc.**

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

**March 31, 2011**

**1. Organization**

THL Credit, Inc. (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. The Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended (the "Code"). 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 the origination of privately negotiated investments in debt and equity securities in middle-market companies.

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

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

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

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

The Company established a wholly-owned subsidiary ("subsidiary"), which is structured as a Delaware corporation, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). The subsidiary is not consolidated for income tax purposes and may generate income tax expense as a result of its ownership of the portfolio company. There is no income tax expense for the three months ended March 31, 2011.

**2. Significant Accounting Policies**

***Basis of Presentation***

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

The accompanying consolidated financial statements of the Company have been presented in accordance with accounting principles generally accepted in the United States of America ("GAAP")



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and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, the unaudited financial results included herein contain all adjustments, consisting solely of normal accruals, considered necessary for the fair presentation of financial statements for interim period included herein. The current period's results of operations are not necessarily indicative of the operating results to be expected for the period ending December 31, 2011. 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 and Cash Equivalents***

Cash and cash equivalents consist of demand deposits, repurchase agreements, and highly liquid investments with original maturities of three months or less. The Company places its cash and cash equivalents with financial institutions and, at certain times, cash held in demand deposit accounts may exceed the Federal Deposit Insurance Corporation insured limit and is therefore subject to credit risk. Cash equivalents are classified within Level 1 of the fair value hierarchy used in connection with GAAP reporting and as described in Valuation of Investments below.

### ***Repurchase Agreements***

The Company may enter into repurchase agreements as part of its investment program. In these transactions, the Company's custodian takes possession of collateral pledged by the counterparty. The collateral is marked-to-market daily to ensure that the value, plus accrued interest, is at least equal to the repurchase price. Under certain circumstances, in the event of default or bankruptcy of the counterparty to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings. Cash equivalents as of the balance sheet date consist of an overnight repurchase agreement with State Street Bank & Trust Company (SSB) dated March 31, 2011 and payable April 1, 2011 in the amount of \$1,763,359, reflecting an interest rate of one basis point. This agreement was collateralized by U.S. Treasury notes pledged by SSB. The collateral pledged is valued at \$1,803,588. In the event of default by SSB, the Company has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

### ***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 terms of the respective credit facilities.

### ***Offering Costs***

Offering costs consist of fees and expenses incurred in connection with the public offer and sale of the Company's common stock, including legal, accounting, printing fees and other related expenses.

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

Investments for which market quotations are readily available are valued using market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. Debt and equity securities for which market quotations are not readily available are valued at fair value as determined in good faith by 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

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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 firms engaged by the Company conduct independent appraisals and review the Advisor's preliminary valuations in light of their own independent assessment;

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

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

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. 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, our board of directors, in consultation with our independent third party valuation firm, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. For debt investments, the Company determines the fair value primarily using a 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.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. 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 amounts (for example, 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, 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, M&S 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;



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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 the volume and level of activity for the asset or liability have significantly decreased and identifying 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 not 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.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures, that requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The new and revised disclosures are required to be implemented in interim and annual periods beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward, which is required for annual reporting periods beginning after December 15, 2010. The Company adopted ASU No. 2010-06 beginning January 1, 2010. The adoption of this standard did not have a material effect on the Company's financial position and results of operations as of and for the period ended March 31, 2011.

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

Industry:	Cost	Fair Value	% of Net Assets
Business services	\$ 41,766,981	\$ 41,937,569	15.86%
Chemicals	7,900,478	7,900,478	2.99%
Communications	11,841,299	11,841,299	4.48%
Energy / Utilities	10,492,411	10,492,411	3.97%
Financial services	12,332,485	12,332,485	4.67%
Food & beverage	13,668,809	13,668,809	5.17%
Food processing services	12,374,910	12,374,910	4.68%
Healthcare, ambulatory surgery centers	14,382,728	15,198,409	5.75%
Healthcare, dental services	11,534,370	11,963,776	4.53%
Manufacturing	11,810,369	11,978,323	4.53%
Recreation & leisure services	12,983,365	13,908,500	5.26%
Retail, grocery & pharmaceuticals	24,049,567	24,049,567	9.10%
Total investments	\$ 185,137,772	\$ 187,646,536	70.99%

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

<b>Region:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Midwest	\$ 52,689,710	\$ 53,614,845	20.29%
Northeast	18,161,897	18,332,485	6.94%
Northwest	12,881,264	12,881,264	4.87%
Southeast	45,150,527	45,966,208	17.39%
Southwest	34,513,042	35,110,402	13.28%
West	21,741,332	21,741,332	8.22%
<b>Total investments</b>	<b>\$ 185,137,772</b>	<b>\$ 187,646,536</b>	<b>70.99%</b>

The following is a summary of the industry classification in which the Company invests as of December 31, 2010:

<b>Industry:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Business services	\$ 19,068,959	\$ 19,068,959	7.33%
Communications	12,069,559	12,069,559	4.64%
Energy / Utilities	10,377,787	10,377,787	3.99%
Financial services	12,790,984	12,790,984	4.92%
Food & beverage	13,573,749	13,573,749	5.22%
Food processing services	12,266,019	12,266,019	4.72%
Healthcare, ambulatory surgery centers	14,303,540	14,704,174	5.66%
Healthcare, dental services	11,412,434	11,412,434	4.39%
Industrial	8,427,015	9,001,056	3.46%
Manufacturing	11,722,606	11,722,606	4.51%
Recreation & leisure services	12,960,286	13,746,000	5.29%
Retail, grocery & pharmaceuticals	12,795,852	12,795,852	4.92%
<b>Total investments</b>	<b>\$ 151,768,790</b>	<b>\$ 153,529,179</b>	<b>59.05%</b>

The following is a summary of geographical concentration of our investment portfolio as of December 31, 2010:

<b>Region:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Midwest	\$ 48,205,609	\$ 49,565,364	19.06%
Northeast	18,615,384	18,615,384	7.16%
Northwest	12,795,852	12,795,852	4.92%
Southeast	36,947,346	37,347,980	14.36%
Southwest	23,135,040	23,135,040	8.90%
West	12,069,559	12,069,559	4.64%
<b>Total investments</b>	<b>\$ 151,768,790</b>	<b>\$ 153,529,179</b>	<b>59.05%</b>

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

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Description:	Fair Value	Level 1	Level 2	Level 3
Subordinated debt	\$ 105,202,485	\$		\$ 105,202,485
Senior secured debt	65,012,544			65,012,544
Investments in funds	12,330,913			12,330,913
Equity investments	5,100,594			5,100,594
Cash equivalents	1,763,359	1,763,359		
Total investments and cash equivalents	\$ 189,409,895	\$ 1,763,359	\$	\$ 187,646,536



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The following is a summary of the levels within the fair value hierarchy in which the Company invests as of December 31, 2010:

<b>Description:</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Subordinated debt	\$ 79,821,449	\$		\$ 79,821,449
Senior secured debt	55,908,508			55,908,508
Investments in funds	12,790,984			12,790,984
Equity investments	5,008,238			5,008,238
Cash equivalents	3,727,672	3,727,672		
 Total investments and cash equivalents	 \$ 157,256,851	 \$ 3,727,672	 \$	 \$ 153,529,179

The following table rolls forward the changes in fair value during the three months ended March 31, 2011 for investments classified within Level 3:

	<b>Subordinated debt</b>	<b>Senior secured debt</b>	<b>Investments in funds</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning balance, January 1, 2011	\$ 79,821,449	\$ 55,908,508	\$ 12,790,984	\$ 5,008,238	\$ 153,529,179
Purchases <sup>(2)</sup>	23,903,333	17,910,881		1,572	41,815,786
Sales and repayments <sup>(2)</sup>		(9,022,657)	(790,984)		(9,813,641)
Unrealized appreciation <sup>(1)</sup>	924,256	(266,665)		90,784	748,375
Net amortization of premiums, discounts and fees	118,419	388,368			506,787
PIK and non-cash earnings	435,028	94,109	330,913		860,050
 Ending balance, March 31, 2011	 \$ 105,202,485	 \$ 65,012,544	 \$ 12,330,913	 \$ 5,100,594	 \$ 187,646,536
 Net change in unrealized appreciation from investments still held as of the reporting date <sup>(1)</sup>	 \$ 924,256	 \$ 307,375	 \$	 \$ 90,784	 \$ 1,322,415

<sup>(1)</sup> All unrealized gains in the table above are reflected in the accompanying Consolidated Statements of Operations.

<sup>(2)</sup> Net purchases (sales) include proceeds from principal paydowns and capital drawdowns.

The Company has invested in LCP Capital Fund, LLC ( "LCP" ), an investment company that was organized to participate in investment opportunities that arise when a special purpose entity or sponsor thereof, needs to raise capital to achieve ratings, regulatory, accounting, tax, or other objectives. The capital may be in the form of credit default swaps, subordinated debt, preferred stock or other forms of equity.

As of March 31, 2011, the Company had subscribed into series 2005-01 of LCP in the amount of \$12,000,000. This commitment has been fully funded. The Company's contributed capital is maintained in the form of a collateral account held by a custodian and acts as collateral on certain credit default swaps for which LCP receives premium payments on throughout the year. LCP anticipates distributing to the Company on a quarterly basis. Such distributions are reflected in the Consolidated Statements of Operations as interest income in the period earned. LCP is a closed investment vehicle which provides for no liquidity or redemption options and is not readily marketable. LCP has a remaining life of 19 years; however, it is expected that series 2005-01 will dissolve within 2 to 7 years. Other capital series within LCP will have exposure to different investments and will have different remaining lives.



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

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

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

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

The Company recorded \$529,137 in PIK income for the three months ended March 31, 2011. The Company had no PIK income in the three months ended March 31, 2010.

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 penalties, unamortized loan origination fees, and unamortized discounts are recorded as interest income.

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

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

Expenses are recorded on an accrual basis.

### ***Income Taxes***

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

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

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

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

### ***Investment Risk***

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

Lower-quality debt securities involve greater risk of default or price changes due to changes in the credit quality or 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.

### ***Dividends***

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

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

## **3. Related Party Transactions**

### ***Investment Management and Administration Agreements***

The Company entered into an Investment Management Agreement on April 1, 2010 under which the Advisor, subject to the overall supervision of the Company's board of directors, manages the day-to-day operations of, and provides investment advisory services to the Company.

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

The base management fee is calculated at an annual rate of 1.5% of the Company's gross assets payable quarterly in arrears on a calendar quarter basis. For purposes of calculating the base management fee, gross assets is determined as the value of the Company's assets without deduction for any liabilities. For the first quarter of our operations, the base management fee was

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calculated based on the initial value of the Company's gross assets. Subsequently, the base management fee is calculated based on the value of the Company's gross assets at the end of the most recently completed calendar quarter, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial quarter are prorated.

For the three months ended March 31, 2011, the Company incurred base management fees payable to the Advisor of \$991,460. For the three months ended March 31, 2010, the Company incurred no base management fees.

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

The ordinary income component is calculated, and payable, quarterly in arrears based on the Company's preincentive fee net investment income for the immediately preceding calendar quarter, subject to a cumulative total return requirement and to deferral of non-cash amounts. The preincentive fee net investment income, which is expressed as a rate of return on the value of the Company's net assets attributable to the Company's common stock, will have a 2.0% (which is 8.0% annualized) hurdle rate (also referred to as "minimum income level"). Preincentive fee net investment income means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial assistance and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company's operating expenses for the quarter (including the base management fee, expenses payable under the Company's Administration Agreement (discussed below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee and any offering expenses and other expenses not charged to operations but excluding certain reversals to the extent such reversals have the effect of reducing previously accrued incentive fees based on the deferral of non-cash interest. Preincentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. The Advisor receives no incentive fee for any calendar quarter in which the Company's preincentive fee net investment income does not exceed the minimum income level. Subject to the cumulative total return requirement described below, the Advisor receives 100% of the Company's preincentive fee net investment income for any calendar quarter with respect to that portion of the preincentive net investment income for such quarter, if any, that exceeds the minimum income level but is less than 2.5% (which is 10.0% annualized) of net assets (also referred to as the "catch-up" provision) and 20.0% of the Company's preincentive fee net investment income for such calendar quarter, if any, greater than 2.5% (10.0% annualized) of net assets. The foregoing incentive fee is subject to a total return requirement, which provides that no incentive fee in respect of the Company's preincentive fee net investment income is payable except to the extent 20.0% of the cumulative net increase in net assets resulting from operations over the then current and 11 preceding calendar quarters exceeds the cumulative incentive fees accrued and/or paid for the 11 preceding quarters. In other words, any ordinary income incentive fee that is payable in a calendar quarter is limited to the lesser of (i) 20% of the amount by which the Company's preincentive fee net investment income for such calendar quarter exceeds the 2.0% hurdle, subject to the "catch-up" provision, and (ii) (x) 20% of the cumulative net increase in net assets resulting from operations for the then current and 11 preceding quarters *minus* (y) the cumulative incentive fees accrued and/or paid for the 11 preceding calendar quarters. For the foregoing purpose, the "cumulative net increase in net assets resulting from operations" is the amount, if positive, of the sum of preincentive fee net investment income, base management fees, realized gains and losses and cumulative aggregate unrealized capital 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, 2011 and March 31, 2010, the Company incurred no incentive fees related to ordinary income as the Company had not yet achieved the hurdle rate, or minimum income level described above.

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), commencing on December 31, 2010. This component is equal to 20.0% of the Company's cumulative aggregate realized capital gains from inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid capital gains incentive fees is subtracted from such capital gains incentive fee calculated.

The capital gains incentive fee payable to the Company's Advisor under the Investment Management Agreement (as described above) for the three months ended March 31, 2011 and March 31, 2010 was \$0. GAAP requires that the capital gains incentive fee accrual considers the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. For accounting purposes in accordance with GAAP only, in order to reflect the potential capital gains incentive fee that would be payable for a given period as if all unrealized gains were realized, the Company has accrued a capital gains incentive fee of \$501,753 based upon net realized capital gains and unrealized capital depreciation for that period (in accordance with the terms of the Investment Management Agreement), plus unrealized capital appreciation on investments held at the end of the quarter. There can be no assurance that such unrealized capital appreciation will be realized in the future. Accordingly, such fee, as calculated and

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accrued would not necessarily be payable under the Investment Management Agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Approximately \$350,000 of the accrued potential capital gains incentive fee for the three months ended March 31, 2011 was related to unrealized appreciation on investments in prior periods. Such amounts were not material to current or to prior periods consolidated financial statements. There was no such potential capital gains incentive fee accrued for the three month period ended March 31, 2010.

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

For the three months ended March 31, 2011, the Company incurred administrator expenses payable to the Advisor of \$568,065.

The Company and THL Credit Advisors have entered into a license agreement with THL Partners under which THL Partners has granted to the Company and THL Credit Advisors 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 THL Credit Advisors 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 THL Credit Advisors 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 THL Credit Advisors by THL Partners in the case of certain events of non-compliance.

### ***Due to Affiliates***

The Advisor and an affiliate of the Advisor paid certain offering, organization and other general and administrative expenses on behalf of the Company. Such amounts, if any, have been recorded in the Consolidated Statements of Assets and Liabilities as Due to affiliates as of March 31, 2011 and December 31, 2010. These amounts have been subsequently repaid to the Advisor and its affiliate.

### ***Managed Fund***

On January 14, 2011, THL Credit Greenway Fund LLC ( "Greenway" ) was formed as a Delaware limited liability company. Greenway is a portfolio company of THL Credit, Inc. Greenway is a closed investment fund and operates under a limited liability agreement dated January 19, 2011 (the "Agreement" ). Greenway will continue in existence until January 14, 2021, subject to earlier termination pursuant to certain terms of the Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Agreement.

Greenway has \$150,000,000 of capital committed by affiliates of a single institutional investor, and is managed by THL Credit, Inc. The Company's capital commitment to Greenway is \$15,000. As of March 31, 2011, \$15,719,177 of capital had been called by Greenway. The Company's portion of called capital, \$1,572, is reflected in the Consolidated Schedule of Investments. As manager of Greenway, the Company acts as the investment adviser to Greenway and is entitled to receive certain fees, which are included in other income in the Consolidated Statements of Operations.

**Table of Contents*****Affiliated Stockholders***

THL Credit Opportunities, L.P. and BDC Holdings own 6,974 and 10,876,220 shares, respectively, or 0.03% and 53.79%, respectively, of the Company's common stock as of March 31, 2011.

***Other***

A wholly-owned subsidiary of the Company, serves as the administrative agent on certain investment transactions.

**4. Net Increase in Net Assets Per Share Resulting from Operations**

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

	For the three months ended	For the three months ended
	March 31, 2011	March 31, 2010
Numerator net increase (decrease) in net assets resulting from operations:	\$ 4,884,086	\$ (20,000)
Denominator basic and diluted weighted average common shares:	20,004,824	6,700
Basic and diluted net increase (decrease) in net assets per common share resulting from operations:	\$ 0.24	\$ (2.99)

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.

**5. Credit Facility**

In accordance with the Investment Company Act of 1940, with certain exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the Investment Company Act of 1940, is at least 200% after such borrowing. As of March 31, 2011, the Company had no borrowings outstanding.

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

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

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



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

Through March 31, 2011, there have been no borrowings or repayments on the Facility.

### **6. Commitment 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.

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As of March 31, 2011, the Company had committed to make a \$1,636,000 investment in a revolving senior secured loan for T&D Solutions, LLC. As of March 31, 2011, \$923,880 was unfunded.

The Company has also agreed to provide certain additional funding amounts to a portfolio company to fund future acquisitions provided certain performance requirements and other conditions are met. As of March 31, 2011, such requirements and conditions had not been met.

**7. Dividends**

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

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

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

<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
May 5, 2011	June 15, 2011	June 30, 2011	\$ 0.25

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.

On March 10, 2011, our board of directors declared a dividend of \$0.23 per share, payable on March 31, 2011 to stockholders of record at the close of business on March 25, 2011. The dividend was paid out of net income earned in the period from January 1, 2011 through March 31, 2011.

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

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

Distributions in excess of our current and accumulated profits and earnings would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions will be made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we had determined the tax attributes of our distributions year-to-date as of March 31, 2011, approximately 100% would be from ordinary income for tax purposes. However, there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2011 distributions to stockholders will actually be. Each year, a statement on Form 1099-DIV identifying the source of the distribution will be mailed to our stockholders.



**Table of Contents****8. Recent Accounting Pronouncements**

*Subsequent Events (ASU No. 2010-09).* In February 2010, the FASB amended its guidance on subsequent events. SEC filers are not required to disclose the date through which an entity has evaluated subsequent events. The amended guidance was effective upon issuance for all entities.

**9. Financial Highlights**

The following is a schedule of financial highlights for the three months ended March 31, 2011:

Per Share Data <sup>(4)</sup> :	
Net asset value, beginning of period	\$ 13.06
Net investment income <sup>(3)</sup>	0.21
Net change in unrealized appreciation of investments <sup>(3)(5)</sup>	0.03
Net increase in net assets resulting from operations	0.24
Dividends to stockholders	(0.23)
Net asset value, end of period	\$ 13.07
Per share market value at end of period	\$ 13.66
Total return <sup>(1)</sup>	6.76%
Shares outstanding at end of period	20,220,197
Ratio/Supplemental Data:	
Net assets at end of period	\$ 264,339,231
Ratio of operating expenses to average net assets <sup>(2)</sup>	4.52%
Ratio of net investment income to average net assets <sup>(2)</sup>	6.40%
Portfolio turnover <sup>(6)</sup>	3.41%

<sup>(1)</sup> 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.

<sup>(2)</sup> Annualized.

<sup>(3)</sup> Calculated based on weighted average common shares outstanding.

<sup>(4)</sup> Financial highlights for the three months ended March 31, 2010 are not presented as the Company's operations were limited to organization and offering activities only.

<sup>(5)</sup> Net change in unrealized appreciation of investments includes the effect of rounding on a per share basis.

<sup>(6)</sup> Not annualized.

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**10. Subsequent Events**

On April 7, 2011, the Company received a "Greenlight" letter that will allow the Company to file with the Investment Division of the Small Business Administration (the "SBA") an application to license a Small Business Investment Company (the "SBIC"). The SBIC, which will be a wholly-owned subsidiary of THL Credit, Inc., will have investment objectives similar to the Company and will make similar types of investments in accordance with SBA regulations. The SBIC will be subject to regulation and oversight by the SBA. There can be no assurance that the Company will be granted an SBIC license in a timely manner or at all.

On May 5, 2011, our board of directors declared a dividend of \$0.25 per share, payable on June 30, 2011 to stockholders of record at the close of business on June 15, 2011.

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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, could, may, or 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;

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

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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, or 1940 Act. As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less.

As a BDC, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in eligible portfolio companies. Under the relevant SEC rules, the term eligible portfolio company includes all private companies, companies whose securities are not listed on a national securities exchange, and certain public companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million, in each case organized in the United States.

On April 21, 2010, we completed our initial public offering, formally commencing principal operations, and sold 9,000,000 shares of its common stock through a group of underwriters at a price of \$13.00 per share, less an underwriting discount and commissions totaling \$0.8125 per share. Concurrently, we sold 6,307,692 shares of its common stock to THL Credit Partners BDC Holdings, L.P. ( BDC Holdings ) at \$13.00 per share that was not subject to an underwriting discount and commission. We received \$191.7 million of total net proceeds for the aforementioned offerings.

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

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

## **Portfolio and Investment Activity**

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

We completed the quarter ended March 31, 2011 with approximately \$187.6 million (at fair value) invested in seventeen companies, including THL Credit Greenway LLC ( Greenway ). As of March 31, 2011, the portfolio was invested 56.1% in subordinated debt, 34.6% in senior secured debt, 6.6% in income-producing equity interests, and 2.7% in equity. Our average portfolio company investment, exclusive of Greenway, at amortized cost and fair value was approximately \$11.6 million and \$11.7 million, respectively. Our largest portfolio company investment by amortized cost and fair value was approximately \$14.4 million and \$15.2 million, respectively. We had approximately \$74.8 million of cash and cash equivalents as of March 31, 2011.

During the three months ended March 31, 2011, we made \$41.8 million (\$42.3 million at par) of investments in five new portfolio companies including our investment in Greenway. There were no investments made during the three months ended March 31, 2010.

During the three months ended March 31, 2011, we received \$9,022,657 in proceeds from the paydown of investments primarily from Intelligrated, Inc.

The weighted average yield of the debt and income-producing equity securities in our portfolio at their current cost was 15.3% at March 31, 2011. The weighted average yield on our senior secured loans and subordinated debt securities at their current cost was 15.6% at March 31, 2011. Yields are computed using interest rates and dividend yields as of the balance sheet date and include amortization of upfront loan origination fees, original issue discount and market premium or discount. Yields exclude common equity investments, preferred equity investments, and cash and cash equivalents.



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At March 31, 2010, 12% of our debt investments bore interest based on floating rates, such as LIBOR, and 88% bore interest at fixed rates. In the future, we expect that other loans in our portfolio will have floating rates. The percentage of our total debt investments that bore floating rate interest based on an interest rate floor was 12% at March 31, 2011.

The following is a summary of the composition of our investment portfolio as of March 31, 2011:

<b>Description:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Subordinated debt	\$ 104,278,228	\$ 105,202,485	39.81%
Senior secured debt	64,363,815	65,012,544	24.59%
Investments in funds	12,330,913	12,330,913	4.66%
Equity investments	4,164,816	5,100,594	1.93%
<b>Total investments</b>	<b>\$ 185,137,772</b>	<b>\$ 187,646,536</b>	<b>70.99%</b>

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

<b>Industry:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Business services	\$ 41,766,981	\$ 41,937,569	15.86%
Chemicals	7,900,478	7,900,478	2.99%
Communications	11,841,299	11,841,299	4.48%
Energy / Utilities	10,492,411	10,492,411	3.97%
Financial services	12,332,485	12,332,485	4.67%
Food & beverage	13,668,809	13,668,809	5.17%
Food processing services	12,374,910	12,374,910	4.68%
Healthcare, ambulatory surgery centers	14,382,728	15,198,409	5.75%
Healthcare, dental services	11,534,370	11,963,776	4.53%
Manufacturing	11,810,369	11,978,323	4.53%
Recreation & leisure services	12,983,365	13,908,500	5.26%
Retail, grocery & pharmaceuticals	24,049,567	24,049,567	9.10%
<b>Total investments</b>	<b>\$ 185,137,772</b>	<b>\$ 187,646,536</b>	<b>70.99%</b>

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

<b>Region:</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Midwest	\$ 52,689,710	\$ 53,614,845	20.29%
Northeast	18,161,897	18,332,485	6.94%
Northwest	12,881,264	12,881,264	4.87%
Southeast	45,150,527	45,966,208	17.39%
Southwest	34,513,042	35,110,402	13.28%
West	21,741,332	21,741,332	8.22%
<b>Total investments</b>	<b>\$ 185,137,772</b>	<b>\$ 187,646,536</b>	<b>70.99%</b>

We do not control and we are not an affiliate of any of our portfolio companies, each as defined in the 1940 Act, except that we have an advisory contract with THL Credit Greenway Fund LLC. See Managed Funds above. In general, under the 1940 Act, we would be presumed to control a portfolio company if we owned 25% or more of its voting securities and would be an affiliate of a portfolio company if we owned 5% or more of

its voting securities.

As of May 3, 2011, we have agreed upon terms relating to four potential investments, which are in varying stages of consummation. There can be no assurance that these investments will close on such terms or at all. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

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On January 14, 2011, THL Credit Greenway Fund LLC ( Greenway ) was formed as a Delaware limited liability company. Greenway is a portfolio company of THL Credit, Inc. Greenway is a closed investment fund and operates under a limited liability agreement dated January 19, 2011 (the Agreement ). Greenway will continue in existence until January 14, 2021, subject to earlier termination pursuant to certain terms of the Agreement. The term may also be extended for up to three additional one-year periods pursuant to certain terms of the Agreement.

Greenway has \$150,000,000 of capital committed by affiliates of a single institutional investor, and is managed by THL Credit, Inc. Our capital commitment to Greenway is \$15,000. As of March 31, 2011, \$15,719,177 of capital had been called by Greenway. Our portion of called capital, \$1,572, is reflected in the Consolidated Schedule of Investments. As manager of Greenway, we act as the investment adviser to Greenway and are entitled to receive certain fees, which are included in other income in the Consolidated Statements of Operations.

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 THL Credit Advisors' 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, THL Credit Advisors continually assesses the risk profile of each of our investments and will rate them based on the following categories, which we refer to as THL Credit Advisors' investment performance rating, or IPR:

- 1 Performing at or above plan.
- 2 Watch / minor risk. Portfolio company operating below plan but in compliance with financial covenants and performance is expected to improve.
- 3 Significant risk. Portfolio company performing materially below plan and may be in default of financial covenants. Loss of principal not expected but returns likely impaired.
- 4 Potential impairment. Focus is on preservation of capital.

For any investment rated 2, 3 or 4, 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.

Investment Rating	March 31, 2011		December 31, 2010	
	Investments at Fair Value	% of Total Portfolio	Investments at Fair Value	% of Total Portfolio
Grade 1 <sup>(a)</sup>	\$ 161,602,817	86.12%	\$ 127,689,411	83.17%
Grade 2 <sup>(b)</sup>	26,043,719	13.88%	25,839,768	16.83%
Grade 3				
Grade 4				
<b>Total</b>	<b>\$ 187,646,536</b>	<b>100.00%</b>	<b>\$ 153,529,179</b>	<b>100.00%</b>

<sup>(a)</sup> As of March 31, 2011 and December 31, 2010, Investment Rating Grade 1 included \$61.4 million and \$59.9 million, respectively, of loans to companies in which we also hold equity securities.

<sup>(b)</sup> As of March 31, 2011 and December 31, 2010, Investment Rating Grade 2 included \$11.8 million and \$11.7 million, respectively, of loans to companies in which we also hold equity securities.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. However, we may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. If the fair value of a loan is below cost, we may cease recognizing paid-in-kind, or PIK, interest and/or the accretion of a discount on the debt investment until such time that the fair value equals or exceeds cost.



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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.

### **Results of Operations**

As of March 31, 2010, our primary operating activities had not commenced. We commenced principal operations on April 21, 2010. Prior to April 21, 2010, our activity was limited to offering activities, except for the purchase of \$62 million portfolio on April 20, 2010 in connection with our initial public offering.

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

### ***Revenues and Operating Income***

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

As of March 31, 2010, our primary operating activities had not commenced and therefore we had no operating income. Investment income totaled \$7,058,462 for the three months ended March 31, 2011. This amount primarily consisted of \$6,795,369 of interest income from portfolio investments (which included \$529,137 of PIK interest), \$84,304 of interest earned on cash and cash equivalents, and \$178,789 of other income. In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned. We had no income from advisory services for the three months ended March 31, 2011.

### ***Expenses***

Our primary operating expenses include the payment of a base management fee, an incentive fee, expenses reimbursable under the Investment Management Agreement, administrator expenses and the allocable portion of overhead under the Administration Agreement. 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 (the Agreements) with the Advisor 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.

As of March 31, 2010, our primary operating activities had not commenced. For the three months ended March 31, 2010, we incurred organization costs of \$20,000. These costs were paid on our behalf by an affiliate and have been reimbursed. Operating expenses totaled \$2,922,751 for the three months ended March 31, 2011, and consisted of base management fees, an incentive fee, administrator expenses, professional fees, insurance expenses, directors' fees, other general and administrative expenses and fees related to our new credit facility. The base management fees for the three months ended March 31, 2011 were \$991,460 as provided for in the Investment Management Agreement. Capital gains incentive fee payable to the Company's Advisor under the Investment Management Agreement for the three months ended March 31, 2011 was \$0.

Incentive fees of \$501,753 for the three months ended March 31, 2011 reflect the potential capital gains incentive fee that would be payable to the Company Advisor as if all unrealized appreciation were realized during the quarter. There can be no assurance that



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such unrealized capital appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued would not necessarily be payable under the Investment Management Agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. The Company incurred no incentive fees related to pre-incentive fee net investment income as the Company had not yet achieved its hurdle rate as of March 31, 2011. The accrued incentive fee may differ from the actual incentive fee that may be paid to the Company's Advisor depending on whether the Company is ultimately able to generate a net realized capital gain. Approximately \$350,000 of the potential capital gains fee for the three months ended March 31, 2011 was related to unrealized appreciation on investments in prior periods. Such amounts were not material to current or prior periods' consolidated financial statements. There was no such potential capital gains incentive fee accrual for the three months ended March 31, 2010.

Expenses reimbursed under the Administration Agreement and Investment Management Agreement was \$568,065.

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***

For the three months ended March 31, 2010, net investment loss was (\$20,000), or (\$2.99) per common share based on a weighted average of 6,700 common shares outstanding for the period. Net investment income was \$4,135,711, or \$0.21 per common share based on a weighted average of 20,004,824 common shares outstanding for the three months ended March 31, 2011.

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

As of March 31, 2010, our primary operating activities had not commenced and therefore we had no portfolio company investments. During the three months ended March 31, 2011, we did not recognize any realized gains or losses on our portfolio company 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, but considering unamortized upfront loan origination fees and prepayment penalties.

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

For the three months ended March 31, 2010, our primary operating activities had not commenced and therefore we had no portfolio company investments. Net change in unrealized appreciation on investments totaling \$748,375 reflects the net change in the fair value of our investment portfolio for the three months ended March 31, 2011.

The unrealized appreciation on our investments was driven primarily by improvements in the capital market conditions and in the financial performance of certain portfolio companies.

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

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

For the three months ended March 31, 2010, net decrease in net assets resulting from operations was (\$20,000), or (\$2.99) per common share based on a weighted average of 6,700 common shares outstanding for the period. Net increase in net assets resulting from operations totaled \$4,884,086, or \$0.24 per common share based on a weighted average of 20,004,824 common shares outstanding for the three months ended March 31, 2011.

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

As of March 31, 2010, we had \$100,500 in cash. At March 31, 2011, we had \$74,831,835 in cash and cash equivalents. The primary use of existing funds is expected to be purchases of investments in portfolio companies, cash distributions to our stockholders, and other general corporate purposes.

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We generated cash primarily from the cash flows from operations, including interest earned and fees received on subordinated debt, senior secured loans and other income producing equity securities. We anticipate that substantially all of the net proceeds from our initial public offering will be invested in the second quarter of 2011. At that time, we expect that our portfolio will primarily consist of senior subordinated debt and secured loans. We can offer no assurances we will be able to invest all of our net proceeds within this time frame, as our investment outlook will depend on the availability of appropriate investment opportunities consistent with our investment objective and other market conditions.



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During the three months ended March 31, 2011, our financing activities used \$6,063,711 of cash, compared to \$45,000 during the three months ended March 31, 2010. This \$6,018,711 increase in cash used by financing activities was due primarily to the payment of distributions to shareholders and costs related to closing our credit facility.

### ***Credit Facility***

In accordance with the Investment Company Act of 1940, with certain exceptions, we are only allowed to borrow amounts such that its asset coverage, as defined in the Investment Company Act of 1940, is at least 200% after such borrowing. As of March 31, 2011, we had no borrowings outstanding.

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

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

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

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

Through March 31, 2011, there have been no borrowings or repayments on the Facility.

### ***Repurchase Agreements***

The Company may enter into repurchase agreements as part of its investment program. In these transactions, the Company's custodian takes possession of collateral pledged by the counterparty. The collateral is marked-to-market daily to ensure that the value, plus accrued interest, is at least equal to the repurchase price. Under certain circumstances, in the event of default or bankruptcy of the counterparty to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings. Cash equivalents as of the balance sheet date consist of an overnight repurchase agreement with State Street Bank & Trust Company (SSB) dated March 31, 2011 and payable April 1, 2011 in the amount of \$1,763,359, reflecting an interest rate of one basis point. This agreement was collateralized by U.S. Treasury notes pledged by SSB. The collateral pledged is valued at \$1,803,588. In the event of default by SSB, the Company has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

*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.

As of March 31, 2011, the Company had committed to make a \$1,636,000 investment in a revolving senior secured loan for T&D Solutions, LLC. As of March 31, 2011, \$923,880 was unfunded.

The Company has also agreed to provide certain additional funding amounts to a portfolio company to fund future acquisitions provided certain performance requirements and other conditions are met. As of March 31, 2011, such requirements and conditions had not been met.

**Table of Contents****Dividends**

We have elected to be taxed as a regulated investment company under Subchapter M of the Code. In order to maintain our status as a regulated investment company, we are required to (1) distribute at least 90% of our investment company taxable income and (2) distribute at least 98% of our income (both ordinary income and capital gains) to avoid excise tax. We intend to make distributions to stockholders on a quarterly basis of substantially all of our net investment income. In addition, 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, 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 to date:

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

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

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

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

Distributions in excess of our current and accumulated profits and earnings would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions will be made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we had determined the tax attributes of our distributions year-to-date as of March 31, 2011, approximately 100% would be from ordinary income for tax purposes. However, there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2011 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 the Company's administration agreement, the Advisor will be reimbursed for administrative services incurred on our behalf. For the three months ended March 31, 2011, we incurred approximately \$991,460 in base management fees, and \$568,065 in administrator expenses payable to the Advisor. See description below under Related Party Transactions.

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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.

### **Recent Accounting Pronouncements**

*Subsequent Events (ASU No. 2010-09).* In February 2010, the FASB amended its guidance on subsequent events. SEC filers are not required to disclose the date through which an entity has evaluated subsequent events. The amended guidance was effective upon issuance for all entities.

### **Related Party Transactions**

#### ***Investment Management and Administration Agreements***

We entered into an investment management agreement on April 1, 2010 under which the Advisor, subject to the overall supervision of our board of directors, manages the day-to-day operations of, and provides investment advisory services to us.

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

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

For the three months ended March 31, 2011, we incurred base management fees payable to the Advisor of \$991,460. For the three months ended March 31, 2010, we incurred no base management fees.

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

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

receive such interest in cash.

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For the three months ended March 31, 2011 and March 31, 2010, we incurred no incentive fees related to ordinary income as we had not yet achieved the hurdle rate, or minimum income level described above.

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), commencing on December 31, 2010. This component is equal to 20.0% of our cumulative aggregate realized capital gains from inception through the end of that calendar year, computed net of the cumulative aggregate realized capital losses and cumulative aggregate unrealized capital depreciation through the end of such year. The aggregate amount of any previously paid capital gains incentive fees is subtracted from such capital gains incentive fee calculated. The capital gains incentive fee determined as of March 31, 2011 was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized depreciation for the three months ended March 31, 2011.

The capital gains incentive fee payable to our Advisor under the Investment Management Agreement (as described above) for the three months ended March 31, 2011 and March 31, 2010 was \$0. GAAP requires that the capital gains incentive fee accrual considers the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. For accounting purposes in accordance with GAAP only, in order to reflect the potential capital gains incentive fee that would be payable for a given period as if all unrealized gains were realized, we have accrued a capital gains incentive fee of \$501,753 based upon net realized capital gains and unrealized capital depreciation for that period (in accordance with the terms of the Investment Management Agreement), plus unrealized capital appreciation on investments held at the end of the quarter. There can be no assurance that such unrealized capital appreciation will be realized in the future. Accordingly, such fee, as calculated and accrued would not necessarily be payable under the Investment Management Agreement, and may never be paid based upon the computation of capital gains incentive fees in subsequent periods. Approximately \$350,000 of the accrued potential capital gains incentive fee for the three months ended March 31, 2011 was related to unrealized appreciation on investments in prior periods. Such amounts were not material to current or to prior periods consolidated financial statements. There was no such potential capital gains incentive fee accrued for the three month period ended March 31, 2010.

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 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 to us by the Advisor. Such costs are reflected as Administrator expenses in the accompanying Consolidated Statements of Operations. Under the administration agreement, the Advisor provides, on our behalf, managerial assistance to those portfolio companies to which the Company is required to provide such assistance. To the extent that our Advisor outsources any of its functions, the Company pays the fees associated with such functions on a direct basis without profit to the Advisor.

For the quarter ended March 31, 2011, we incurred administrator expenses payable to the Advisor of \$568,065.

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We and THL Credit Advisors have entered into a license agreement with THL Partners under which THL Partners has granted to us and THL Credit Advisors 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 THL Credit Advisors 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 THL Credit Advisors by THL Partners in the case of certain events of non-compliance.

### ***Due to Affiliates***

The Advisor and an affiliate of the Advisor paid certain offering, organization and other general and administrative expenses on our behalf. Such amounts, if any, have been recorded in the Consolidated Statements of Assets and Liabilities as Due to affiliates as of March 31, 2011 and December 31, 2010. These amounts have been subsequently repaid to the Advisor and its affiliate.

### ***Affiliated Stockholders***

THL Credit Opportunities, L.P. and BDC Holdings own 6,974 and 10,876,220 shares, respectively, or 0.03% and 53.79%, respectively, of our common stock as of March 31, 2011.

### **Critical accounting policies**

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

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

As a business development company, we generally invest in illiquid securities including debt and equity investments of middle-market companies. Investments for which market quotations are readily available are valued using market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. Debt and equity securities for which market quotations are not readily available are valued at fair value as determined in good faith by our board of directors. Because we expect that there will not be a readily available market value for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as 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. 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 firms engaged by us conduct independent appraisals and review the Advisor's preliminary valuations in light of their own independent assessment;

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



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

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. We utilize an income approach to value its debt investments and a combination of income and market approaches to value its equity investments. With respect to unquoted securities, our board of directors, in consultation with our independent third party valuation firm, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. For debt investments, we determine the fair value primarily using a 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.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. 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 amounts (for example, 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, 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, M&S comparables, our principal market (as the reporting entity) and enterprise values, among other factors.

Our investments are generally structured as debt and equity investments in the form of subordinated debt, senior secured loans, member interests and equity investments. The purchase price, excluding upfront fees and transaction costs, is typically the best estimate of fair value at time of purchase. When evidence supports a subsequent change to the carrying value from the original purchase price, adjustments are made to reflect the expected exit values. Ongoing reviews by the Advisor and our independent valuation firm are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures, that requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The new and revised disclosures are required to be implemented in interim and annual periods beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward, which is required for annual reporting periods beginning after December 15, 2010. The Company adopted ASU No. 2010-06 beginning April 1, 2010. The adoption of this standard did not have a material effect on the Company's financial position and results of operations as of and for the three months ended March 31, 2011.

### ***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we determine that it is probable that we will

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not be able to collect such interest. Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. As of March 31, 2011, we did not have any loans on non-accrual status. Upfront loan origination fees, original issue discount and market discount or premium are capitalized, and we then amortize such amounts as interest income using the effective yield method. We record prepayment premiums on loans and debt investments as interest income.

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

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

### ***Federal Income Taxes***

We operate so as to maintain our status as a RIC under Subchapter M of the Code and intend to continue to do so. Accordingly, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income as defined by the Code. If we do not distribute at least 98% of our annual taxable income (excluding net long-term capital gains retained or deemed to be distributed) in the year earned, we generally will be required to pay an excise tax on amounts carried over and distributed to shareholders in the next year equal to 4% of the amount by which 98% of our annual taxable income available for distribution exceeds the distributions from such income for the current year. 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, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. There is no provision for federal excise tax accrued at March 31, 2011.

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**

Notice is hereby given in accordance with Section 23 of the 1940 Act that from time to time we may purchase shares of our common stock in the open market at prevailing market prices.

On April 7, 2011, we received a Greenlight letter that will also us to file with the Investment Division of the Small Business Administration (the SBA ) an application to license a Small Business Investment Company (the SBIC ). The SBIC, which will be a wholly-owned subsidiary of THL Credit, Inc., will have investment objectives similar to ours and will make similar types of investments in accordance with SBA regulations. The SBIC will be subject to regulation and oversight by the SBA. There can be no assurance that we will be granted an SBIC license in a timely manner or at all.

On May 5, 2011, our board of directors declared a dividend of \$0.25 per share, payable on June 30, 2011 to stockholders of record at the close of business on June 15, 2011.

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

We are subject to financial market risks, including changes in interest rates. For the quarter ended March 31, 2011, 88%, or fifteen, of the loans in our portfolio bore interest at fixed rates. Two of the loans in our portfolio have floating interest rates based on LIBOR and interest rate floors. In the future, we expect



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other loans in our portfolio will have floating rates. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. For the quarter ended March 31, 2011, we did not engage in hedging activities.

Assuming that the Consolidated Statements of Assets and Liabilities as of March 31, 2011, were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would have affected net income by approximately \$1.7 million on an annualized basis. Although we believe that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate.

### **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.

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### **PART II. OTHER INFORMATION**

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

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

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

*Important risk factors that could cause results or events to differ from current expectations are described in **Risks** of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2011. These factors are supplemented by the following:*

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

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity.

We entered into a three-year \$115 million syndicated credit facility (the **Facility**) with ING Capital LLC ( **ING** ). The Facility was expanded to \$125 million on March 23, 2011. The Facility will expire on March 11, 2014. The Facility contains financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

As a business development company, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of March 31, 2011, there were no borrowings against the Facility.

#### ***Our use of borrowed funds to make investments exposes us to risks typically associated with leverage.***

We borrow money and may issue additional debt securities or preferred stock to leverage our capital structure. As a result:

our common shares would be exposed to incremental risk of loss; therefore, a decrease in the value of our investments would have a greater negative impact on the value of our common shares than if we did not use leverage;

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any depreciation in the value of our assets may magnify losses associated with an investment and could totally eliminate the value of an asset to us;

if we do not appropriately match the assets and liabilities of our business and interest or dividend rates on such assets and liabilities, adverse changes in interest rates could reduce or eliminate the incremental income we make with the proceeds of any leverage;

our ability to pay dividends on our common stock may be restricted if our asset coverage ratio, as provided in the 1940 Act, is not at least 200%, and any amounts used to service indebtedness or preferred stock would not be available for such dividends;

any credit facility would be subject to periodic renewal by our lenders, whose continued participation cannot be guaranteed;

such securities would be governed by an indenture or other instrument containing covenants restricting our operating flexibility or affecting our investment or operating policies, and may require us to pledge assets or provide other security for such indebtedness;

we, and indirectly our common stockholders, bear the entire cost of issuing and paying interest or dividends on such securities;

if we issue preferred stock, the special voting rights and preferences of preferred stockholders may result in such stockholders having interests that are not aligned with the interests of our common stockholders, and the rights of our preferred stockholders to dividends and liquidation preferences will be senior to the rights of our common stockholders;

any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common shares; and

any custodial relationships associated with our use of leverage would conform to the requirements of the 1940 Act, and no creditor would have veto power over our investment policies, strategies, objectives or decisions except in an event of default or if our asset coverage was less than 200%.

Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities only in amounts such that our asset coverage ratio equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test and we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our senior securities at a time when such sales may be disadvantageous.

### ***Our base management fee may induce our investment advisor to incur leverage.***

Our base management fee is calculated on the basis of our total assets, including assets acquired with the proceeds of leverage. This may encourage the Advisor to use leverage to increase the aggregate amount of and the return on our investments, even when it may not be appropriate to do so, and to refrain from delevering when it would otherwise be appropriate to do so. Under certain circumstances, the use of increased leverage may increase the likelihood of default, which would impair the value of our common stock. Given the subjective nature of the investment decisions made by our investment adviser on our behalf, we will not be able to monitor this conflict of interest.

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

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

**Item 3. Defaults Upon Senior Securities**

None.

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**Item 4. Reserved**

**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 9, 2011

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

Date: May 9, 2011

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

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