BLACKROCK KELSO CAPITAL CORPORATION

40 EAST 52ND STREET
NEW YORK, NEW YORK 10022

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 24, 2008

Notice is hereby given to the owners of shares of common stock (the "Stockholders") of BlackRock Kelso Capital Corporation (the "Company") that:

The Annual Meeting of Stockholders of the Company (the "Annual Meeting") will be held on the 11th floor of 55 East 52nd Street, New York, New York, on April 24, 2008, at 10:00 a.m. (New York City time). The Annual Meeting is being held for the following purposes:

1. To elect a nominee to the Board of Directors (the "Board") of the Company;
2. To approve a new Investment Management Agreement for the Company to take effect upon a proposed change of control of the Company's investment advisor;
3. To approve a proposal to authorize flexibility for the Company, with approval of the Board, to sell shares of its common stock at a price below the Company's then current net asset value per share;
4. To ratify the selection of Deloitte & Touche LLP to serve as the Company's independent registered public accounting firm for the year ending December 31, 2008; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" EACH OF THE PROPOSALS.

We encourage you to contact the Company at 212-810-5800 from 9:00 a.m. to 6:00 p.m. (New York City time) if you have any questions.

The Board of the Company has fixed the close of business on March 25, 2008 as the record date for the determination of Stockholders entitled to notice of, and to vote at, the Annual Meeting. We urge you to mark, sign, date, and mail the enclosed proxy in the postage-paid envelope provided so you will be represented at the Annual Meeting.

By order of the
Board of the Company

Vincent B. Tritto, Secretary of the Company

New York, New York
April 8, 2008

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING IN PERSON OR BY PROXY. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE VOTE BY MAIL. PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE. IF YOU ATTEND THE ANNUAL MEETING AND WISH TO VOTE IN PERSON, YOU WILL BE ABLE TO DO SO AND YOUR VOTE AT THE ANNUAL MEETING WILL REVOKE ANY PROXY YOU MAY HAVE SUBMITTED. YOUR VOTE IS EXTREMELY IMPORTANT. NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN, PLEASE SEND IN YOUR PROXY CARD TODAY.

BLACKROCK KELSO CAPITAL CORPORATION

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON APRIL 24, 2008

This document will give you the information you need to vote on the matters listed on the accompanying Notice of Annual Meeting of Stockholders ("Notice of Annual Meeting"). Much of the information in this proxy statement ("Proxy Statement") is required under rules of the Securities and Exchange Commission ("SEC"); some of it is technical. If there is anything you don't understand, please contact us at 212-810-5800.

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board" or the "Directors") of BlackRock Kelso Capital Corporation (the "Company," "we," "our" or "us") of proxies to be voted at the Annual Meeting of owners of common stock (the "Stockholders") of the Company. This Proxy Statement, the Notice of Annual Meeting and the enclosed proxy card are first being sent to Stockholders on or about March 31, 2008.

*** WHY IS A STOCKHOLDER MEETING BEING HELD?**

To address various proposals that require Stockholder approval.

*** WHAT PROPOSALS WILL BE VOTED ON?**

In the first proposal (the "First Proposal" or "Proposal 1"), Stockholders are being asked to elect the Class I Director to the Board.

In the second proposal (the "Second Proposal" or "Proposal 2"), Stockholders are being asked to approve a new Investment Management Agreement for the Company to take effect upon a proposed change of control of the Company's investment advisor.

In the third proposal (the "Third Proposal" or "Proposal 3"), Stockholders are being asked to approve a proposal to authorize flexibility for the Company, with approval of the Board, to sell shares of its common stock at a price below the Company's then current net asset value per share;

In the fourth proposal (the "Fourth Proposal" or "Proposal 4"), Stockholders are being asked to ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending December 31, 2008.

*** WILL MY VOTE MAKE A DIFFERENCE?**

YES! Your vote is important to the governance of the Company, no matter how many shares you own.

*** WHO IS ASKING FOR YOUR VOTE?**

The enclosed proxy is solicited by the Board for use at the Annual Meeting to be held on April 24, 2008, and, if the Annual Meeting is adjourned or postponed, at any later meetings, for the purposes stated in the Notice of Annual Meeting (see previous pages).

* **HOW DOES THE COMPANY'S BOARD RECOMMEND THAT STOCKHOLDERS VOTE ON THE PROPOSALS?**

The Board recommends that you vote "**FOR**" each Proposal.

* **WHO IS ELIGIBLE TO VOTE?**

Stockholders of record at the close of business on March 25, 2008 are entitled to be present and to vote at the Annual Meeting or any adjourned or postponed meeting. Each share of common stock is entitled to one vote. Shares represented by duly executed proxies will be voted in accordance with your instructions. If you sign the proxy, but don't fill in a vote, your shares will be voted in accordance with the Board's recommendation. If any other business is brought before the Annual Meeting, your shares will be voted at the Board's discretion.

* **HOW MANY SHARES OF THE COMPANY WERE OUTSTANDING AS OF THE RECORD DATE?**

The Company had 52,825,107 shares of common stock outstanding at the close of business on the record date.

* **WHAT IS A QUORUM FOR PURPOSES OF THE PROPOSALS BEING VOTED ON AT THE MEETING?**

The holders of a majority of outstanding shares of common stock present at the Annual Meeting in person or by proxy will constitute a quorum for each proposal.

The Proposals

* **FIRST PROPOSAL: TO ELECT THE CLASS I DIRECTOR**

WHO IS THE NOMINEE FOR CLASS I DIRECTOR?

Mr. Jerrold B. Harris has been nominated for re-election to the Board at the Annual Meeting. Certain information concerning Mr. Harris is set forth below. Mr. Harris has been a director since 2005.

The Board is divided into three classes, designated Class I, Class II and Class III. The term of office of directors of one class expires at each annual meeting of Stockholders. Each class of directors holds office for a three-year term. For example, the Class I Director, Mr. Harris, stands for re-election at this year's annual meeting of Stockholders; the Class II Directors, Messrs. Mayer and de Saint Phalle, are expected to stand for re-election at the Company's 2009 annual meeting of Stockholders; and the Class III Directors, Mr. Maher and Ms. Usifer, are expected to stand for re-election at the Company's 2010 annual meeting of Stockholders. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies or until his or her earlier resignation, removal from office, death or incapacity.

Independent directors are those who are not interested persons of the Company or the Advisor (as defined below) for purposes of the Investment Company Act of 1940 (the "1940 Act") and comply with the definition of "independent" under the rules of The NASDAQ Global Select Market and as defined in Rule 10A-3 under the Securities Exchange Act of 1934 (the "Independent Directors"). The NASDAQ manual provides that a director of a business development company shall be considered to be independent if he or she is not an "interested person" of the Company, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an "interested person" to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with the Company. Our Board has determined that the following Directors are independent: Messrs. Harris, Mayer and de Saint Phalle and Ms. Usifer. Based upon information requested from each Director concerning his or her background, employment and affiliations, our Board has affirmatively determined that none of the Independent Directors has a material business or professional relationship with the Company, other than in his or her capacity as a member of the Board or any Board committee.

Mr. Jerrold B. Harris is an Independent Director and the Class I Director nominated for re-election at the Annual Meeting:

Name, Address and Age(1)	Positions Held and Principal Occupation(s) During the Past 5 Years	Term of Office and Length of Time Served	Number of Portfolios in Fund Complex Overseen by Director or Nominee	Other Directorships Held by Director or Nominee for Director
Jerrold B. Harris .... **Age: 65 years**	Mr. Harris is a Director of the Company. Mr. Harris has been retired since 1999.	Director since 2005; Term expires 2008	None(2)	Mr. Harris is currently a director of the 106 active funds comprising the BlackRock Closed-End Fund Complex and Henry Troemner LLC. Mr. Harris is also a trustee of Ursinus College.

Below is information concerning the Directors who are not subject to re-election at this Annual Meeting:

Interested Director:

Name, Address and Age(1)	Positions Held and Principal Occupation(s) During the Past 5 Years	Term of Office and Length of Time Served	Number of Portfolios in Fund Complex Overseen by Director or Nominee	Other Directorships Held by Director or Nominee for Director
James R. Maher* .... **Age: 58 years**	Mr. Maher is Chairman of the Board and Chief Executive Officer of the Company and Chairman of the Board and Chief Executive Officer of the Advisor. Mr. Maher is a co-founder of the Company and has served as its Chairman and Chief Executive Officer since its formation in 2004. Mr. Maher was, from 2001 until June 2004, a Partner of Park Avenue Equity Partners, L.P. (“Park Avenue”). Park Avenue is a private equity fund specializing in middle-market management buyouts and growth capital investments.	Director since 2005; Term expires 2010.	None(2)	Mr. Maher is a Trustee of Prep for Prep, an organization that assists intellectually gifted public school students from minority group backgrounds, and prepares them for placement in independent schools.

* Mr. Maher is an “interested person” (for purposes of the 1940 Act) of the Company because he is an officer of the Company and of the Advisor.

Independent Directors:

Name, Address and Age(1)	Positions Held and Principal Occupation(s) During the Past 5 Years	Term of Office and Length of Time Served	Number of Portfolios in Fund Complex Overseen by Director or Nominee	Other Directorships Held by Director or Nominee for Director
William E. Mayer . . . . **Age: 67 years**	Mr. Mayer is a Director of the Company. Since 1999, Mr. Mayer has been a partner of Park Avenue, which he co-founded.	Director since 2005; Term expires 2009.	None(2)	Mr. Mayer is currently a board member of Lee Enterprises (a newspaper company owning or having stakes in over 50 daily newspapers) and is a trustee of the Columbia Group of Mutual Funds. Mr. Mayer was formerly Chairman of the Aspen Institute and Chairman of the Board of Trustees of The University of Maryland.
François de Saint Phalle . . . **Age: 62 years**	Mr. de Saint Phalle is a Director of the Company. Mr. de Saint Phalle has been a private equity investor, financial advisor and investment banker for more than thirty-five years. Mr. de Saint Phalle has been a private investor since 2000 and was a consultant for Evercore Partners, an investment banking and private equity firm, from 2000 to 2002.	Director since 2005; Term expires 2009.	None(2)	Mr. de Saint Phalle is a Director of Evercore Partners and Cornerstone Management Solutions, Inc. Mr. de Saint Phalle is also a member Emeritus of the Board of Visitors of Columbia College.
Maureen K. Usifer . . . . **Age: 48 years**	Ms. Usifer is a Director of the Company. Ms. Usifer has been a senior finance director with Church & Dwight Co., Inc., a major producer of baking soda and consumer products, from May 2004 until present. From October 2001 until May 2004, Ms. Usifer was the Chief Financial Officer for Armkel, LLC a joint venture with Church & Dwight and Kelso & Company, L.P.	Director since 2005; Term expires 2010.	None(2)	

(1) Unless otherwise specified, the business address of the Directors and officers of the Company is 40 East 52nd Street, New York, New York 10022.
(2) Other than the Company.

DOES THE BOARD OF DIRECTORS HAVE ANY COMMITTEES?

Yes. The Board has determined that the efficient conduct of the Company's affairs makes it desirable to delegate responsibility for certain specific matters to committees of the Board. The committees meet as often as necessary, either in conjunction with regular meetings of the Board or otherwise. The Board has created a Governance Committee comprised of all of the Independent Directors. The Board has also created an Audit Committee comprised solely of Independent Directors. The Board does not have a compensation committee because the Company's executive officers do not receive any direct compensation from the Company.

Governance Committee

The members of the Governance Committee are Mr. Mayer (Chairman), Ms. Usifer and Messrs. Harris and de Saint Phalle, each of whom is independent for purposes of the 1940 Act and The NASDAQ Global Select Market corporate governance regulations. As part of its duties, the Governance Committee makes recommendations to the full Board with respect to nominees for election as Independent Directors. The Governance Committee will consider director candidates recommended by Stockholders. In considering candidates submitted by Stockholders, the Governance Committee will take into consideration the needs of the Board and the qualifications of the candidates. The Governance Committee may also take into consideration the number of shares held by the recommending Stockholder and the length of time that such shares have been held. To have a candidate considered by the Governance Committee, a Stockholder must submit the recommendation in writing and must include:

- The name of the Stockholder and evidence of the person's ownership of shares of the Company, including the number of shares owned and the length of time of ownership; and
- The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a Director of the Company and the person's consent to be named as a Director if selected by the Governance Committee, nominated by the Board and elected.

The Stockholder recommendation and information described above must be sent to the Corporate Secretary, c/o the Company at 40 East 52nd Street, New York, New York 10022, and must be received by the Corporate Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of Stockholders (which deadline will be no later than December 24, 2008, for next year's Annual Meeting). The Governance Committee believes that the minimum qualifications for serving as a Director of the Company are that a candidate demonstrate, by significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company and have an impeccable record and reputation for honest and ethical conduct in both his or her professional and personal activities. In addition, the Governance Committee examines a candidate's specific experiences and skills, time availability in light of other commitments, potential conflicts of interest and, in the case of an Independent Director candidate, independence from management and the Company. The Governance Committee also seeks to have the Board represent a diversity of backgrounds and experiences.

Audit Committee

The members of the Audit Committee are Ms. Usifer (Chairperson) and Messrs. de Saint Phalle and Harris, each of whom is independent for purposes of the 1940 Act and The NASDAQ Global Select Market corporate governance regulations. The Board has determined that Ms. Usifer is an "audit committee financial expert" as defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934 (the "Exchange Act"). The Audit Committee operates pursuant to a charter approved by the Board, a copy of which is attached hereto as Appendix A. The charter sets forth the responsibilities of the Audit Committee. The primary function of the Audit Committee is to serve as an independent and objective party to assist the Board in fulfilling its responsibilities for overseeing all material aspects of the Company's accounting and financial reporting processes, internal control and audit functions, monitoring the independence and performance of the Company's independent accountants, providing a means for open communication among the Company's independent accountants, financial and senior management and the Board and overseeing compliance by the Company with legal and regulatory requirements.

* HOW CAN THE COMPANY'S STOCKHOLDERS SEND COMMUNICATIONS TO THE DIRECTORS?

Stockholders and other interested parties may communicate with the Board or any member of the Board by mail addressed to the Board or the Board members with whom you wish to communicate by either name or title. All such correspondence should be sent c/o Secretary of the Company at 40 East 52nd Street, New York, New York 10022.

* HOW OFTEN DO THE DIRECTORS MEET?

In 2007, the number of meetings held for the full Board totaled seven and for the Audit Committee totaled four. The Governance Committee met twice in 2007. During the Company's last full fiscal year, each Director attended at least 75% of: (i) all regular meetings of the Board of the Company and (ii) all meetings of all committees of the Board of the Company on which the Director served.

* WHAT ARE THE COMPANY'S DIRECTORS AND OFFICERS PAID FOR THEIR SERVICES?

The following table shows information regarding the compensation paid by the Company to the Independent Directors for the fiscal year ended December 31, 2007. The Company pays no compensation to directors who are "interested persons" or to its officers.

Name of Person, Position	Fees Earned or Paid in Cash	Pension or Retirement Benefits Accrued(1)	Other Compensation	Total Compensation From the Company
Independent Directors				
Jerrold B. Harris, Director	$80,000	None	None	$80,000
William E. Mayer, Director	79,000	None	None	79,000
François de Saint Phalle, Director	80,000	None	None	80,000
Maureen K. Usifer, Director	87,500	None	None	87,500
Interested Director				
James R. Maher (2), Chairman of the Board of Directors and Chief Executive Officer	None	None	None	None
Other Officers				
Michael B. Lazar (2), Chief Operating Officer	None	None	None	N/A
Frank D. Gordon (3), Chief Financial Officer and Treasurer	None	None	None	N/A
Vincent B. Tritto (3), Chief Compliance Officer and Secretary	None	None	None	N/A

(1) We do not have a pension or retirement plan, and directors do not receive any pension or retirement benefits.

(2) Messrs. Maher and Lazar are employees of, and compensated by, the Advisor.

(3) Messrs. Tritto and Gordon are employees of, and compensated by, BlackRock Financial Management, Inc. Mr. Gordon is also compensated, in part, by the Advisor.

As compensation for serving on the Board, each independent director received an annual fee of $50,000, which was increased to an annual fee of $75,000 following our initial public offering in July 2007 and meeting attendance fees of $2,500 ($1,250 for telephonic attendance) per Board meeting and $1,000 ($500 for telephonic attendance) per committee meeting attended plus reimbursement of reasonable out-of-pocket expenses incurred in connection with such attendance. In addition, the chairperson of the Audit Committee receives an annual fee of $7,500 and the chairperson of any other committee receives an annual fee of $2,500 for their additional services in these capacities. In addition, we purchase directors' and officers' liability insurance on behalf of our directors and officers.

*** HOW LARGE A STAKE DO THE DIRECTORS HAVE IN THE COMPANY?**

The Directors believe each Director should have an investment in the Company. The following table sets forth the dollar range of our common stock beneficially owned by each of our directors at December 31, 2007. We are not part of a "family of investment companies" as that term is defined in the 1940 Act.

Director	Dollar Range of Equity Securities in the Company(1)
Interested Director:	
James R. Maher	Over $1,000,000
Independent Directors:	
Jerrold B. Harris	$500,001 – $1,000,000
William E. Mayer	$100,001 – $500,000
François de Saint Phalle	Over $1,000,000
Maureen K. Usifer	$100,001 – $500,000

(1) Dollar ranges are as follows: None; $1—$10,000; $10,001—$50,000; $50,001—$100,000; $100,001—$500,000; $500,001—$1,000,000; or over $1,000,000.

*** WHAT VOTE IS REQUIRED TO APPROVE THIS PROPOSAL?**

The election of Mr. Harris requires the affirmative vote of a plurality of the shares voted.

*** HOW DO THE DIRECTORS RECOMMEND I VOTE ON THIS PROPOSAL?**

THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE NOMINEE.

* * * * *

*** SECOND PROPOSAL: TO APPROVE A NEW INVESTMENT MANAGEMENT AGREEMENT FOR THE COMPANY TO TAKE EFFECT UPON A PROPOSED CHANGE OF CONTROL OF THE ADVISOR.**

The owners (the "Owners") of BlackRock Kelso Capital Advisors LLC, the Company's investment advisor (the "Advisor") have agreed to amend the limited liability operating agreement of the Advisor. Upon the effectiveness of that amendment, 90.2% of the voting power of the Advisor will be held by James R. Maher and Michael B. Lazar and their respective families and associated trusts and no other Owner of the Advisor will own more than 4.9% of the voting power of the Advisor. The Owners will not receive any consideration for agreeing to that amendment, but the reduction of their voting power would allow them to enter into transactions with affiliated persons of the Company or affiliated persons of such persons that otherwise would be prohibited under the 1940 Act.

That amendment may be deemed to cause an "assignment," as defined in the 1940 Act, of the Company's current investment management agreement (the "Current Agreement") because of the reduction of the voting power of BlackRock, Inc. and its subsidiaries ("BlackRock") and the increase in the voting power of Messrs. Maher and Lazar and persons associated with them. Under the 1940 Act, an assignment of an investment management agreement results in termination of the agreement. The 1940 Act requires that a new investment management agreement be approved by both a majority of the Company's Directors, including a majority of its Independent Directors, and a majority of its Stockholders.

In addition, the Owners and the Advisor will comply with Section 15(f) of the 1940 Act. Section 15(f) provides in substance that when a sale of securities or a controlling interest in an investment advisor to an investment company occurs, the investment advisor or any of its affiliated persons may receive any amount or benefit in connection with the sale so long as two conditions are satisfied. The first condition of Section 15(f) is that during the three-year period following the consummation of a transaction, at least 75% of the investment company's board must not be "interested persons," as defined in the 1940 Act, of the investment advisor or predecessor advisor. The Company's Board currently meets this requirement and is expected to do so after the amendment to the Advisor's limited liability operating agreement becomes effective. Second, an "unfair burden" must not be imposed on the investment company as a result of the transaction relating to the sale of such interest, or any of its applicable express or implied terms, conditions or understandings. The term "unfair burden," as defined in the 1940 Act, includes any arrangement during the two-year period after the transaction whereby the investment advisor (or predecessor or successor advisor), or any "interested person" of such an advisor, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its stockholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for the investment company). The Owners and the Advisor will conduct, and use reasonable best efforts to cause their respective affiliates to conduct, their respective businesses in compliance with the conditions of Section 15(f) in relation to the Company.

The Board considered this matter at an in-person meeting on March 5, 2008 and, by a unanimous vote of its Directors, including its Independent Directors, approved a new investment management agreement (the "New Agreement"). At that meeting, the Directors voted unanimously to recommend that Stockholders approve the New Agreement.

The Terms of the New Agreement

The New Agreement is identical to the Current Agreement except for the date of the agreement and the expiration of its initial term.

The Current Agreement, originally dated July 25, 2005, was last approved by the Stockholders at the Company's 2007 Annual Meeting of Stockholders, held on March 27, 2007. The Current Agreement was amended on that date and was further amended on June 22, 2007 to clarify the language used to describe the formula pursuant to which the incentive fee payable by the Company to the Advisor (the "Incentive Fee") is calculated and to make more explicit that the Incentive Fee formula complies with the requirements of the Investment Advisers Act of 1940 (the "Advisers Act"). This change was ratified by the Board, including a majority of the Independent Directors, on November 6, 2007.

Under the terms of both the Current Agreement and the New Agreement, the Advisor, subject to the overall supervision of the Board of Directors, manages the Company's day-today operations and provides it with investment advisory services. For providing these services, the Advisor receives a base management fee from the Company at an annual rate of 2.0% of the Company's total assets, including any assets acquired with the proceeds of leverage, payable quarterly in arrears.

For the year ended December 31, 2007, the Advisor earned $17,095,983 in base management fees, net of a waiver provision applicable during part of the year, under the Current Agreement. The base management fees, prior to such waiver, would have been $19,152,889 for the year ended December 31, 2007.

The Current Agreement and the New Agreement both provide that the Advisor or its affiliates may be entitled to the Incentive Fee under certain circumstances. The determination of the Incentive Fee is identical in both agreements and, as described in more detail below, will result in the Advisor or its affiliates receiving no Incentive Fee payments if returns to the Company's Stockholders do not meet an 8.0% annualized rate of return during the applicable fee measurement period and will result in the Advisor or its affiliates receiving less than the full amount of the Incentive Fee percentage until returns to the Company's Stockholders exceed an approximate 13.3% annualized rate of return during such period. Annualized rate of return in this context is computed by reference to the Company's net asset value and does not take into account changes in market price of the Company's common stock. The Advisor will be entitled to receive the Incentive Fee from the Company if the Company's performance exceeds a "hurdle rate" during different measurement periods: the pre-offering period;

the transition period; trailing four quarters' periods (which will apply only to the portion of the Incentive Fee based on income) and annual periods (which will apply only to the portion of the Incentive Fee based on capital gains).

The "pre-offering period" began on July 25, 2006, the first anniversary of the date the Company commenced operations, and ended on June 30, 2007. The "transition period" began on July 1, 2007 and will end on June 30, 2008. The "trailing four quarters' periods" will begin on September 30, 2008. In other words, the income portion of the Incentive Fee payable for the quarterly period ending on September 30, 2008, will be determined by reference to the four quarter period ending on September 30, 2008. The term "annual period" means the period beginning on July 1 of each calendar year beginning in 2007 and ending on June 30 of the next calendar year.

The hurdle rate for each quarterly portion of a measurement period is 2.0% times the net asset value of the Company's common shares at the beginning of the respective measurement period calculated after giving effect to any distributions that occurred during the measurement period times the number of calendar quarters in the measurement period.

A portion of the Incentive Fee is based on the Company's income and a portion is based on capital gains. Each portion of the Incentive Fee is described below.

Quarterly Incentive Fee Based on Income. The Company calculates the portion of the Incentive Fee based on income separately for each of three measurement periods: the pre-offering period; the transition period; and each rolling four quarter period. For each period, the Company will pay the Advisor an Incentive Fee based on the amount by which (A) aggregate distributions and amounts distributable out of taxable net income (excluding any capital gain and loss) during the period less the amount, if any, by which net unrealized capital depreciation exceeds net realized capital gains during the period exceeds (B) the hurdle rate for the period. We refer to the amount of the excess described in this paragraph for each period as the excess income amount. The portion of the Incentive Fee based on income for each period will equal 50% of the period's excess income amount, until the cumulative Incentive Fee payments for the period equals 20% of the period's excess income amount distributed or distributable to the Company's Stockholders. Thereafter, the portion of the Incentive Fee based on income for the period will equal an amount such that the cumulative Incentive Fee payments to the Advisor during the period based on income equals 20% of the period's excess income amount.

Periodic Incentive Fee Based on Capital Gains. The Company calculates the portion of the Incentive Fee based on capital gains separately for each of two periods: the pre-offering period and after the pre-offering period on an annual basis. For each period, the Company will pay the Advisor an Incentive Fee based on the amount by which (A) net realized capital gains, if any, to the extent they exceed unrealized capital depreciation, if any, occurring during the period exceeds (B) the amount, if any, by which the period's hurdle rate exceeds the amount of income used in the determination of the Incentive Fee based on income for the period. We refer to the amount of the excess described in this paragraph as the excess gain amount.

The portion of the Incentive Fee based on capital gains for each period will equal 50% of the period's excess gain amount, until such payments equal 20% of the period's excess gain amount distributed or distributable to the Company's stockholders. Thereafter, the portion of the Incentive Fee based on capital gains for the period will equal an amount such that the portion of the Incentive Fee payments to the Advisor based on capital gains for the period will equal 20% of the period's excess gain amount. The result of this formula is that, if the portion of the Incentive Fee based on income for the period exceeds the period's hurdle rate, then the portion of the Incentive Fee based on capital gains will be capped at 20% of the excess gain amount.

In calculating whether the portion of the Incentive Fee based on capital gains is payable under the New Agreement for any period, the Company will account for its assets on a security-by-security basis. In addition, the Company will use the “period-to-period” method pursuant to which the portion of the Incentive Fee based on capital gains for any period will be based on realized capital gains for the period reduced by realized capital losses and unrealized capital depreciation for the period. Based on current interpretations of Section 205(b)(3) of the Advisers Act by the staff of the SEC, the calculation of unrealized depreciation for each portfolio security over a period will be based on the value of the security at the end of the period compared to the value at the beginning of the period. Fees earned in any of the periods described above are not subject to modification or repayment based upon performance in a subsequent period.

For the year ended December 31, 2007, the Company incurred $9,412,097 in incentive management fees to the Advisor. Although the Company did not incur any incentive management fees during the last two calendar quarters of 2007, it may incur such fees in the future relating to investment performance since June 30, 2007 measured on a rolling four quarter basis.

Both the Current Agreement and the New Agreement provide that the Company will reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the performance by the Advisor of its duties under each agreement, as well as any costs and expenses incurred by the Advisor relating to any non-investment advisory, administrative or operating services provided by the Advisor to the Company. For the year ended December 31, 2007, the Company incurred $876,429 for costs and expenses reimbursable to the Advisor under the Current Agreement. After the New Agreement is approved, the Advisor will continue to provide these services to the Company and the Company will continue to reimburse the Advisor for these costs and expenses.

For the 2007 fiscal year, the Company paid the Advisor an aggregate amount of $26,508,080 in base management fees (net of waivers) and incentive fees for services provided to the Company under the Current Agreement. For the 2007 fiscal year, the Company and the Advisor paid no brokerage commissions to any broker that is an affiliated person of the Company, an affiliated person of such person, or an affiliated person of which is an affiliated person of the Company, the Advisor, the Company’s principal underwriter or the Administrator. For further information concerning the Advisor and its officers, see “Additional Information—Investment Advisor” below.

Board Consideration of the Approval of the New Agreement

In connection with the Board’s consideration of the New Agreement, the Advisor brought down to date a significant amount of information relating to the Current Agreement that had last been considered by the Board on June 22 and November 6, 2007.

In approving the New Agreement, the entire Board, including all of the Independent Directors, considered the following matters and reached the following conclusions:

- *Nature, Extent and Quality of Investment Advisory Services*. The Board, including the Independent Directors, considered the nature, extent and quality of the investment advisory services to be provided by the Advisor to the Company. In that connection, the Board reviewed the resources of the Advisor and the composition, education and experience of the Advisor’s investment professionals. They concluded that the nature, quality and extent of the services provided to the Company by the Advisor were appropriate and that the Company was likely to benefit from the continued provision of those services. They also concluded that the Advisor had sufficient personnel, with the appropriate education and experience, to serve the Company effectively and had demonstrated its continuing ability to attract and retain well-qualified personnel.

- *Nature, Extent and Quality of Other Services*. The Board, including the Independent Directors, considered the nature, quality, cost and extent of administrative and stockholder services to be performed by the Advisor under the New Agreement. The Board, including the Independent Directors, also considered the nature and extent of the Advisor's supervision of third-party service providers. They concluded that the nature and quality of the administrative and stockholder services and supervisory services provided by the Advisor to be satisfactory and beneficial to the Company.
- *Investment Performance*. The Board reviewed the investment performance of the Company since the commencement of operations and compared the performance of the Company with the performance of comparable business development companies, noting that the performance of the Company compared favorably with the performance of the comparable companies. They concluded that, although past performance is not necessarily indicative of future results, the favorable performance record of the Company was an important factor in their evaluation of the quality of services expected to be provided by the Advisor under the New Agreement.
- *Costs of the Services Provided to the Company and the Profits Realized by the Advisor*. The Board considered comparative data based on publicly available information with respect to services rendered and the advisory fees (including management fees and incentive fees) of other business development companies with similar investment objectives, the Company's operating expenses and expense ratio compared to such other companies, as well as the administrative services that the Administrator provides to the Company. Based upon its review, the Board concluded that, although the fee structures vary among business development companies, the base management fees and incentive fees to be paid under the New Agreement are generally less than those payable under agreements of comparable business development companies described in the comparative data then available. In addition, the Board concluded that the Company's expenses as a percentage of net assets attributable to common stock are generally equal to or less than similar expenses incurred by comparable business development companies described in the comparative data then available.
- *Economies of Scale*. The Board considered information about the potential for stockholders to experience economies of scale as the Company grows in size. The Board considered that because there are no break points in the investment advisor's fees, any benefits resulting from the growth in the Company's assets where the Company's fixed costs did not increase proportionately, would not inure to the benefit of the stockholders.
- *Profitability of Investment Advisor*. The Board reviewed information on the profitability of the Advisor in serving as the Company's investment manager. They concluded that the profitability of the Advisor with respect to the Company in relation to the services rendered was not unreasonable and that the financial condition of the Advisor was sound. They also concluded that the management fees and other compensation payable by the Company to the Advisor and its affiliates were reasonable in relation to the nature, extent and quality of the services provided, taking into account the fees charged by other advisers for managing comparable business development companies. Finally, they concluded that the Company's overall expense ratio was reasonable in light of the quality and extent of services provided by the Advisor and the Company's investment performance.
- *Additional Benefits Derived by Investment Advisor*. The Independent Directors also considered benefits that accrue to the Advisor and its affiliates from their relationship with the Company, including the engagement of various affiliates of the Advisor to provide administrative, accounting, custodial and transfer agency services and to provide a credit facility, as well as the opportunity for certain of the Advisor's members and employees to receive from BlackRock Kelso Capital Holding LLC ("Holding") a number of shares of the Company's common stock if the performance of the Company's common stock exceeds certain thresholds. They concluded that all of those arrangements were consistent with regulatory requirements. Based on their evaluation of the information referred to above and other information, the Independent Directors determined that the overall arrangements between the Company and the Advisor were fair and reasonable in light of the nature, extent and quality of the

services provided by the Advisor and its affiliates and the fees charged for those services and that the New Agreement was in the best interest of the Company and its stockholders.

- *Other Matters Considered*. In addition, the Directors also considered the intangible benefits that accrue to the Advisor and its affiliates by virtue of their relationship with the Company and concluded that they were appropriate.

The Independent Directors had the opportunity to consult in executive session with their independent legal counsel regarding the approval of the New Agreement. Based on the information reviewed and discussions held with respect to each of the foregoing items, the Board, including all of the Independent Directors, concluded in light of all of the Company's surrounding circumstances that the compensation payable to the Advisor was reasonable in relation to the services to be provided by the Advisor to the Company.

After these deliberations, the Board including a majority of the Independent Directors approved the New Agreement between the Advisor and the Company as in the best interests of Stockholders of the Company. The Board then directed that the New Agreement be submitted to the Company's Stockholders for approval with the Board's recommendation that Stockholders vote to approve the New Agreement.

The 1940 Act requires that the New Agreement be approved by a "majority" of the Company's Stockholders. For purposes of this proposal, the 1940 Act defines a "majority" of the Company's Stockholders as the holders of: (1) 67% or more of the voting securities present at the Annual Meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (2) 50% of the outstanding voting securities of the Company, whichever is the less. Abstentions and broker non-votes will have the effect of a vote against this proposal. If the Company's New Agreement is not approved at this Annual Meeting, it will be terminated and the Current Agreement will remain in place.

THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

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*** THIRD PROPOSAL: TO AUTHORIZE FLEXIBILITY FOR THE COMPANY, WITH APPROVAL OF THE BOARD, TO SELL SHARES OF ITS COMMON STOCK AT A PRICE BELOW THE COMPANY'S THEN CURRENT NET ASSET VALUE PER SHARE.**

The Company is a closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. The 1940 Act prohibits the Company from selling shares of its common stock at a price below the current net asset value per share of such stock or "NAV," unless its Stockholders authorize such a sale and the Board makes certain determinations.

The Company seeks the approval of its Stockholders so that it may, in one or more public or private offerings, sell or otherwise issue shares of its common stock at a price below its then current NAV, subject to certain conditions discussed below. If approved, the authorization would be effective for a period expiring on the earlier of the anniversary of the date of this Annual Meeting or the date of the Company's 2009 Annual Meeting of Stockholders, which is expected to be held in May 2009.

Reasons to Offer Common Stock below NAV. The Company believes that market conditions will continue to provide attractive opportunities to deploy capital. Over the last several months, U.S. credit markets, including middle market lending, have experienced significant turbulence. This turbulence has made it difficult for many firms to access capital and has led to significant stock price volatility for capital providers such as the Company. The change in market conditions, however, also has had beneficial effects for capital providers, including more reasonable pricing of risk and more appropriate contractual terms. Accordingly, for firms that continue to have access to capital, the current environment may provide investment opportunities on more favorable terms than have been available in recent periods. The Company's ability to take advantage of these opportunities is dependent upon its access to equity capital.

As a BDC and a regulated investment company (a "RIC"), the Company depends on its ability to raise capital through the issuance of its common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to achieve favorable tax treatment, which prevents the Company from using those earnings to support new investments. Further, BDCs must maintain a debt to equity ratio of less than 1:1, which requires the Company to finance its investments with at least as much equity as debt in the aggregate. The Company generally attempts to remain close to fully invested and does not hold substantial amounts of cash for the purpose of making new investments. Therefore, the Company seeks to maintain access to capital through the public and private equity markets in order to continue to build the Company's investment portfolio, and thereby support maintenance and growth of the Company's dividends, by taking advantage of investment opportunities as they arise.

The Company's common stock has been quoted on The NASDAQ Global Select Market under the symbol "BKCC" since June 27, 2007. The following table lists the high and low closing sales price for the Company's common stock, the closing sales price as a percentage of NAV, and quarterly dividends per share since shares of the Company's common stock began being regularly quoted on The NASDAQ Global Select Market.

Year Ending December 31, 2007	NAV(1)	Closing Sales Price High	Closing Sales Price Low	Premium/ Discount of High Sales Price to NAV(2)	Premium/ Discount of Low Sales Price to NAV(2)	Declared Dividends
Second Quarter (period from June 27, 2007 to June 30, 2007)	$14.88	$14.75	$14.55	99%	98%	$0.42
Third Quarter	$14.51	$15.68	$12.61	108%	87%	$0.42
Fourth Quarter	$13.78	$15.56	$13.17	113%	96%	$0.43

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by NAV.

Although the Company has at times experienced a share price above NAV, there can be no assurance that it will do so under current market conditions. The unprecedented nature of the current credit market dislocation and uncertainty surrounding the U.S. economy has led to significant stock market volatility, particularly with respect to the stock of financial services companies. During times of increased price volatility, the Company's common stock may periodically trade at a small premium to or possibly below its NAV, which is not uncommon for business development companies like the Company. As noted above, however, the current market dislocation has created, and we believe will continue to create, favorable opportunities to invest, including opportunities that, all else being equal, may increase NAV over the longer-term, even if financed with the issuance of common stock below NAV. Stockholder approval of the proposal to sell shares below NAV subject to the conditions detailed below is expected to provide the Company with the flexibility to invest in such opportunities.

The Board believes it is in the best interests of Stockholders to allow the Company flexibility to issue its common stock below NAV in certain instances. The Company's ability to grow over time and to continue to pay steady or increasing dividends to Stockholders could be adversely affected if the Company were unable to access the capital markets as attractive investment opportunities arise. Inability to access the capital markets could also have the effect of forcing the Company to sell assets that the Company would not otherwise sell and at disadvantageous times.

Conditions to Sales Below NAV. If Stockholders approve this proposal, the Company will sell shares of its common stock at a price below NAV per share only if the following conditions are met:

(1) a majority of the Company's Independent Directors who have no financial interest in the sale have approved the sale; and

(2) a majority of such directors, who are not interested persons of the Company, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of the Company of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any underwriting commission or discount.

Key Stockholder Considerations. Before voting on this proposal or giving proxies with regard to this matter, Stockholders should consider the potentially dilutive effect on the NAV per outstanding share of common stock of the issuance of shares of the Company's common stock at less than NAV per share. Any sale of common stock at a price below NAV would result in an immediate dilution to existing Stockholders. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a proportionately greater decrease in a Stockholder's interest in the earnings and assets of the Company and voting interest in the Company. The Board will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share when considering whether to authorize any such issuance.

The 1940 Act establishes a connection between common share sale price and NAV because, when stock is sold at a sale price below NAV per share, the resulting increase in the number of outstanding shares is not accompanied by a proportionate increase in the net assets of the issuer. Stockholders should also consider that they will have no subscription, preferential or preemptive rights to additional shares of the common stock proposed to be authorized for issuance, and thus any future issuance of common stock at a price below NAV will dilute a Stockholder's holdings of common stock as a percentage of shares outstanding to the extent the Stockholder does not purchase sufficient shares in the offering or otherwise to maintain the Stockholder's percentage interest. Further, if the Stockholder does not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current NAV, the Stockholder's voting power will be diluted. In addition, as described below, the Company recently amended its dividend reinvestment plan to permit the Company to pay dividends in the form of shares of common stock at a price per share equal to 95% of the then current market price per share. This would permit the Company to sell shares of common stock under that plan at a price below net asset value per share when the market price per share is below or only slightly above NAV. See "Dividend Reinvestment Plan" below.

Approval of this proposal requires the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting that are not held by affiliated persons of the Company, which includes directors, officers, employees, and 5% Stockholders. For purposes of this proposal, the 1940 Act defines "a majority of the outstanding shares" as: (1) 67% or more of the voting securities present at the Meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (2) 50% of the outstanding voting securities of the Company, whichever is the less. Abstentions and broker non-votes will have the effect of a vote against this proposal.

THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

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*** FOURTH PROPOSAL: TO RATIFY THE SELECTION OF DELOITTE & TOUCHE LLP TO SERVE AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2008.**

Deloitte & Touche LLP ("D&T") has been selected as the independent registered public accounting firm to audit the financial statements of the Company at and during the Company's fiscal year ending December 31, 2008. D&T was selected by the Audit Committee of the Company and that selection was ratified unanimously by the Company's Board, including all of the Independent Directors, by a vote cast in person. The Company does not know of any direct or indirect financial interest of D&T in the Company. A representative of D&T will attend the Annual Meeting, will have the opportunity to make a statement if he desires to do so and will be available to answer questions.

Fees Incurred by the Company for Deloitte & Touche LLP

Aggregate fees incurred by the Company for the fiscal years ended December 31, 2007 and 2006 for the Company's principal accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, are set forth below.

	2007	2006
Audit Fees	$727,000	$220,000
Audit-Related Fees	6,000	5,000
Tax Services Fees	6,100	4,000
All Other Fees	—	—
Total	$739,100	$229,000

Audit Fees

Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements and services provided by D&T in connection with statutory and regulatory filings.

Audit-Related Fees

Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards.

Tax Services Fees

Tax services fees consist of fees billed for professional services for tax compliance. These services include assistance regarding federal, state and local tax compliance.

All Other Fees

Other fees would include fees for products and services other than the services reported above.

Audit Committee Policies and Procedures

The Audit Committee operates under a written charter adopted by the Board. Management is responsible for our internal controls and the financial reporting process. D&T, as our independent registered public accounting firm (“Independent Auditors”), is responsible for performing an independent audit of our financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States) and expressing an opinion on the conformity of those financial statements in accordance with accounting principles generally accepted in the United States. The Audit Committee’s responsibility is to monitor and oversee these processes. The Audit Committee is also directly responsible for the appointment, compensation and oversight of our Independent Auditors.

The Audit Committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by our Independent Auditors. The policy requires that the Audit Committee pre-approve the audit and non-audit services performed by the Independent Auditors in order to assure that the provision of such service does not impair the Independent Auditors’ independence.

Any requests for audit, audit-related, tax or other services that have not received general pre-approval must be submitted to the Audit Committee for specific pre-approval, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the Audit Committee may delegate pre-approval authority between meetings to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the Independent Auditors to management.

Audit Committee Report

The Audit Committee has reviewed the audited financial statements and met and held discussions with management regarding the audited financial statements. Management has represented to the Audit Committee that our financial statements were prepared in accordance with accounting principles generally accepted in the United States. The Audit Committee has discussed with D&T matters required to be discussed by Statement of Auditing Standards No. 114 (The Auditor’s Communication With Those Charged With Governance). The Audit Committee received and reviewed the written disclosures and the letter from D&T required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended by the Independence Standards Board, and has discussed with D&T their independence.

Based on the Audit Committee’s discussion with management and the Independent Auditors, the Audit Committee’s review of the audited financial statements, the representations of management and the report of the Independent Auditors to the Audit Committee, the Audit Committee recommended that the Board include the audited financial statements in the Company’s annual report on Form 10-K for the fiscal period ended December 31, 2007 for filing with the SEC. The Audit Committee has also recommended and the Board, including a majority of the Independent Directors, has approved, reappointing D&T to serve as the Company’s independent auditors for the year ending December 31, 2008.

Maureen K. Usifer, *Chair*
Jerrold B. Harris
François de Saint Phalle

The affirmative vote of a majority of the votes cast at the Annual Meeting in person or by proxy is required to ratify the appointment of D&T to serve as the Company’s independent registered public accounting firm.

THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THIS PROPOSAL.

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FURTHER INFORMATION ABOUT VOTING AND THE ANNUAL MEETING

The cost of soliciting proxies will be borne by the Company. In addition, certain officers, directors and employees of each of the Company and the Advisor (none of whom will receive additional compensation therefor) may solicit proxies by telephone or mail.

The Company has retained PFPC Inc. to assist in the solicitation of proxies for an estimated fee of approximately $10,000, plus de minimis out-of-pocket expenses.

Abstentions and broker non-votes will be counted as shares present at the Annual Meeting but not as votes cast and will not affect the result of the vote on Proposals 1 and 4. Abstentions and broker non-votes on Proposals 2 and 3 will have the same effect as a negative vote.

All properly executed proxies received prior to the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions marked thereon or otherwise as provided therein. Stockholders may revoke their proxies at any time prior to the time they are voted by giving written notice to the Secretary of the Company by delivering subsequently dated proxies or by attending and voting at the Annual Meeting.

The Board of the Company has fixed the close of business on March 25, 2008 as the record date for the determination of Stockholders of the Company entitled to notice of, and to vote at, the Annual Meeting. Stockholders of the Company on that date will be entitled to one vote on each matter to be voted on by the Company for each share held and a fractional vote with respect to each fractional share held with no cumulative voting rights.

ADDITIONAL INFORMATION

INVESTMENT ADVISOR

Our investment activities are managed by the Advisor. The Advisor is led by James R. Maher, Chairman and Chief Executive Officer of the Company and the Advisor, and Michael B. Lazar, Chief Operating Officer of the Company and the Advisor. They are supported by the Advisor’s team of employees, including 15 dedicated investment professionals, who have extensive experience in commercial banking, investment banking, accounting, corporate law and private equity investing. Since the commencement of our operations, our Advisor’s team of investment professionals, including our senior management, has evaluated more than 1,000 investment opportunities and completed on our behalf more than 100 investments in middle-market companies investing in excess of $1.5 billion through December 31, 2007. Our Advisor is responsible for identifying prospective customers, conducting research on prospective investments, identifying and underwriting credit risk, and monitoring our investments and portfolio companies on an ongoing basis.

The Advisor has an investment committee comprised of 12 members, including Messrs. Maher and Lazar and several senior executives of BlackRock and several of the principals of Kelso & Company, L.P. (the “Kelso Principals”). The Investment Committee is responsible for approving our investments. We benefit from the extensive and varied relevant experience of the BlackRock executives and Kelso Principals serving on the Advisor’s Investment Committee. Many of the BlackRock senior executives and the Kelso Principals who are members of the Investment Committee have worked together in a similar capacity since 1998. Although the BlackRock executives and Kelso Principals who serve on the Investment Committee bring the benefit of expertise they have gained at BlackRock, Kelso and elsewhere, neither of those organizations provides us with investment advice. Nevertheless, we benefit from the business and specific industry knowledge, transaction expertise and deal-sourcing capabilities of BlackRock. The Kelso Principals who serve on the investment committee bring the benefit of the expertise they gained at Kelso and elsewhere including providing access to a broad network of contacts.

The executive officers of the Advisor are:

Name	Position
James R. Maher	Chief Executive Officer
Michael B. Lazar	Chief Operating Officer
Frank D. Gordon	Chief Financial Officer and Treasurer
Vincent B. Tritto	Chief Compliance Officer

James R. Maher's biographical information is set forth above. See "First Proposal—Interested Director."

Name, Address and Age(1)	Positions Held and Principal Occupation(s) During the Past 5 Years
Michael B. Lazar **Age: 38 years**	Michael B. Lazar is the Chief Operating Officer of the Company and Chief Operating Officer of the Advisor. Mr. Lazar is a co-founder of the Company and has served as its Chief Operating Officer since its formation in 2004. Previously, Mr. Lazar was a Managing Director and Principal at Kelso & Company.
Frank D. Gordon **Age: 47 years**	Frank D. Gordon is the Chief Financial Officer and Treasurer of the Company and Chief Financial Officer and Treasurer of the Advisor. Mr. Gordon has worked at BlackRock since 1998.
Vincent B. Tritto **Age: 46 years**	Vincent B. Tritto is the Chief Compliance Officer and Secretary of the Company and Chief Compliance Officer of the Advisor. Mr. Tritto has worked at BlackRock since 2002.

(1) Unless otherwise specified, the business address of the Directors and officers of the Company is 40 East 52nd Street, New York, New York 10022.

ORGANIZATION OF THE ADVISOR

The Advisor is organized as a Delaware limited liability company. The Advisor is registered as an investment advisor with the SEC under the Advisers Act. James R. Maher and Michael B. Lazar, the managing members of the Advisor, are control persons of the Advisor. BlackRock, through a subsidiary, currently owns an interest in the Advisor that creates a presumption of control with respect to the Advisor. For purposes of this paragraph, the term "control" has the meaning given to it in the 1940 Act.

ADMINISTRATION AGREEMENT

The Company has entered into an administration agreement with BlackRock Financial Management, Inc. (the "Administrator"), a subsidiary of BlackRock, under which the Administrator provides administrative services to the Company. For the years ended December 31, 2007 and 2006, and for the period July 25, 2005 (inception of operations) through December 31, 2005, the Company incurred $947,028, $588,741 and $435,583, respectively, for administrative services expenses payable to the Administrator under the administration agreement.

The Company reimburses the Administrator for the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement, including rent and the Company's allocable portion of the cost of certain of its officers and their respective staffs. From time to time, the Administrator also may pay amounts owed by the Company to third party providers of goods or services. The Company will subsequently reimburse the Administrator for such amounts paid on its behalf. For the year ended December 31, 2006 and for the period July 25, 2005 (inception of operations) through December 31, 2005, the Company reimbursed the Administrator $33,829 and $198,875, respectively, for payments made on the Company's behalf to third party providers of goods and services. No reimbursements were made to the Administrator for the year ended December 31, 2007.

PRINCIPAL EXECUTIVE OFFICES

The principal executive office of the Company, the Advisor and the Administrator are located at 40 East 52nd Street, New York, New York 10022.

PRINCIPAL STOCKHOLDERS

The following table sets forth, at December 31, 2007, information with respect to the ownership of our common stock by each stockholder who owned more than 5% of our outstanding shares of common stock, each director, our chief executive officer, each of our other executive officers and our directors and executive officers as a group. Unless otherwise indicated, we believe that each beneficial owner set forth in the table has sole voting and investment power.

Name and address	Type of ownership	Shares owned	Percentage of common stock currently outstanding
BlackRock Kelso Capital Holding LLC(1) 40 East 52nd Street New York, NY 10022	Direct	39,926,723	75.58%
Virginia Retirement System(1)(2) 1200 East Main Street Richmond, VA 23219	Beneficial	16,313,251	30.88%
Summer Street BRK Investors, L.L.C.(1)(3) 3001 Summer Street Stamford, CT 06095	Beneficial	6,159,270	11.66%
JPMorgan Chase Bank, National Association, as trustee for First Plaza Group Trust(1)(4)(5) 3 Chase Metro Center Brooklyn, NY 11245	Beneficial	5,774,316	10.93%
Officers and Directors:			
James R. Maher(6)(7)	Direct/Beneficial	796,262	1.51%
Jerrold B. Harris	Beneficial	48,965	*%
William E. Mayer	Beneficial	20,402	*%
François de Saint Phalle	Direct	408,041	*%
Maureen K. Usifer	Direct	8,161	*%
Michael B. Lazar(7)(8)	Direct/Beneficial	100,296	*%
Frank D. Gordon(7)	Direct	11,802	*%
Vincent B. Tritto	Direct	82	*%
All officers and directors as a group (8 persons)(9)	Direct/Beneficial	1,394,011	2.64%

* Represents less than 1%.

(1) BlackRock Kelso Capital Holding LLC holds 39,926,723 shares beneficially owned by its members, including Virginia Retirement System, Summer Street BRK Investors, L.L.C. and JPMorgan Chase Bank, National Association, as trustee for First Plaza Group Trust.

(2) Represents 16,313,251 shares held by BlackRock Kelso Capital Holding LLC.

(3) Represents 6,159,270 shares held by BlackRock Kelso Capital Holding LLC.

(4) Represents 5,774,316 shares held by BlackRock Kelso Capital Holding LLC.

(5) JPMorgan Chase Bank, National Association, as trustee for First Plaza Group Trust ("First Plaza") may be deemed an affiliate of Performance Equity Associates ("PEA"). PEA owns 51% of Performance Equity

Management, LLC ("PEM"). First Plaza is a New York trust holding assets of certain employee benefit plans of General Motors ("GM"), its subsidiaries and unrelated employers. General Motors Investment Management Corporation ("GMIMCo"), an indirect wholly-owned subsidiary of GM and 49% owner of PEM, is investment manager to First Plaza. Pursuant to a Subadvisory Agreement, GMIMCo has delegated management of certain assets of First Plaza to PEM, including the assets of First Plaza invested in Holding. Each of PEM and GMIMCo is registered as an investment adviser under the Investment Advisers Act of 1940. GMIMCo, in its capacity as a fiduciary to the pension plans in First Plaza, has the power to direct the trustee as to the voting and disposition of First Plaza's shares in Holding. Because of First Plaza trustee's limited role, beneficial ownership of the Holding shares by the trustee is disclaimed by the trustee. The principal address of PEM and PEA is 2 Pickwick Plaza, Suite 310, Greenwich, Connecticut 06830. The principal address of First Plaza and GMIMCo is 767 Fifth Avenue, New York, New York 10153.

(6) Includes 118,470 shares owned indirectly by the individual's children, 268,072 shares owned indirectly by the individual's spouse and 124,961 shares owned indirectly by a family trust, as to each of which the individual disclaims beneficial ownership. Does not include 275,530 shares owned directly by the Advisor, an entity for which the individual serves as a managing member.

(7) Does not include unvested shares of restricted common stock.

(8) Includes 31,646 shares owned indirectly by an individual retirement account as to which the individual is the beneficiary and 1,785 shares owned indirectly by a family trust. The individual disclaims beneficial ownership of the shares owned by the trust. Does not include 275,530 shares owned directly by the Advisor, an entity for which the individual serves as a managing member.

(9) The address for all our officers and directors is c/o BlackRock Kelso Capital Corporation, 40 East 52nd Street, New York, NY 10022.

The Advisor and certain entities it manages own shares of our common stock, including Holding. Holding owned 39,926,723 shares, or 75.6%, of our common stock at December 31, 2007. However, neither Holding nor the Advisor in its capacity as manager of Holding exercises voting control over those shares because the right to vote those shares is, in some cases, passed through to the owners of Holding or, in other cases, voted in the same proportion as the votes of our other Stockholders.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

We have entered into an Investment Management Agreement with the Advisor. Our senior management and our Chairman of the Board of Directors have ownership and financial interests in the Advisor. In addition, our executive officers and directors and the employees of the Advisor, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisors affiliated with the Advisor. However, the Advisor and BlackRock intend to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies.

We have entered into a license agreement with BlackRock and the Advisor pursuant to which BlackRock has agreed to grant to the Advisor, and the Advisor has agreed to grant to us, a non-exclusive, royalty-free license to use the name "BlackRock." In addition, we have entered into a license agreement with Michael B. Lazar, our Chief Operating Officer, and the Advisor pursuant to which Mr. Lazar has agreed to grant to the Advisor, and the Advisor has agreed to grant to us, a non-exclusive, royalty-free license to use the name "Kelso." Mr. Lazar obtained this limited right to license the name "Kelso" under an agreement with Kelso.

Pursuant to the terms of the administration agreement, BlackRock, through its wholly owned subsidiary, BlackRock Financial Management, Inc., provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. Subject to BlackRock's oversight, PFPC Inc., a subsidiary of The PNC Financial Services Group, Inc. ("PNC"), serves as our sub-administrator, accounting agent, investor services agent and transfer agent and provides legal and regulatory support services. PFPC Trust Company, another subsidiary of PNC, serves as custodian of our investment assets. Fees and indemnification in respect of BlackRock and the PFPC entities as providers of such services were approved by our Board of Directors, including the directors who are not "interested persons."

For the years ended December 31, 2007 and 2006, and for the period July 25, 2005 (inception of operations) through December 31, 2005, we incurred $262,079, $216,365 and $83,919, respectively, for administrative, accounting, custodian and transfer agency services fees payable to PFPC and its affiliates under the related agreements.

We will not invest in any private company in which BlackRock, Kelso, or any of their affiliates holds an existing investment, except to the extent permitted by the 1940 Act. We may, however, co-invest on a concurrent basis with other affiliates of BlackRock or Kelso, subject to compliance with such affiliates' applicable allocation procedures and the requirements of the 1940 Act.

In March 2006, our Board of Directors authorized the issuance and sale from time to time of up to $2,500,000 in aggregate net asset value of shares of our common stock to certain existing and future officers and employees of the Advisor at a price equal to the greater of $15.00 per share or our most recently determined net asset value per share at the time of sale. Pursuant to that authorization, in April 2006 we issued and sold to certain employees of the Advisor in a private placement 54,000 shares of common stock for aggregate proceeds of $810,000. Also pursuant to that authorization, during the year ended December 31, 2007, we issued and sold to certain officers and employees of the Advisor in private placements a total of 89,604 shares of common stock for aggregate proceeds of approximately $1,354,000.

In August 2006, our Board of Directors authorized the issuance and sale from time to time of an indeterminate number of shares of our common stock to the Advisor at a price per share equal to our most recently determined net asset value per share at the time of sale, such shares to be used by the Advisor for employee compensation and other purposes. Pursuant to that authorization, during the year ended December 31, 2007, we issued and sold to the Advisor in private placements 184,300 shares of common stock for aggregate proceeds of approximately $2,791,000.

In November 2007, our Board of Directors authorized the purchase by the Advisor from time to time in the open market of an indeterminate number of shares of our common stock, in the Advisor's discretion, subject to compliance with our and the Advisor's applicable policies and requirements of law. Pursuant to that authorization, during the year ended December 31, 2007, the Advisor purchased 71,703 shares of our common stock in the open market for $991,795, excluding brokerage commissions.

At December 31, 2007, the Advisor owned directly approximately 276,000 shares of our common stock, representing 0.5% of the total shares outstanding. The Advisor did not own directly any shares of our common stock at December 31, 2006. The Advisor's allocable portion of shares of our common stock owned indirectly by an entity in which the Advisor holds a non-voting investment interest was approximately 854,000 and 775,000 shares at December 31, 2007 and 2006, respectively. The Advisor disclaims ownership of the shares held by such entity. Inclusive of its allocable portion of the shares held by such entity, the Advisor would be deemed to own approximately 2.1% of our total shares outstanding at December 31, 2007 and 2006. At December 31, 2007 and 2006, other entities affiliated with the Administrator and PFPC beneficially owned indirectly approximately 2,843,000 and 2,475,000 shares, respectively, of our common stock, representing approximately 5.4% and 6.6% of the total shares outstanding.

On September 29, 2006, BlackRock and Merrill Lynch & Co., Inc. ("Merrill Lynch") announced that they had completed the plan entered into February 15, 2006 to merge Merrill Lynch's investment management business, Merrill Lynch Investment Managers ("MLIM"), and BlackRock to create a new independent asset management company with over $1 trillion in assets under management. The new company operates under the BlackRock name and is governed by a board of directors with a majority of independent members. As a result of the transaction, Merrill Lynch owns approximately 49% of BlackRock (with a 45% voting interest therein). PNC retains approximately a 34% ownership of BlackRock, and the remainder is held by employees and public stockholders. Prior to September 29, 2006, BlackRock was majority owned by PNC. BlackRock currently owns 36.5% of the Advisor.

We earned $335,362 in interest income on investments in money market securities issued by MLIM or its former affiliates for the year ended December 31, 2006. We held no investments in securities issued by MLIM or its former affiliates at December 31, 2006. Additionally, no MLIM-affiliated investments were held by us during the year ended December 31, 2007. From time to time, former affiliates of MLIM may serve as broker/dealer or agent for us or for portfolio companies in which the we invest. For the years ended December 31, 2007 and December 31, 2006, we did not make any payments to former MLIM affiliates for such services.

During 2007, we added several lenders to our credit facility in order to increase amounts available for borrowing thereunder. One of the new lenders was Merrill Lynch Capital Corporation (“MLCC”), a subsidiary of Merrill Lynch, with a lending commitment of $75,000,000. MLCC’s commitment was subsequently increased by $25,000,000, to $100,000,000 in aggregate, pursuant to a temporary (until April 14, 2008) increase of amounts available under the facility. The terms and conditions applicable to MLCC as a lender are identical to those of other lenders under the facility. In accordance with such terms, MLCC generally receives a pro rata share of any payments we make under the credit facility for principal, interest or fees.

Pursuant to the underwriting agreement with respect to the our initial public offering, Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), a subsidiary of Merrill Lynch, served as an underwriter and a senior book-running manager, committing to purchase 2,000,000 shares of our common stock at a price of $16.00 per share. The terms and conditions applicable to MLPF&S under the underwriting agreement were identical to those of other entities serving in similar capacities. In accordance with such terms, we paid MLPF&S approximately $1,800,000 of underwriting discount.

James R. Maher and Michael B. Lazar, the managing members of the Advisor, are control persons of the Advisor. BlackRock, through a subsidiary, currently owns an interest in the Advisor that creates a presumption of control with respect to the Advisor. For purposes of this paragraph, the term “control” has the meaning given to it in the 1940 Act.

Certain of the Advisor’s members and employees (the “re-allocation group”) are entitled to receive from Holding a number of shares of our common stock if the performance of our common stock exceeds certain thresholds. If, upon the expiration of the lock-up agreement to which Holding is subject on December 26, 2008, the market price of our common stock exceeds a threshold multiple in respect of the net asset value of the common stock as adjusted to reflect any impact on net asset value resulting from any sale of the common stock by us, then the re-allocation group is entitled to a number of shares of common stock with a value equal to 10% of the number of shares of common stock owned by Holding multiplied by the excess of the market price over the net asset value of our common stock. In addition, if upon specified dates the internal rate of return to the members of Holding exceeds 20%, then the re-allocation group is entitled to a number of shares of common stock owned by Holding with a value equal to 10% of the number of shares of common stock owned by Holding multiplied by the excess of the market price over the net asset value of our common stock. Internal rate of return means the discount rate at which the present value of the future cash flows of an investment equals the cost of the investment.

From time to time, we may invest in transactions in which our directors and officers or the officers and employees of the Advisor have a pecuniary interest. Prior to making any such investment, we intend to comply with the relevant provisions of the 1940 Act to the extent they apply to us as a business development company and any other applicable laws. Depending on the extent of the individual’s pecuniary interest, the Advisor will disclose the interest to its investment committee, our senior management and our Board of Directors and may, among other actions, seek the Board’s approval to enter into the transaction and require the individual to recuse himself or herself from the deliberations and voting of our Board of Directors, the Advisor and its investment committee with respect to the transaction.

Mr. Maher, our Chief Executive Officer and Chairman of our Board of Directors, is a former partner, and Mr. Mayer, one of our Directors, is currently a partner, of Park Avenue, a private equity fund manager specializing in middle-market management buyouts and growth capital investments. In addition, an employee of the Advisor is a former employee of Park Avenue. Mr. Maher and the employee have economic interests in Park Avenue. Mr. Maher and Mr. Mayer own limited partner interests in the fund managed by Park Avenue. During 2006, we purchased $5,250,000 of senior secured loans of DynaVox Systems LLC and $14,400,000 of senior secured loans of Joerns Healthcare, LLC et al., both of which are portfolio companies of the fund managed by Park Avenue. The transactions were approved by the Advisor, its investment committee and our Board of Directors after disclosure of these facts.

Mr. Maher owns a limited partnership interest in a private equity fund managed by Vestar Capital Partners ("Vestar"), a private equity management firm specializing in management buyouts and growth capital investments. During 2006, we purchased the loans of DynaVox Systems LLC and of Joerns Healthcare, LLC et al. described above, and $16,000,000 of senior secured loans of Gleason Corporation and $8,000,000 of subordinated debt of MediMedia USA, Inc., each of which is a portfolio company of Vestar. During 2007, we purchased $25,000,000 of unsecured loans of BE Foods Investments, Inc., also a portfolio company of Vestar. The transactions were approved by the Advisor and its investment committee after consideration of the significant relevant factors and disclosed to our Board of Directors.

The Company has adopted a Code of Ethics in accordance with Rule 17j-1 under the 1940 Act which governs the ability of the Company's directors, officers, employees and investment committee members to purchase and sell securities issued by companies in which the Company invests or may invest. The Code of Ethics was approved by the Board. The Code of Ethics is administered by the Company's chief compliance officer, who periodically reports to the Board on compliance with and violations, if any, of the Code of Ethics. In addition, the Company complies with Section 57 of the 1940 Act, which governs the ability of certain first and second tier affiliates of the Company to engage in purchase or sale transactions or joint investments with the Company. These transactions are approved by the Board, in accordance with Section 57(f) of the 1940 Act.

FINANCIAL STATEMENTS AND OTHER INFORMATION

WE WILL FURNISH, WITHOUT CHARGE, A COPY OF OUR MOST RECENT ANNUAL REPORT AND THE MOST RECENT QUARTERLY REPORT SUCCEEDING THE ANNUAL REPORT, IF ANY, TO ANY STOCKHOLDER UPON REQUEST. REQUESTS SHOULD BE DIRECTED TO THE COMPANY AT 40 EAST 52ND STREET, NEW YORK, NEW YORK 10022 (TELEPHONE NUMBER (212) 810-5800).

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding 10% or more of its common stock, are required to report their beneficial ownership and any changes therein to the Commission and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based solely upon a review of Forms 3, 4 and 5 filed by such persons, the Company believes that each of its officers and directors and any persons holding 10% or more of its common stock complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended December 31, 2007.

DIVIDEND REINVESTMENT PLAN

The Company recently amended its dividend reinvestment plan (the "Plan"). Under the terms of the amended Plan, dividends may be paid in newly issued shares of the Company's common stock at a price equal to 95% of market price. The amended Plan alleviates many of the timing and administrative issues that burdened the Company under the previous dividend reinvestment plan.

The amended Plan means that, under certain circumstances, the Company may issue shares of its common stock at a price that is less than NAV per share. Any issuance of common stock at a price below NAV will result in an immediate dilution to existing Stockholders who do not participate in the plan. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a proportionately greater decrease in a non-participating Stockholder's interest in the earnings and assets of the Company and voting interest in the Company.

The Board recently considered this matter at an in-person meeting and, by a majority vote of its Directors, including its Independent Directors, approved the amendment of the Company's dividend reinvestment plan. On March 11, 2008, the Company filed a Form 8-K with the Securities and Exchange Commission concerning the amended Plan. You may access the Form 8-K filing and the amended DRIP plan at http://www.blackrockkelso.com or http://www.sec.gov.

PRIVACY PRINCIPLES OF THE COMPANY

We are committed to maintaining the privacy of Stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our Stockholders, although certain non-public personal information of our Stockholders may become available to us. We do not disclose any non-public personal information about our Stockholders or former Stockholders to anyone, except as permitted by law or as is necessary in order to service Stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about the Stockholders to employees of the Advisor with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our Stockholders.

DEADLINE FOR STOCKHOLDER PROPOSALS

Stockholder proposals intended for inclusion in the Company's proxy statement in connection with the Company's 2009 annual meeting of Stockholders pursuant to Rule 14a-8 under the Exchange Act must be received by us at our principal executive offices by December 9, 2008. In order for proposals made outside of Rule 14a-8 under the Exchange Act to be considered "timely" within the meaning of Rule 14a-4(c) under the Exchange Act, such proposals must be received by us at our principal executive offices not later than February 20, 2009.

OTHER MATTERS

The management of the Company knows of no other matters which are to be brought before the Annual Meeting. However, if any other matters not now known properly come before the Annual Meeting, it is the intention of the persons named in the enclosed form of proxy to vote such proxy in accordance with their judgment on such matters.

Very truly yours,

James R. Maher

JAMES R. MAHER
Chairman and Chief Executive Officer

April 8, 2008

APPENDIX A

CHARTER
of the AUDIT COMMITTEE
of the BOARD of DIRECTORS

of

BlackRock Kelso Capital Corporation

The Board of Directors (the "*Board*") of BlackRock Kelso Capital Corporation (the "*Corporation*") has determined that the Audit Committee of the Board shall assist the Board in fulfilling certain of the Board's oversight responsibilities. The Board hereby adopts this Charter to establish the governing principles of the Audit Committee and shall review and reassess the adequacy of this Charter on an annual basis.

I. Role of the Audit Committee

The role of the Audit Committee is to act on behalf of the Board in fulfilling the following responsibilities of the Board:

A. To oversee all material aspects of the Corporation's accounting and financial reporting processes, internal control and audit functions, except those that are specifically related to the responsibilities of another committee of the Board;

B. To monitor the independence and performance of the Corporation's independent accountants;

C. To provide a means for open communication among the Corporation's independent accountants, financial and senior management and the Board; and

D. To oversee compliance by the Corporation with legal and regulatory requirements.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct financial statement audits or to determine that the Corporation's financial statements are complete and accurate or are in accordance with generally accepted accounting principles. The responsibility to plan and conduct financial statement audits is that of the Corporation's independent accountants. The Corporation's management has the responsibility to determine that the Corporation's financial statements are complete and accurate and in accordance with generally accepted accounting principles. Nor is it the duty of the Audit Committee to assure the Corporation's compliance with laws and regulations. The primary responsibility for these matters also rests with the Corporation's management.

II. Composition of the Audit Committee

A. The Board shall designate the members of the Audit Committee at the Board's annual organizational meeting and each member shall serve, subject to his or her earlier resignation or removal from the Audit Committee or his or her ceasing to be a director, until the next such meeting and until their successors are designated by the Board.

B. The Audit Committee shall consist of at least three members, but no more than six members. The members of the Audit Committee shall meet the independence and experience requirements of the rules of the principal market or transaction reporting system on which the Corporation's securities are traded or quoted, Section 10A(m)(3) of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission (the *"SEC"*).

III. Meeting of the Audit Committee

The Audit Committee shall meet at least 2 times each year and more frequently as circumstances may require. The Audit Committee shall be responsible for meeting with the independent accountants at their request to discuss the interim financial statements. The Audit Committee shall meet privately with the independent accountants at least annually in a separate executive session.

IV. Responsibilities of the Audit Committee

The Audit Committee shall assist the Board in overseeing the Corporation's financial and operating reporting practices, internal controls and compliance with laws and regulations.

Specifically, the Audit Committee shall have the responsibility with respect to:

A. The Corporation's Risks and Control Environment:

- To discuss with the Corporation's management and independent accountants the integrity of the Corporation's financial reporting processes and controls, particularly the controls in areas representing significant financial and business risks; and
- To investigate and follow up on any matters brought to its attention within the scope of its duties.

B. The Corporation's Independent Accountants:

- The Audit Committee shall have the sole authority to appoint or replace the independent accountants (subject, to ratification by the Board). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent accountants shall report directly to the Audit Committee;
- To ensure that the Audit Committee receives annually from the Corporation's independent accountants the information about all of the relationships between the independent accountants and the Corporation that the independent accountants are required to provide to the Audit Committee, to actively engage in a dialogue with the independent accountants about any relationships between the independent accountants and the Corporation or any services that the independent accountants provide or propose to provide that may affect the objectivity and independence of the independent accountants and to take, or recommend that the Board take, any appropriate action to oversee the independence of the independent accountants;
- The Audit Committee shall establish guidelines similar to those set forth in Annex A relating to the Corporation's hiring of employees or former employees of the independent accountants who participated in any capacity in the audit of the Corporation.
- The Audit Committee shall establish policies or procedures similar to those set forth in Annex B to pre-approve all auditing services and permitted non-audit services (including fees and terms thereof) (the "Covered Services") to be performed for the Corporation by its independent accountants. The Audit Committee may form and delegate authority to the Chairman of the Audit Committee or subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of the Chairman or such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting; and
- To ensure the rotation of the lead (or coordinating) audit partner (or, if required by the rules and regulations of the SEC, other employees of the independent accountants) having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

C. The Corporation's Financial Reporting Process:

- To oversee the Corporation's selection of and major changes to its accounting policies;
- To meet with the Corporation's independent accountants and financial management both to discuss the proposed scope of the audit and to discuss the conclusions of the audit, including any

items that the independent accountants are required by generally accepted auditing standards to discuss with the Audit Committee, such as, any significant changes to the Corporation's accounting policies, the integrity of the Corporation's financial reporting process and any proposed changes or improvements in financial, accounting or auditing practices;

- To discuss with the Corporation's financial management and independent accountants the Corporation's annual results and, when appropriate, the interim results before they are made public;
- To review with management and the independent accountants, prior to the filing of an audit report with the SEC, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by independent accountants;
- To review with management and the independent accountants, prior to the filing of an audit report with the SEC, material written communications between the independent accountants and management, such as any management letter or schedule of unadjusted differences;
- Review disclosures made to the Audit Committee by the Corporation's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls;
- To review with the independent accountants, prior to the filing of an audit report with the SEC, all critical accounting policies and practices to be used;
- To review and discuss with the Corporation's financial management and independent accountants the Corporation's audited financial statements including qualitative judgments, appropriateness of accounting principles (old and new), financial disclosure practices, and any observations regarding the quality of accounting principles and underlying estimates and, when appropriate, the Corporation's interim financial statements, before they are made public;
- To recommend to the Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K; and
- To issue for public disclosure by the Corporation the report required by the rules of the SEC.

D. The Corporation's Fair Value Procedures

- In accordance with the Corporation's Portfolio Pricing Practices with respect to investments for which market quotations are not readily available or for which market quotations are deemed not to represent fair value, to review and provide comments (if any) to management and independent valuation firms regarding the preliminary valuation conclusions provided by such independent valuation firms.

E. Other Matters

- To review and reassess the adequacy of this charter on an annual basis;
- To review reports and any financial information submitted by the Corporation to a government body or the public;
- To report to the Board the matters discussed at each meeting of the Audit Committee;
- Administer the procedures set forth in *Annex C* relating to the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees or any other provider of accounting related services of concerns regarding questionable accounting or auditing matters;

- To keep an open line of communication with the financial and senior management and the independent accountants and the Board; and
- To review in advance and approve any "related party" transaction, or series of similar transactions, to which the Corporation or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $60,000 and in which such related party had, or will have, a direct or indirect material interest. For purposes of this item, a "related party" includes any director or executive officer of the Corporation, any nominee for election as a director, any security holder who is known to the Corporation to own of record or beneficially more than five percent of any class of the Corporation's voting securities, and any member of the immediate family[2] of any of the foregoing persons. The materiality of any interest is to be determined on the basis of the significance of the information to investors in light of all the circumstances of the particular case.

V. Advisors/Funding

In discharging its duties hereunder, the Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of such compensation as is determined by the Audit Committee to the independent accountants and to any other advisors employed by the Audit Committee. The Corporation shall also provide funding for any other functions or initiatives undertaken by the Audit Committee.

Amended: March 2008

[2] A person's immediate family shall include such person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, and brothers and sisters-in-law.

APPENDIX B

INVESTMENT MANAGEMENT AGREEMENT

AGREEMENT, dated as of , 2008, between BlackRock Kelso Capital Corporation, a Delaware corporation (the "BDC"), and BlackRock Kelso Capital Advisors LLC (the "Advisor"), a Delaware limited liability company.

WHEREAS, Advisor has agreed to furnish investment advisory services to the BDC, a business development company registered under the Investment Company Act of 1940, as amended (the "1940 Act");

WHEREAS, this Agreement has been approved in accordance with the provisions of the 1940 Act, and the Advisor is willing to furnish such services upon the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual premises and covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, it is agreed by and between the parties hereto as follows:

1. *In General*. The Advisor agrees, all as more fully set forth herein, to act as investment advisor to the BDC with respect to the investment of the BDC's assets and to supervise and arrange for the day-to-day operations of the BDC and the purchase of securities for and the sale of securities held in the investment portfolio of the BDC.

2. *Duties and Obligations of the Advisor with Respect to Investment of Assets of the BDC.*

(a) Subject to the succeeding provisions of this paragraph and subject to the direction and control of the BDC's Board of Directors, the Advisor shall (i) act as investment advisor for and supervise and manage the investment and reinvestment of the BDC's assets and in connection therewith have complete discretion in purchasing and selling securities and other assets for the BDC and in voting, exercising consents and exercising all other rights appertaining to such securities and other assets on behalf of the BDC; (ii) supervise continuously the investment program of the BDC and the composition of its investment portfolio; (iii) arrange, subject to the provisions of Section 3(b) hereof, for the purchase and sale of securities and other assets held in the investment portfolio of the BDC; and (iv) oversee the administration of all aspects of the BDC's business and affairs and provide, or arrange for others whom it believes to be competent to provide, certain services as specified in paragraph (b) below. Nothing contained herein shall be construed to restrict the BDC's right to hire its own employees or to contract for administrative services to be performed by third parties, including but not limited to, the calculation of the net asset value of the BDC's shares.

(b) Except to the extent provided for directly by the BDC, the specific services to be provided or arranged for by the Advisor for the BDC pursuant to paragraph (a)(iv) above are (i) maintaining the BDC's books and records, to the extent not maintained by the BDC's custodian, transfer agent and dividend disbursing agent in accordance with applicable laws and regulations; (ii) initiating all money transfers to the BDC's custodian and from the BDC's custodian for the payment of the BDC's expenses, investments and dividends; (iii) reconciling account information and balances among the BDC's custodian, transfer agent and dividend disbursing agent; (iv) preparing all governmental filings by the BDC and all reports by the BDC to its shareholders; (v) supervising the calculation of the net asset value of the BDC's shares; and (vi) preparing notices and agendas for meetings of the BDC's shareholders and the BDC's Board of Directors as well as minutes of such meetings in all matters required by applicable law to be acted upon by the Board of Directors.

(c) In the performance of its duties under this Agreement, the Advisor shall at all times use all reasonable efforts to conform to, and act in accordance with, any requirements imposed by (i) the provisions of the Investment Company Act of 1940 (the "Act"), and of any rules or regulations in force thereunder; (ii) any other applicable provision of law; (iii) the provisions of the Certificate of Incorporation and the By-Laws of the

BDC, as such documents are amended from time to time; (iv) the investment objectives, policies and restrictions applicable to the BDC as set forth in the BDC's Private Placement Memorandum; and (v) any policies and determinations of the Board of Directors of the BDC.

(d) The Advisor will seek to provide qualified personnel to fulfill its duties hereunder and, except as set forth in the following sentence, will bear all costs and expenses incurred in connection with its investment advisory duties thereunder. The BDC shall reimburse the Advisor for all direct and indirect cost and expenses incurred by the Advisor (i) for office space rental, office equipment and utilities allocable to performance of investment advisory and non investment advisory administrative or operating services hereunder by the Advisor and (ii) allocable to any non-investment advisory administrative or operating services provided by the Advisor hereunder, including salaries, bonuses, health insurance, retirement benefits and all similar employment costs, such as office equipment and other overhead items. All allocations made pursuant to this paragraph (d) shall be made pursuant to allocation guidelines approved from time to time by the Board of Directors. The BDC shall also be responsible for the payment of all the BDC's other expenses, including (i) payment of the fees payable to the Advisor under Section 8 hereof; (ii) organizational expenses; (iii) brokerage fees and commissions; (iv) taxes; (v) interest charges on borrowings; (vi) the cost of liability insurance or fidelity bond coverage for the BDC's officers and employees, and directors' and officers' errors and omissions insurance coverage; (vii) legal, auditing and accounting fees and expenses; (viii) charges of the BDC's administrator (if any), custodian, transfer agent and dividend disbursing agent and any other service providers; (ix) the BDC's dues, fees and charges of any trade association of which the BDC is a member; (x) the expenses of printing, preparing and mailing proxies, stock certificates, reports, prospectuses, registration statements and other documents used by the BDC; (xi) expenses of registering and offering securities of the BDC under applicable law; (xii) the expenses of holding shareholder meetings; (xiii) the compensation, including fees, of any of the BDC's directors, officers or employees who are not affiliated persons of the Advisor; (xiv) all expenses of computing the BDC's net asset value per share; (xv) litigation and indemnification and other extraordinary or non recurring expenses; and (xvi) all other non investment advisory expenses of the BDC.

(e) The Advisor shall give the BDC the benefit of its professional judgment and effort in rendering services hereunder, but neither the Advisor nor any of its officers, directors, employees, agents or controlling persons shall be liable for any act or omission or for any loss sustained by the BDC in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of its reckless disregard of its obligations and duties under this Agreement; provided, however, that the foregoing shall not constitute a waiver of any rights which the BDC may have which may not be waived under applicable law.

3. *Covenants.* (a) In the performance of its duties under this Agreement, the Advisor shall at all times conform to, and act in accordance with, any requirements imposed by: (i) the provisions of the 1940 Act and the Investment Advisers Act of 1940, as amended, and all applicable Rules and Regulations of the Securities and Exchange Commission; (ii) any other applicable provision of law; (iii) the provisions of the Certificate of Incorporation and By-Laws of the BDC, as such documents are amended from time to time; (iv) the investment objectives and policies of the BDC as set forth in its Private Placement Memorandum; and (v) any policies and determinations of the Board of Directors of the BDC.

(b) In addition, the Advisor will:

(i) place orders either directly with the issuer or with any broker or dealer. Subject to the other provisions of this paragraph, in placing orders with brokers and dealers, the Advisor will attempt to obtain the best price and the most favorable execution of its orders. In placing orders, the Advisor will consider the experience and skill of the firm's securities traders as well as the firm's financial responsibility and administrative efficiency. Consistent with this obligation, the Advisor may select brokers on the basis of the research, statistical and pricing services they provide to the BDC and other clients of the Advisor. Information and research received from such brokers will be in addition to, and not in lieu of, the services required to be performed by the Advisor hereunder. A commission paid to such brokers may be higher than that which another qualified broker would have charged for effecting the same transaction, provided that the Advisor determines in good faith that such commission is reasonable in terms either of the transaction or the overall responsibility of the Advisor to the BDC and its other clients and that the total commissions paid by the BDC will be reasonable in relation to the benefits to the BDC over the long term. In addition, the Advisor is authorized to take into account the sale of shares of the BDC in allocating purchase and sale orders for portfolio securities to brokers or dealers (including brokers and dealers that are affiliated with the Advisor), provided that the Advisor believes that the quality of the transaction and the commission are comparable to what they would be with other qualified firms. In no instance, however, will the BDC's securities be purchased from or sold to the Advisor, or any affiliated person thereof, except to the extent permitted by the SEC or by applicable law;

(ii) maintain a policy and practice of conducting its investment advisory services hereunder independently of the commercial banking operations of its affiliates. When the Advisor makes investment recommendations for the BDC, its investment advisory personnel will not inquire or take into consideration whether the issuer of securities proposed for purchase or sale for the BDC's account are customers of the commercial department of its affiliates; and

(iii) treat confidentially and as proprietary information of the BDC all records and other information relative to the BDC, and the BDC's prior, current or potential shareholders, and will not use such records and information for any purpose other than performance of its responsibilities and duties hereunder, except after prior notification to and approval in writing by the BDC, which approval shall not be unreasonably withheld and may not be withheld where the Advisor may be exposed to civil or criminal contempt proceedings for failure to comply, when requested to divulge such information by duly constituted authorities, or when so requested by the BDC.

4. *Services Not Exclusive*. Nothing in this Agreement shall prevent the Advisor or any officer, employee or other affiliate thereof from acting as investment advisor for any other person, firm or corporation, or from engaging in any other lawful activity, and shall not in any way limit or restrict the Advisor or any of its officers, employees or agents from buying, selling or trading any securities for its or their own accounts or for the accounts of others for whom it or they may be acting; *provided*, *however*, that the Advisor will undertake, and will cause its employees to undertake, no activities which, in its judgment, will adversely affect the performance of the Advisor's obligations under this Agreement.

5. *Books and Records*. In compliance with the requirements of Rule 31a-3 under the 1940 Act, the Advisor hereby agrees that all records which it maintains for the BDC are the property of the BDC and further agrees to surrender promptly to the BDC any such records upon the BDC's request. The Advisor further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act the records required to be maintained by Rule 31a-1 under the 1940 Act.

6. *Agency Cross Transactions*. From time to time, the Advisor or brokers or dealers affiliated with it may find themselves in a position to buy for certain of their brokerage clients (each an "Account") securities which the Advisor's investment advisory clients wish to sell, and to sell for certain of their brokerage clients securities which advisory clients wish to buy. Where one of the parties is an advisory client, the Advisor or the affiliated broker or dealer cannot participate in this type of transaction (known as a cross transaction) on behalf of an advisory client and retain commissions from one or both parties to the transaction without the advisory client's consent. This is because in a situation where the Advisor is making the investment decision (as opposed to a brokerage client who makes his own investment decisions), and the Advisor or an affiliate is receiving commissions from both sides of the transaction, there is a potential conflicting division of loyalties and responsibilities on the Advisor's part regarding the advisory client. The SEC has adopted a rule under the Investment Advisers Act of 1940, as amended, which permits the Advisor or its affiliates to participate on behalf of an Account in agency cross transactions if the advisory client has given written consent in advance. By execution of this Agreement, the BDC authorizes the Advisor or its affiliates to participate in agency cross transactions involving an Account. The BDC may revoke its consent at any time by written notice to the Advisor.

7. *Expenses*. During the term of this Agreement, the Advisor will bear all costs and expenses of its employees and any overhead incurred in connection with its duties hereunder and shall bear the costs of any salaries or Directors' fees of any officers or Directors of the BDC who are affiliated persons (as defined in the 1940 Act) of the Advisor; provided that the Board of Directors of the BDC may approve reimbursement to the Advisor of the pro rata portion of the salaries, bonuses, health insurance, retirement benefits and all similar employment costs for the time spent on BDC operations (other than the provision of investment advice and administrative services required to be provided hereunder) of all personnel employed by the Advisor who devote substantial time to BDC operations or the operations of other investment companies advised by the Advisor.

8. *Compensation of the Advisor*.

(a) The Advisor, for its services to the BDC, will be entitled to receive a management fee (the "Management Fee") from the BDC. The Management Fee will be calculated at an annual rate of 2.00% of total assets. The Management Fee will be paid quarterly in arrears based on the asset valuation as of the end of the prior quarter.

(b) For purposes of this Agreement, the assets and net assets of the BDC shall be calculated pursuant to the procedures adopted by resolutions of the Directors of the BDC for calculating the value of the BDC's assets or delegating such calculations to third parties.

(c) The Advisor will be entitled to receive additional compensation (the "Incentive Fee") if performance of the BDC exceeds the Hurdle during different measurement periods: the Pre-Offering Period; the Transition Period; each Trailing Four Quarter Period (which will apply only to the portion of the Incentive Fee based on income) and each Annual Period (which will apply only to the portion of the Incentive Fee based on capital gains), as follows:

(i) *Incentive Fee Based on Income*.

(A) The portion of the Incentive Fee based on income will be calculated separately for each of three measurement periods: the Pre-Offering Period; the Transition Period; and each Trailing Four Quarter Period. For each such period, the Advisor will be entitled to receive an Incentive Fee based on the amount by which (1) aggregate distributions and amounts distributable out of taxable net income (excluding any capital gain and loss) during the period less, as applicable (x) the amount, if any, by which net unrealized capital depreciation during the period exceeds net realized capital gains during the period or (y) the amount, if any, equal to the sum of net unrealized capital depreciation during the period plus net realized capital loss during the period exceeds (2) the Hurdle for the period. The amount of the excess of (1) over (2) described in this paragraph (A) for each period shall be referred to as the "Excess Income Amount".

(B) The portion of the Incentive Fee based on income for each period will equal 50% of the period's Excess Income Amount, until the cumulative Incentive Fee payments for the period equals 20% of the period's Excess Income Amount distributed or distributable to the BDC's stockholders. Thereafter, the portion of the Incentive Fee based on income for the period will equal an amount such that the cumulative Incentive Fee payments to the Advisor during the period based on income equals 20% of the period's Excess Income Amount. The portion of the Incentive Fee based on income will be paid on a quarterly basis during each of the Pre-Offering Period, the Transition Period and the Trailing Four Quarter Period and will be reduced for each quarter in a period (other than the first quarter of each period) by the amount of the Incentive Fee based on income paid in respect of each earlier quarter in the respective period.

(ii) *Incentive Fee Based on Capital Gains*.

(A) The portion of the Incentive Fee based on capital gains will be calculated separately for each of two periods: the Pre-Offering Period and for each Annual Period. For each such period, the Advisor will be entitled to receive an Incentive Fee based on the amount by which (1) the BDC's net realized capital gains occurring during the period, if any, exceeds (2) the sum of (x) its unrealized capital depreciation, if any, occurring during the period and (y) the amount, if any, by which the Hurdle for the period exceeds the amount of income used in determination of the portion of the Incentive Fee based on income for the period. The amount of the excess of (1) over (2) described in this paragraph (A) shall be referred to as the "Excess Gain Amount".

(B) The portion of the Incentive Fee based on capital gains for each period will equal 50% of the period's Excess Gain Amount, until such payments equal 20% of the period's Excess Gain Amount distributed or distributable to the BDC's stockholders. Thereafter, the portion of the Incentive Fee based on capital gains for the period will equal an amount such that the portion of the Incentive Fee payments to the Advisor based on capital gains for the period will equal 20% of the period's Excess Gain Amount. The portion of the Incentive Fee based on capital gains will be calculated and paid (1) on a quarterly basis during the Pre-Offering Period and will be reduced for each quarter during the Pre-Offering Period (other than the first quarter of the period) by the amount of the Incentive Fee based on capital gains paid in respect of each earlier quarter in the Pre-Offering Period and (2) on an annual basis for each Annual Period.

(iii) In calculating the portion of the Incentive Fee based on capital gains payable for any period, the BDC's investments shall be accounted for on a security-by-security basis. In addition, the portion of the Incentive Fee based on capital gains will be determined using the "period-to-period" method pursuant to which the portion of the Incentive Fee based on capital gains for any period will be based on realized capital gains for the period reduced by realized capital losses and unrealized capital depreciation for the period.

(iv) The calculation of the Incentive Fee described above in this Section 8(c) is illustrated in the examples attached to this Agreement in Annex A. In the event of a conflict between the language above and the examples, the examples shall prevail.

(v) Notwithstanding anything else set forth herein, the Incentive Fee shall not include any amounts of capital gain that would violate Section 205(b)(3) of the Investment Advisers Act of 1940 as interpreted from time to time by the Securities and Exchange Commission or its staff.

(d) For purposes of Section 8(c), the following terms shall have the meanings ascribed to them below:

(i) "Annual Period" means the period beginning on the first day of the calendar quarter in which the Public Market Event occurs (i.e., July 1, 2007 because the initial public offering closed on July 2, 2007) and ending on the last day prior to the anniversary of such date (i.e., June 30, 2008) and thereafter beginning on July 1 of each calendar year and ending on June 30 of the next calendar year;

(ii) "Hurdle" for any period means the product of 2% times the sum of the net asset values of the BDC attributable to its common shares as of the beginning of each calendar quarter (or as of the Ramp-Up Date in the calendar quarter in which the Ramp-Up Date occurs) during the respective period calculated after giving effect to any distributions paid in respect of the BDC's common shares during that period;

(iii) "Pre-Offering Period" means the period beginning on July 25, 2006, the first anniversary of the date the BDC commenced operations, and ending on the last day prior to the calendar quarter in which the Public Market Event occurs (i.e., June 30, 2007 because the initial public offering closed on July 2, 2007);

(iv) "Public Market Event" means the completion by the BDC of an initial public offering of its common shares registered under the Securities Act of 1933 and the commencement of trading of such common shares on a national securities exchange or market;

(v) "Ramp-up Date" means the first anniversary of the date on which the BDC first draws funds under accepted subscriptions for its common shares;

(vi) "Trailing Four Quarter Period" means the four quarter period ending on the last day of the calendar quarter in which the first anniversary of the Public Market Event occurs and, thereafter, the four quarter period ending on the last day of each subsequent calendar quarter; and

(vii) “Transition Period” means the period beginning on the first day of the calendar quarter in which the Public Market Event occurs and ending on the day prior to the anniversary of such date.

9. *Indemnity*. (a) The BDC may, in the discretion of the Board of Directors of the BDC, indemnify the Advisor, and each of the Advisor’s directors, officers, employees, agents, associates and controlling persons and the directors, partners, members, officers, employees and agents thereof (including any individual who serves at the Advisor’s request as director, officer, partner, member or the like of another entity) (each such person being an “Indemnitee”) against any liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees (all as provided in accordance with applicable state law) reasonably incurred by such Indemnitee in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or investigative body in which such Indemnitee may be or may have been involved as a party or otherwise or with which such Indemnitee may be or may have been threatened, while acting in any capacity set forth herein or thereafter by reason of such Indemnitee having acted in any such capacity, except with respect to any matter as to which such Indemnitee shall have been adjudicated not to have acted in good faith in the reasonable belief that such Indemnitee’s action was in the best interest of the BDC and furthermore, in the case of any criminal proceeding, so long as such Indemnitee had no reasonable cause to believe that the conduct was unlawful; provided, however, that (1) no Indemnitee shall be indemnified hereunder against any liability to the BDC or its shareholders or any expense of such Indemnitee arising by reason of (i) willful misfeasance, (ii) bad faith, (iii) gross negligence or (iv) reckless disregard of the duties involved in the conduct of such Indemnitee’s position (the conduct referred to in such clauses (i) through (iv) being sometimes referred to herein as “disabling conduct”), (2) as to any matter disposed of by settlement or a compromise payment by such Indemnitee, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless there has been a determination that such settlement or compromise is in the best interests of the BDC and that such Indemnitee appears to have acted in good faith in the reasonable belief that such Indemnitee’s action was in the best interest of the BDC and did not involve disabling conduct by such Indemnitee and (3) with respect to any action, suit or other proceeding voluntarily prosecuted by any Indemnitee as plaintiff, indemnification shall be mandatory only if the prosecution of such action, suit or other proceeding by such Indemnitee was authorized by a majority of the full Board of Directors of the BDC.

(b) The BDC may make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the BDC receives a written affirmation of the Indemnitee’s good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to reimburse the BDC unless it is subsequently determined that such Indemnitee is entitled to such indemnification and if the Directors of the BDC determine that the facts then known to them would not preclude indemnification. In addition, at least one of the following conditions must be met: (A) the Indemnitee shall provide security for such Indemnitee-undertaking, (B) the BDC shall be insured against losses arising by reason of any unlawful advance, or (C) a majority of a quorum consisting of Directors of the BDC who are neither “interested persons” of the BDC (as defined in Section 2(a)(19) of the 1940 Act) nor parties to the proceeding (“Disinterested Non-Party Directors”) or an independent legal counsel in a written opinion, shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the Indemnitee ultimately will be found entitled to indemnification.

(c) All determinations with respect to the standards for indemnification hereunder shall be made (1) by a final decision on the merits by a court or other body before whom the proceeding was brought that such Indemnitee is not liable or is not liable by reason of disabling conduct, or (2) in the absence of such a decision, by (i) a majority vote of a quorum of the Disinterested Non-Party Directors of the BDC, or (ii) if such a quorum is not obtainable or, even if obtainable, if a majority vote of such quorum so directs, independent legal counsel in a written opinion. All determinations that advance payments in connection with the expense of defending any proceeding shall be authorized and shall be made in accordance with the immediately preceding clause (2) above.

The rights accruing to any Indemnitee under these provisions shall not exclude any other right to which such Indemnitee may be lawfully entitled.

10. *Limitation on Liability*. (a) The Advisor will not be liable for any error of judgment or mistake of law or for any loss suffered by Advisor or by the BDC in connection with the performance of this Agreement, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard by it of its duties under this Agreement.

(b) Notwithstanding anything to the contrary contained in this Agreement, the parties hereto acknowledge and agree that, as provided in the Certificate of Incorporation, this Agreement is executed by the Directors and/or officers of the BDC, not individually but as such Directors and/or officers of the BDC, and the obligations hereunder are not binding upon any of the Directors or Shareholders individually but bind only the estate of the BDC.

11. *Duration and Termination*. This Agreement shall become effective as of the date hereof and, unless sooner terminated with respect to the BDC as provided herein, shall continue in effect for a period of two years. Thereafter, if not terminated, this Agreement shall continue in effect with respect to the BDC for successive periods of 12 months, provided such continuance is specifically approved at least annually by both (a) the vote of a majority of the BDC's Board of Directors or the vote of a majority of the outstanding voting securities of the BDC at the time outstanding and entitled to vote, and (b) by the vote of a majority of the Directors who are not parties to this Agreement or interested persons of any party to this Agreement, cast in person at a meeting called for the purpose of voting on such approval. Notwithstanding the foregoing, this Agreement may be terminated by the BDC at any time, without the payment of any penalty, upon giving the Advisor 60 days' notice (which notice may be waived by the Advisor), provided that such termination by the BDC shall be directed or approved by the vote of a majority of the Directors of the BDC in office at the time or by the vote of the holders of a majority of the voting securities of the BDC at the time outstanding and entitled to vote, or by the Advisor on 60 days' written notice (which notice may be waived by the BDC). This Agreement will also immediately terminate in the event of its assignment. (As used in this Agreement, the terms "majority of the outstanding voting securities," "interested person" and "assignment" shall have the same meanings of such terms in the 1940 Act.) If this Agreement is terminated pursuant to this Section, the BDC shall pay the Advisor a pro rated portion of the Management Fee and the Incentive Fee. The Management Fee and the Incentive Fee due to the Adviser in the event of termination pursuant to this Section will be determined according to the method set forth in the following paragraph.

The BDC will engage at its own expense a firm acceptable to the BDC and the Advisor to determine the maximum reasonable fair value as of the termination date of the BDC's consolidated assets (assuming each asset is readily marketable among institutional investors without minority discount and with an appropriate control premium for any control positions and ascribing an appropriate net present value to unamortized organizational and offering costs and going concern value). After review of such firm's work papers by the Advisor and the BDC and resolution of any comments therefrom, such firm will render its report as to valuation, and the BDC will pay to the Advisor or its affiliates any Management Fees or Incentive Fee, as the case may be, payable pursuant to the paragraphs above as if all of the consolidated assets of the BDC had been sold at the values indicated in such report and any net income and gain distributed. Such report will be completed within 90 days after notice of termination is delivered hereto.

12. *Notices*. Any notice under this Agreement shall be in writing to the other party at such address as the other party may designate from time to time for the receipt of such notice and shall be deemed to be received on the earlier of the date actually received or on the fourth day after the postmark if such notice is mailed first class postage prepaid.

13. *Amendment of this Agreement*. No provision of this Agreement may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought. Any amendment of this Agreement shall be subject to the 1940 Act.

14. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of New York for contracts to be performed entirely therein without reference to choice of law principles thereof and in accordance with the applicable provisions of the 1940 Act.

15. *Use of the Name BlackRock Kelso Capital*. The Advisor has consented to the use by the BDC of the name or identifying words "BlackRock Kelso Capital" in the name of the BDC. Such consent is conditioned upon the employment of the Advisor as the investment advisor to the BDC. The name or identifying words "BlackRock Kelso Capital" may be used from time to time in other connections and for other purposes by the Advisor and any of its affiliates. The Advisor may require the BDC to cease using "BlackRock Kelso Capital" in the name of the BDC if the BDC ceases to employ, for any reason, the Advisor, any successor thereto or any affiliate thereof as investment advisor of the BDC.

16. *Miscellaneous*. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby. This Agreement shall be binding on, and shall inure to the benefit of the parties hereto and their respective successors.

17. *Capitalized Terms*. Capitalized terms not defined herein shall have the respective meanings given to them in the Confidential Private Placement Memorandum of BlackRock Kelso Capital Holding LLC or, if not contained therein, in the documents referenced therein.

18. *Counterparts*. This Agreement may be executed in counterparts by the parties hereto, each of which shall constitute an original counterpart, and all of which, together, shall constitute one Agreement.

IN WITNESS WHEREOF, the parties hereto have caused the foregoing instrument to be executed by their duly authorized officers, all as of the day and the year first above written.

BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ FRANK GORDON
Name: **Frank Gordon**
Title: **Chief Financial Officer**

BLACKROCK KELSO CAPITAL ADVISORS LLC

By: /s/ MICHAEL B. LAZAR
Name: **Michael B. Lazar**
Title: **Chief Operating Office**

Annex A

Formula

The formula for the net income portion of the Incentive Fee for the transition period is expressed as follows:

Incentive Fee with respect to net income —

- When the annualized rate of return to shareholders exceeds the hurdle but does not exceed 13.33% = 50% x (transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains – hurdle amount) – incentive fees paid to date with respect to transition period net income
- When the annualized rate of return to shareholders exceeds 13.33% = 50% x (13.33% x net asset value – hurdle amount) + 20% x (transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains – 13.33% x net asset value) – incentive fees paid to date with respect to transition period net income

Annualized rate of return in this context is computed by reference to our net asset value and does not take into account changes in the market price of our common stock.

Assumptions

- Number of full calendar quarters in period = 4
- Net Asset Value = $500.0 million
- Total Assets = $500.0 million
- Quarter 1 net income(1) = $5.0 million
- Quarter 1 incentive fee paid = $0.0 million
- Quarter 2 net income = $15.0 million
- Quarter 2 incentive fee paid = $0.0 million
- Quarter 3 net income = $10.0 million
- Quarter 3 incentive fee paid = $0.0 million
- Transition period net realized capital gains through Quarter 3 = $1.5 million
- Transition period net unrealized capital depreciation through Quarter 3 = $0.5 million
- Hurdle(2) = 8.00%
- Base management fee(3) = 0.50%
- Other expenses (legal, accounting, custodian, transfer agent, *etc.*)(4) = 0.25%

Alternative 1

Additional Assumptions

- Quarter 4 net income = Quarter 4 income – base management fee – other expenses = $8.75 million – 0.50% x $500.0 million – 0.25% x $500.0 million = $8.75 million – $3.75 million = $5.0 million
- Quarter 4 net realized capital gain = $0.5 million

- Quarter 4 net unrealized capital appreciation = $1.0 million
- Transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains = Quarter 1 + Quarter 2 + Quarter 3 + Quarter 4 quarterly net income – (excess, if any, of transition period net unrealized capital depreciation over transition period net realized capital gains) = $5.0 million + $15.0 million + $10.0 million + $5.0 million – $0.0 million (as there was no transition period net unrealized capital depreciation) = $35.0 million
- Hurdle amount = 8.00% x $500.0 million = $40.0 million

Determination of Incentive Fee

Transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains equals $35.0 million, which does not exceed the Hurdle amount. Therefore there is no Incentive Fee payable with respect to net income in Quarter 4. If an incentive fee had been earned and paid with respect to any prior period (which in this case it had not), it would not be refunded because incentive fees in any prior period are not subject to repayment based upon performance in a subsequent period.

Alternative 2

Additional Assumptions

- Quarter 4 net income = Quarter 4 income – base management fee – other expenses = $21.75 million – 0.50% x $500.0 million – 0.25% x $500.0 million = $21.75 million – $3.75 million = $18.0 million
- Quarter 4 net realized capital gain = $0.5 million
- Quarter 4 net unrealized capital appreciation = $1.0 million
- Transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains = Quarter 1 + Quarter 2 + Quarter 3 + Quarter 4 quarterly net income – (excess, if any, of transition period net unrealized capital depreciation over transition period net realized capital gains) = $5.0 million + $15.0 million + $10.0 million + $18.0 million – $0.0 million (as there was no transition period net unrealized capital depreciation) = $48.0 million
- Hurdle amount = 8.00% x $500.0 million = $40.0 million

Determination of Incentive Fee

Transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains equals $48.0 million, which exceeds the Hurdle amount. Therefore there is an Incentive Fee payable with respect to net income in Quarter 4. The net income portion of the Incentive Fee for this quarter equals 50% of the amount by which the transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains exceeds the Hurdle amount, until the cumulative Incentive Fee payments with respect to net income equal 20% of the transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains (would occur if such amount for the transition period represented an annualized return on net assets of 13.33% or higher, which is not the case in this example), less any incentive fees paid to date with respect to transition period net income.

Conclusion

The Incentive Fee payable with respect to net income for the transition period in this alternative equals $4.0 million.

Alternative 3

Additional Assumptions

- Quarter 4 net income = Quarter 4 income – base management fee – other expenses = $41.25 million – 0.50% x $500.0 million – 0.25% x $500.0 million = $41.25 million – $3.75 million = $37.5 million
- Quarter 4 net realized capital gain = $0.5 million
- Quarter 4 net unrealized capital appreciation = $1.0 million
- Transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains = Quarter 1 + Quarter 2 + Quarter 3 + Quarter 4 quarterly net income – (excess, if any, of transition period net unrealized capital depreciation over transition period net realized capital gains) = $5.0 million + $15.0 million + $10.0 million + $37.5 million – $0.0 million (as there was no transition period net unrealized capital depreciation) = $67.5 million
- Hurdle amount = 8.00% x $500.0 million = $40.0 million

Determination of Incentive Fee

Transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains equals $67.5 million, which exceeds the Hurdle amount. Therefore there is an Incentive Fee payable with respect to net income in Quarter 4. The net income portion of the Incentive Fee for this quarter equals 50% of the amount by which the transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains exceeds the Hurdle amount, until the cumulative Incentive Fee payments with respect to net income equal 20% of the transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains (would occur if such amount for the transition period represented an annualized return on net assets of 13.33% or higher, which is the case in this example), less any incentive fees paid to date with respect to transition period net income.

Incentive Fee with respect to net income = 50% x (13.33% x $500.0 million – Hurdle amount) + 20% x (transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains – 13.33% x $500.0 million) – incentive fees paid to date with respect to transition period net income
= 50% x ($66.66 million – $40.0 million) + 20% x ($67.5 million – $66.66 million) – $0.0 million
= 50% x $26.66 million + 20% x $0.84 million – $0.0 million
= $13.5 million

Conclusion

The Incentive Fee payable with respect to net income for the transition period in this alternative equals $13.5 million.

Example 2: For each trailing four quarters' period beginning with the calendar quarter in which the first anniversary of the completion of this offering occurs

Formula

The formula for the net income portion of the Incentive Fee for any trailing four quarters' post-offering period can be expressed as follows:

Incentive Fee with respect to net income —

- When the annualized rate of return to shareholders exceeds the hurdle but does not exceed 13.33% = 50% x (trailing four quarters' post-offering period net income less the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains – hurdle amount) – incentive fees with respect to net income paid in the prior three quarters

- When the annualized rate of return to shareholders exceeds 13.33% = 50% x (13.33% x net asset value – hurdle amount) + 20% x (the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains – 13.33% x net asset value) – incentive fees with respect to net income paid in the prior three quarters

Annualized rate of return in this context is computed by reference to our net asset value and does not take into account changes in the market price of our common stock.

Assumptions

- Number of full calendar quarters in period = 4
- Net Asset Value = $500.0 million
- Total Assets = $500.0 million
- Quarter 3 incentive fee paid = $0.0 million
- Quarter 4 net income = $37.5 million
- Quarter 4 incentive fee paid with respect to net income = $13.5 million
- Quarter 4 incentive fee paid with respect to net realized capital gains = $0.15 million
- Net income and incentive fees paid with respect to net income for Quarters 2 through 4 and end of Quarter 4 balances with respect to realized capital gains/(losses) and unrealized capital appreciation/(depreciation) are the same as those shown in Example 1, Alternative 3 above
- Hurdle(2) = 8.00%
- Base management fee(3) = 0.50%
- Other expenses (legal, accounting, custodian, transfer agent, *etc*.)(4) = 0.25%

Alternative 1

Additional Assumptions

- Quarter 5 net income = Quarter 5 income – base management fee – other expenses = $20.75 million – 0.50% x $500.0 million – 0.25% x $500.0 million = $20.75 million – $3.75 million = $17.0 million
- Quarter 5 net realized capital gain = $0.5 million
- Quarter 5 net unrealized capital appreciation = $1.0 million
- Trailing four quarters' post–offering net income less the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains = Quarter 2 + Quarter 3 + Quarter 4 + Quarter 5 quarterly net income – (excess, if any, of trailing four quarters' post-offering period net unrealized capital depreciation from beginning of Quarter 2 to end of Quarter 5 over trailing four quarters' post-offering period net realized capital gains from beginning of Quarter 2 to end of Quarter 5) = $15.0 million + $10.0 million + $37.5 million + $17.0 million – $0.0 million (as there was no trailing four quarters' post-offering period net unrealized capital depreciation from beginning of Quarter 2 to end of Quarter 5) = $79.5 million
- Hurdle amount = 8.00% x $500.0 million = $40.0 million

Determination of Incentive Fee

Trailing four quarters' post-offering period net income less the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains equals $79.5 million, which exceeds the Hurdle amount. Therefore there is an Incentive Fee payable with respect to net income in Quarter 5. The net income portion of the Incentive Fee for this quarter equals 50% of the amount by which the trailing four quarters' post-offering net income less the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains exceeds the Hurdle amount, until the cumulative Incentive Fee payments with respect to net income equal 20% of the trailing four quarters' net income less the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains (would occur if such amount for the trailing four quarters' represented an annualized return on net assets of 13.33% or higher, which is the case in this example), less any incentive fees paid with respect to net income in the prior three quarters.

> Incentive Fee with respect to net income = 50% x (13.33% x $500.0 million – Hurdle amount) + 20% x (the excess (if any) of trailing four quarters' post-offering period net unrealized capital depreciation over trailing four quarters' post-offering period net realized capital gains – 13.33% x $500.0 million) – incentive fees with respect to net income paid in the prior three quarters
> = 50% x ($66.66 million – $40.0 million) + 20% x ($79.5 million – $66.66 million) – $13.5 million
> = 50% x $26.66 million + 20% x $12.84 million – $13.5 million
> = $2.4 million

Conclusion

The Incentive Fee payable with respect to net income for this trailing four quarters' period equals $2.4 million.

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(1) Net income refers to taxable net income, excluding any realized capital gain and loss and unrealized capital appreciation and depreciation.
(2) Represents an annual hurdle of 8.00% of the value of net assets.
(3) Represents quarterly portion of an annual base management fee of 2.00% of the value of total assets.
(4) Excludes offering expenses and is expressed as a percentage of the value of net assets.

Examples of Calculation of Capital Gains Portion of Incentive Fee

For each annual period beginning on the first day of the calendar quarter in which this offering is completed and ending on the day prior to the first anniversary of such date

Formula

The formula for the capital gains portion of the Incentive Fee for each annual period can be expressed as follows:

Incentive Fee with respect to capital gains = 50% x (net realized capital gains to the extent in excess of gross unrealized capital depreciation, but only to the extent that such net realized capital gains, when added to net income, exceed the Hurdle amount), up to a limit of 20% x net realized capital gains to the extent in excess of gross unrealized capital depreciation

The following Alternative 1 and Alternative 2 assume that with respect to each year, the trailing four quarters' transition period or post-offering period net income less the excess (if any) of trailing four quarters' transition period or post-offering period net unrealized capital depreciation over trailing four quarters' transition period or post-offering period net realized capital gains exceeds the hurdle amount.

Alternative 1

Assumptions

- Year 1: $20 million investment made in Company A (“Investment A”), and $30 million investment made in Company B (“Investment B”)
- Year 2: Investment A is sold for $50 million and fair value of Investment B determined to be $32 million
- Year 3: fair value of Investment B determined to be $25 million
- Year 4: Investment B sold for $31 million

The capital gains portion of the Incentive Fee, if any, would be:

- Year 1: None
- Year 2: $6 million (20% multiplied by $30 million realized capital gains on sale of Investment A)
- Year 3: None
- Year 4: $200,000 (20% multiplied by $1 million realized capital gains on sale of investment B)

Alternative 2

Assumptions

- Year 1: $20 million investment made in Company A (“Investment A”), $30 million investment made in Company B (“Investment B”) and $25 million investment made in Company C (“Investment C”)
- Year 2: Investment A sold for $50 million, fair value of Investment B determined to be $25 million and fair value of Investment C determined to be $25 million
- Year 3: fair value of Investment B determined to be $27 million and Investment C sold for $30 million
- Year 4: fair value of Investment B determined to be $35 million

The capital gains portion of the Incentive Fee, if any, would be:

- Year 1: None
- Year 2: $5 million (20% multiplied by $25 million ($30 million realized capital gains on Investment A less $5 million unrealized capital depreciation on Investment B))
- Year 3: $1 million (20% multiplied by $5 million realized capital gains on Investment C)
- Year 4: None

With respect to each year, if the trailing four quarters’ transition period or post-offering period net income less the excess (if any) of trailing four quarters’ transition period or post-offering period net unrealized capital depreciation over trailing four quarters’ transition period or post-offering period net realized capital gains did not exceed the hurdle amount, the capital gains portion of the Incentive Fee could be reduced because no Incentive Fee is payable unless the sum of (1) the amount of net income used in the determination of the Incentive Fee, if any, based on income and (2) the amount of net realized capital gains in excess of unrealized capital depreciation used in the determination of the Incentive Fee, if any, based on capital gains exceeds the hurdle amount. The following Alternative 3 and Alternative 4 illustrate the calculation of the capital gains portion of the Incentive Fee when the hurdle amount is exceeded only after capital gains are taken into account.

Alternative 3

Assumptions

- Year 1: Net income less the excess (if any) of trailing four quarters’ net unrealized capital depreciation over trailing four quarters’ net realized capital gains = $38.0 million

- Year 1: Net realized capital gains to the extent in excess of gross unrealized capital depreciation = $8.0 million

Determination of Incentive Fee

Net income less the excess (if any) of trailing four quarters' net unrealized capital depreciation over trailing four quarters' net realized capital gains equals $38.0 million, which does not exceed the Hurdle amount. Therefore there is no Incentive Fee payable with respect to net income. However, Year 1 net realized capital gains to the extent in excess of gross unrealized capital depreciation of $8.0 million, when added to net income of $38.0 million, results in a total of $46.0 million, which exceeds the Hurdle amount. Therefore there is an Incentive Fee payable with respect to capital gains in Year 1.

Incentive Fee with respect to capital gains = 50% x (net realized capital gains to the extent in excess of gross unrealized capital depreciation, but only to the extent that such net realized capital gains, when added to net income, exceed the Hurdle amount), up to a limit of 20% x net realized capital gains to the extent in excess of gross unrealized capital depreciation

= 50% x ($46.0 million – $40.0 million), up to a limit of 20% x $8.0 million
= 50% x $6.0 million, up to a limit of $1.6 million
= $1.6 million

Conclusion

The Incentive Fee payable with respect to capital gains for Year 1 equals $1.6 million.

Alternative 4

Assumptions

- Year 1: Net income less the excess (if any) of trailing four quarters' net unrealized capital depreciation over trailing four quarters' net realized capital gains = $38.0 million
- Year 1: Net realized capital gains to the extent in excess of gross unrealized capital depreciation = $3.0 million

Determination of Incentive Fee

Net income less the excess (if any) of trailing four quarters' net unrealized capital depreciation over trailing four quarters' net realized capital gains equals $38.0 million, which does not exceed the Hurdle amount. Therefore there is no Incentive Fee payable with respect to net income. However, Year 1 net realized capital gains to the extent in excess of gross unrealized capital depreciation of $3.0 million, when added to net income of $38.0 million, results in a total of $41.0 million, which exceeds the Hurdle amount. Therefore there is an Incentive Fee payable with respect to capital gains in Year 1.

Incentive Fee with respect to capital gains = 50% x (net realized capital gains to the extent in excess of gross unrealized capital depreciation, but only to the extent that such net realized capital gains, when added to net income, exceed the Hurdle amount), up to a limit of 20% x net realized capital gains to the extent in excess of gross unrealized capital depreciation

= 50% x ($41.0 million – $40.0 million), up to a limit of 20% x $3.0 million
= 50% x $1.0 million, up to a limit of $0.6 million
= $0.5 million

Conclusion

The Incentive Fee payable with respect to capital gains for Year 1 equals $0.5 million.