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

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

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

Commission file number 001-33559

**BlackRock Kelso Capital Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**20-2725151**

(I.R.S. Employer Identification No.)

**40 East 52<sup>nd</sup> Street, New York, New York**

(Address of Principal Executive Offices)

**10022**

(Zip Code)

**Registrant's Telephone Number, Including Area Code 212-810-5800**

Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report.

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

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

Large accelerated filer       Accelerated filer       Non-Accelerated filer

Smaller reporting company  (Do not check if a smaller reporting company)

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

The number of shares of the Registrant's common stock, \$.001 par value per share, outstanding at August 7, 2008, was 54,624,543.

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BLACKROCK KELSO CAPITAL CORPORATION  
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2008

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In addition to factors previously identified elsewhere in the reports BlackRock Kelso Capital Corporation has filed with the Securities and Exchange Commission (the “SEC”), the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of BlackRock Kelso Capital Advisors LLC, our investment advisor (the “Advisor”), to locate suitable investments for us and to monitor and administer our investments;
- the ability of the Advisor to attract and retain highly talented professionals;
- fluctuations in foreign currency exchange rates; and
- the impact of changes to tax legislation and, generally, our tax position.

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

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

**PART 1. FINANCIAL INFORMATION**

In this Quarterly Report, “Company”, “we”, “us” and “our” refer to BlackRock Kelso Capital Corporation unless the context states otherwise.

**Item 1. Financial Statements****BlackRock Kelso Capital Corporation****Statements of Assets and Liabilities**

	June 30, 2008 (Unaudited)	December 31, 2007
<b>Assets:</b>		
Investments at fair value:		
Non-controlled, non-affiliated investments (amortized cost of \$1,173,150,993 and \$1,049,585,229)	\$1,083,393,638	\$1,018,013,709
Non-controlled, affiliated investments (amortized cost of \$64,201,439 and \$66,907,657)	56,441,006	65,412,682
Controlled investments (amortized cost of \$42,449,140 and \$38,881,854)	9,374,448	14,834,395
Total investments at fair value	1,149,209,092	1,098,260,786
Cash and cash equivalents	4,731,097	5,077,695
Foreign currency at fair value (cost of \$204,243 and \$10,291)	204,179	10,864
Net unrealized appreciation on forward foreign currency contracts	249,248	—
Interest receivable	13,485,419	14,260,266
Dividends receivable	2,695,021	1,796,615
Prepaid expenses and other assets	1,849,822	2,414,954
<b>Total Assets</b>	<b>\$1,172,423,878</b>	<b>\$1,121,821,180</b>
<b>Liabilities:</b>		
Payable for investments purchased	\$ 8,700,000	\$ —
Net unrealized depreciation on forward foreign currency contracts	—	451,944
Credit facility payable	484,000,000	381,300,000
Interest payable on credit facility	331,558	1,508,277
Dividend distributions payable	—	3,310,606
Base management fees payable	5,583,589	5,606,213
Accrued administrative services	282,464	361,118
Other accrued expenses and payables	1,340,156	1,091,153
<b>Total Liabilities</b>	<b>500,237,767</b>	<b>393,629,311</b>
<b>Net Assets:</b>		
Common stock, par value \$.001 per share, 100,000,000 and 40,000,000 common shares authorized, 54,624,543 and 52,825,109 issued and outstanding	54,625	52,825
Paid-in capital in excess of par	807,607,772	790,378,102
Distributions in excess of net investment income	(4,556,801)	(5,411,353)
Accumulated net realized gain (loss)	(583,303)	729,635
Net unrealized depreciation	(130,336,182)	(57,557,340)
<b>Total Net Assets</b>	<b>672,186,111</b>	<b>728,191,869</b>
<b>Total Liabilities and Net Assets</b>	<b>\$1,172,423,878</b>	<b>\$1,121,821,180</b>
Net Asset Value Per Share	\$ 12.31	\$ 13.78

The accompanying notes are an integral part of these financial statements.

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**BlackRock Kelso Capital Corporation**
**Statements of Operations (Unaudited)**

	Three months ended June 30, 2008	Three months ended June 30, 2007*	Six months ended June 30, 2008	Six months ended June 30, 2007*
<b>Investment Income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 32,528,115	\$ 31,254,332	\$ 65,616,322	\$ 54,831,984
Dividends	303,589	137,746	784,703	175,242
Other income	1,750	5,000	2,296	18,495
From non-controlled, affiliated investments:				
Interest	1,153,761	543,452	2,354,325	819,083
Dividends	342,530	126,667	737,050	126,667
From controlled investments:				
Interest	544,191	924,581	1,073,757	1,849,556
Dividends	—	215,787	—	438,768
Total investment income	<u>34,873,936</u>	<u>33,207,565</u>	<u>70,568,453</u>	<u>58,259,795</u>
<b>Expenses:</b>				
Base management fees	5,583,589	4,534,551	11,150,449	8,227,626
Incentive management fees	—	5,831,674	—	9,524,323
Administrative services	311,998	259,773	605,433	478,476
Professional fees	240,141	396,195	838,471	542,786
Director fees	98,235	66,667	192,735	130,172
Investment advisor expenses	263,951	194,174	538,849	390,267
Insurance	138,853	48,844	276,436	89,775
Interest and credit facility fees	4,292,574	5,434,516	9,506,631	9,149,321
Amortization of debt issuance costs	167,230	82,264	333,425	144,969
Other	513,772	134,372	648,424	266,441
Expenses before management fee waiver	11,610,343	16,983,030	24,090,853	28,944,156
Base management fee waiver	—	(1,133,638)	—	(2,056,907)
Net expenses	<u>11,610,343</u>	<u>15,849,392</u>	<u>24,090,853</u>	<u>26,887,249</u>
<b>Net Investment Income</b>	<u>23,263,593</u>	<u>17,358,173</u>	<u>46,477,600</u>	<u>31,372,546</u>
<b>Realized and Unrealized Gain (Loss):</b>				
Net realized gain (loss):				
Non-controlled, non-affiliated investments	122,229	647,015	126,639	669,042
Non-controlled, affiliated investments	88,830	—	112,783	—
Foreign currency	(1,729,512)	(177,828)	(1,552,360)	(392,730)
Net realized gain (loss)	<u>(1,518,453)</u>	<u>469,187</u>	<u>(1,312,938)</u>	<u>276,312</u>
Net change in unrealized appreciation or depreciation on:				
Non-controlled, non-affiliated investments	(8,263,289)	(393,538)	(58,185,837)	2,717,064
Non-controlled, affiliated investments	470,657	(79,234)	(6,265,458)	(12,524)
Controlled investments	(3,678,763)	(5,139,175)	(9,027,233)	(5,139,175)
Foreign currency translation	1,585,589	408,120	699,686	437,590
Net change in unrealized appreciation or depreciation	<u>(9,885,806)</u>	<u>(5,203,827)</u>	<u>(72,778,842)</u>	<u>(1,997,045)</u>
Net realized and unrealized gain (loss)	<u>(11,404,259)</u>	<u>(4,734,640)</u>	<u>(74,091,780)</u>	<u>(1,720,733)</u>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<u>\$ 11,859,334</u>	<u>\$ 12,623,533</u>	<u>\$ (27,614,180)</u>	<u>\$ 29,651,813</u>
Net Investment Income Per Share	<u>\$ 0.44</u>	<u>\$ 0.42</u>	<u>\$ 0.88</u>	<u>\$ 0.79</u>
Earnings (Loss) Per Share	<u>\$ 0.22</u>	<u>\$ 0.31</u>	<u>\$ (0.52)</u>	<u>\$ 0.75</u>
Basic and Diluted Weighted-Average Shares Outstanding	53,289,838	40,968,979	53,059,946	39,741,957

\* Certain amounts have been reclassified to conform to the current period's presentation.

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation****Statements of Changes in Net Assets (Unaudited)**

	Six months ended June 30, 2008	Six months ended June 30, 2007
<b>Net Increase (Decrease) in Net Assets Resulting from Operations:</b>		
Net investment income	\$ 46,477,600	\$ 31,372,546
Net change in unrealized appreciation or depreciation	(72,778,842)	(1,997,045)
Net realized gain (loss)	(1,312,938)	276,312
Net increase (decrease) in net assets resulting from operations	<u>(27,614,180)</u>	<u>29,651,813</u>
<b>Dividend Distributions to Stockholders from:</b>		
Net investment income	<u>(45,623,048)</u>	<u>(33,171,455)</u>
<b>Capital Share Transactions:</b>		
Proceeds from shares sold	—	164,143,683
Less offering costs	—	(10,064,144)
Reinvestment of dividends	17,231,470	48,820,270
Net increase in net assets resulting from capital share transactions	<u>17,231,470</u>	<u>202,899,809</u>
<b>Total Increase (Decrease) in Net Assets</b>	<u>(56,005,758)</u>	<u>199,380,167</u>
Net assets at beginning of period	728,191,869	561,799,922
Net assets at end of period	<u>\$ 672,186,111</u>	<u>\$ 761,180,089</u>
<b>Capital Share Activity:</b>		
Shares issued from subscriptions	—	10,273,904
Shares issued from reinvestment of dividends	1,799,434	3,262,507
Total increase in shares	<u>1,799,434</u>	<u>13,536,411</u>
<b>Distributions in Excess:</b>		
Distributions in excess of net investment income, end of period	\$ (4,556,801)	\$ (5,191,458)

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation****Statements of Cash Flows (Unaudited)**

	Six months ended June 30, 2008	Six months ended June 30, 2007*
<b>Operating Activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ (27,614,180)	\$ 29,651,813
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchases of long-term investments	(174,601,047)	(511,089,886)
Purchases of foreign currency—net	(1,613,107)	(745,534)
Proceeds from sales/repayments of long-term investments	51,483,558	183,081,131
Net change in unrealized depreciation on investments	73,478,528	2,434,635
Net change in unrealized depreciation on foreign currency translation	(699,686)	(437,590)
Net realized gain on investments	(239,422)	(669,042)
Net realized loss on foreign currency	1,552,360	392,730
Amortization of premium/discount—net	(1,203,998)	(585,730)
Amortization of debt issuance costs	333,425	144,969
Decrease (increase) in interest receivable	774,847	(5,913,122)
Increase in dividends receivable	(898,406)	(726,392)
Decrease (increase) in prepaid expenses and other assets	231,708	(168,899)
Increase in payable for investments purchased	8,700,000	29,105,799
Increase in offering costs payable	—	9,870,972
(Decrease) increase in base management fees payable	(22,624)	1,243,831
Increase in incentive management fees payable	—	3,714,910
Decrease in accrued administrative services payable	(78,654)	(102,371)
(Decrease) increase in interest payable on credit facility	(1,176,719)	1,164,866
Increase in other accrued expenses and payables	249,003	328,224
Net cash used in operating activities	<u>(71,344,414)</u>	<u>(259,304,686)</u>
<b>Financing Activities:</b>		
Net proceeds from issuance of common stock	—	154,079,539
Dividend distributions paid	(48,933,654)	(48,974,965)
Dividend distributions reinvested	17,231,470	48,820,270
Borrowings under credit facility	141,700,000	1,102,203,995
Repayments under credit facility	(39,000,000)	(835,400,000)
Increase in deferred debt issuance costs	—	(123,128)
Increase in proceeds receivable from shares sold	—	(160,000,000)
Net cash provided by financing activities	<u>70,997,816</u>	<u>260,605,711</u>
Net (decrease) increase in cash and cash equivalents	<u>(346,598)</u>	<u>1,301,025</u>
Cash and cash equivalents, beginning of period	5,077,695	3,036,413
Cash and cash equivalents, end of period	<u>\$ 4,731,097</u>	<u>\$ 4,337,438</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during period	\$ 10,526,438	\$ 7,907,765

\* Certain amounts have been reclassified to conform to the current period's presentation.

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**
**Schedules of Investments (Unaudited)**
**June 30, 2008**

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value</u>
<b>Senior Secured Notes—7.8%</b>				
AGY Holding Corp., Second Lien, 11.00%, 11/15/14, acquired multiple dates(b)	Glass Yarns/ Fibers	\$23,500,000	\$ 23,055,017	\$ 21,913,750
TriMark Acquisition Corp., Second Lien, 11.50% (9.50% cash, 2.00% PIK), 11/30/13	Food Service Equipment	30,578,200	30,578,200	30,578,200(c)
<b>Total Senior Secured Notes</b>			<u>53,633,217</u>	<u>52,491,950</u>
<b>Unsecured Debt—27.8%</b>				
AMC Entertainment Holdings, Inc., 7.78% PIK (LIBOR + 5.00%/Q), 6/13/12	Entertainment	13,237,658	13,000,712	11,053,444
ASM Intermediate Holdings Corp. II, 12.00% PIK, 12/27/13	Marketing Services	47,933,289	47,933,289	45,057,292
BE Foods Investments, Inc., 7.97% PIK (LIBOR + 5.25%/Q), 7/11/12	Food	26,811,852	26,097,180	24,532,845
Big Dumpster Acquisition, Inc., 13.50% PIK, 7/5/15	Waste Management Equipment	35,042,614	35,042,614	35,042,614(c)
Lucite International Luxembourg Finance S.à.r.l., 13.81% PIK (EURIBOR + 9.00%/Q), 7/14/14(d)	Chemicals	11,745,755(e)	14,849,842	11,843,837
Marquette Transportation Company Holdings, LLC, 14.75% PIK, 3/21/14	Transportation	45,423,354	45,423,354	45,423,354(c)
Marsico Parent Holdco, LLC et al., 12.50% PIK, 7/15/16, acquired 11/28/07(b)	Finance	9,378,125	9,378,125	8,440,313
Marsico Parent Superholdco, LLC et al., 14.50% PIK, 1/15/18, acquired 11/28/07(b)	Finance	6,292,417	5,958,869	5,568,789
<b>Total Unsecured Debt</b>			<u>197,683,985</u>	<u>186,962,488</u>
<b>Subordinated Debt—26.3%</b>				
A & A Manufacturing Co., Inc., 14.00% (12.00% cash, 2.00% PIK), 4/2/14	Protective Enclosures	18,966,100	18,966,100	18,966,100(c)
Advanstar, Inc., 9.80% PIK (LIBOR + 7.00%/Q), 11/30/15	Printing/ Publishing	6,801,911	6,801,911	5,428,574(c)
Al Solutions, Inc., 16.00% PIK, 12/29/13(f)(g)	Metals	13,680,233	13,680,233	9,766,900(c)
Conney Safety Products, LLC, 16.00%, 10/1/14	Safety Products	30,000,000	30,000,000	30,000,000(c)
DynaVox Systems LLC, 15.00%, 6/23/15	Augmentative Communication Products	31,000,000	31,000,000	31,000,000(c)
Mattress Giant Corporation, 13.25% (11.00% cash, 2.25% PIK), 8/1/12	Bedding —Retail	14,102,028	14,008,960	14,102,028(c)
MediMedia USA, Inc., 11.38%, 11/15/14, acquired multiple dates(b)	Information Services	8,000,000	8,070,869	8,000,000
The Pay-O-Matic Corp., 14.00% (12.00% cash, 2.00% PIK), 1/15/15	Financial Services	15,138,650	15,138,650	15,138,650(c)
PGA Holdings, Inc., 12.50%, 3/12/16	Healthcare Services	5,000,000	4,904,313	4,900,000(c)
Sentry Security Systems, LLC, 15.00% (12.00% cash, 3.00% PIK), 8/7/12	Security Services	10,430,828	10,430,828	10,430,828(c)

The accompanying notes are an integral part of these financial statements.



**BlackRock Kelso Capital Corporation**
**Schedules of Investments (Unaudited)—(Continued)**
**June 30, 2008**

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value</u>
Tri-anim Health Services, Inc. et al., 14.00% (12.00% cash, 2.00% PIK), 6/4/15	Healthcare Products	\$15,021,667	\$ 15,021,667	\$ 15,021,667(c)
U.S. Security Holdings, Inc., 13.00% (11.00% cash, 2.00% PIK), 5/8/14, acquired 5/10/06(b)	Security Services	7,000,000	7,000,000	6,510,000
Wastequip, Inc., 12.00% (10.00% cash, 2.00% PIK), 2/5/15	Waste Management Equipment	7,638,543	7,638,543	7,638,543(c)
<b>Total Subordinated Debt</b>			<u>182,662,074</u>	<u>176,903,290</u>
<b>Senior Secured Loans—103.5%(h)</b>				
Advanstar Communications Inc., Second Lien, 7.80% (LIBOR + 5.00%), 11/30/14	Printing/Publishing	14,000,000	14,000,000	11,173,337(c)
Alpha Media Group Inc., Second Lien, 10.30% (LIBOR + 7.50%), 2/11/15	Publishing	20,000,000	19,289,934	18,000,000
American Residential Services L.L.C., Second Lien, 12.00% (10.00% cash, 2.00% PIK), 4/17/15	HVAC/Plumbing Services	40,000,000	40,000,000	40,000,000(c)
American Safety Razor Company, LLC, Second Lien, 8.80% (LIBOR + 6.25%), 1/30/14	Consumer Products	10,000,000	10,000,000	9,200,000
American SportWorks LLC, Second Lien, 18.00% (15.00% cash, 3.00% PIK), 6/27/14(i)	Utility Vehicles	13,403,274	13,403,274	13,403,274(c)
AmQuip Crane Rental LLC, Second Lien, 8.26% (LIBOR + 5.75%), 6/29/14	Construction Equipment	22,000,000	22,000,000	20,460,000
Applied Tech Products Corp. et al., Tranche A, First Lien, 9.50% (Base Rate + 4.50%), 10/24/10	Plastic Packaging	1,353,134	1,348,264	1,353,134(c)
Applied Tech Products Corp. et al., Tranche B, Second Lien, 13.50% (Base Rate + 8.50%), 4/24/11(g)	Plastic Packaging	2,308,004	2,297,689	130,300(c)
Applied Tech Products Corp. et al., Tranche C, Third Lien, 17.00% PIK (Base Rate + 12.00%), 10/24/11(g)	Plastic Packaging	916,240	859,994	— (c)
Arclin US Holdings Inc., Second Lien, 9.22% (LIBOR + 6.50%), 7/10/15	Chemicals	14,500,000	14,500,000	13,771,200(c)
Bankruptcy Management Solutions, Inc., Second Lien, 8.73% (LIBOR + 6.25%), 7/31/13	Software	24,562,500	24,562,500	18,299,063
The Bargain! Shop Holdings Inc., Term Loan A, First Lien, 13.50%, 6/29/12(d)	Discount Stores	14,170,984(j)	13,669,528	13,967,753(c)
The Bargain! Shop Holdings Inc., Term Loan B, First Lien, 13.50%, 7/1/12(d)	Discount Stores	19,479,016(j)	18,191,224	19,199,661(c)
Berlin Packaging L.L.C., Second Lien, 9.22% (LIBOR + 6.50%), 8/17/15	Rigid Packaging	24,000,000	23,357,284	20,400,000
Champion Energy Corporation et al., First Lien, 14.50%, 5/22/11	Heating and Oil Services	34,000,000	34,000,000	34,000,000(c)
Custom Direct, Inc. et al., Second Lien, 8.80% (LIBOR + 6.00%), 12/31/14	Printing	10,000,000	10,000,000	6,500,000

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**

**Schedules of Investments (Unaudited)—(Continued)  
June 30, 2008**

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value</u>
Deluxe Entertainment Services Group Inc., Second Lien, 8.80% (LIBOR + 6.00%), 11/11/13	Entertainment	\$12,000,000	\$12,000,000	\$ 7,200,000
Electrical Components International Holdings Company, Second Lien, 9.46% (LIBOR + 6.50%), 5/1/14	Electronics	20,000,000	20,000,000	9,000,000
Event Rentals, Inc., Acquisition Loan, First Lien, 6.94% (LIBOR + 4.00%), 12/19/13	Party Rentals	15,000,000	15,000,000	14,850,000
Facet Technologies, LLC, Second Lien, 16.00% (LIBOR + 2.00% cash, 10.00% PIK), 1/26/12	Medical Devices	27,135,000	27,135,000	27,135,000(c)
Fairway Group Holdings Corp. et al., Term B Loan, First Lien, 7.57% (LIBOR + 5.00%), 1/18/13	Retail Grocery	1,485,000	1,482,185	1,485,000(c)
Fairway Group Holdings Corp. et al., Term C Loan, Second Lien, 13.00% (12.00% cash, 1.00% PIK), 1/18/14	Retail Grocery	11,660,773	11,615,191	11,660,773(c)
Fitness Together Franchise Corporation, First Lien, 8.95% (LIBOR + 6.25%), 7/14/12	Personal Fitness	12,950,000	12,905,519	12,905,519(c)
Heartland Automotive Services II Inc. et al., Term Loan A, First Lien, 7.75% (LIBOR + 3.75%), 2/27/12	Automobile Repair	3,678,231	3,675,906	3,108,105(c)
Heartland Automotive Services II Inc. et al., Acquisition Loan, First Lien, 8.00%, (LIBOR + 4.00%), 2/27/12	Automobile Repair	1,799,837	1,799,837	1,520,862
HIT Entertainment, Inc., Second Lien, 8.29% (LIBOR + 5.50%), 2/26/13	Entertainment	1,000,000	1,000,000	830,000
InterMedia Outdoor, Inc., Second Lien, 9.55% (LIBOR + 6.75%), 1/31/14	Printing/Publishing	10,000,000	10,000,000	8,000,000
Isola USA Corp., First Lien, 7.55% (LIBOR + 4.75%), 12/18/12	Electronics	9,559,211	9,451,982	8,220,921
Isola USA Corp., Second Lien, 10.65% (LIBOR + 7.75%), 12/18/13	Electronics	25,000,000	25,000,000	20,000,000
Kaz, Inc. et al., M&E Loan, First Lien, 7.31% (LIBOR + 4.50%), 12/8/08	Consumer Products	3,000,000	3,000,000	3,000,000(c)
Kaz, Inc. et al., First Lien, 16.00% (12.00% cash, 4.00% PIK), 12/8/11	Consumer Products	35,360,157	34,994,566	34,994,566(c)
LJVH Holdings Inc., Second Lien, 8.30% (LIBOR + 5.50%), 1/19/15(d)	Specialty Coffee	25,000,000	25,000,000	21,250,000
MCCI Group Holdings, LLC, Second Lien, 9.93% (LIBOR + 7.25%), 6/21/13	Healthcare Services	29,000,000	28,944,541	29,000,000(c)
NAMIC/VA, Inc., Second Lien, 12.25%, 8/14/15	Healthcare Services	15,000,000	14,750,183	14,700,000
New Enterprise Stone & Lime Co., Inc., Second Lien, 12.50%, 7/11/14	Mining/Construction	35,000,000	34,670,509	34,300,000
Oriental Trading Company, Inc., Second Lien, 8.49% (LIBOR + 6.00%), 1/31/14	Party Supplies and Novelties	3,000,000	3,000,000	2,150,001

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**
**Schedules of Investments (Unaudited)—(Continued)**
**June 30, 2008**

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value</u>
Penton Media, Inc. et al., Second Lien, 7.90% (LIBOR + 5.00%), 2/1/14(i)	Information Services	\$26,000,000	\$ 25,562,660	\$ 18,590,000
Physiotherapy Associates, Inc. et al., Second Lien, 10.39% (LIBOR + 7.50%), 12/31/13	Rehabilitation Centers	17,000,000	17,000,000	13,600,000
PQ Corporation, Second Lien, 9.40% (LIBOR + 6.50%), 7/30/15	Specialty Chemicals	10,000,000	8,700,000	8,700,000
Precision Parts International Services Corp. et al., First Lien, 8.24% (LIBOR + 5.50%), 9/30/11	Automotive Parts	2,892,443	2,892,443	2,313,954
Premier Yachts, Inc. et al., Term A, First Lien, 6.23% (LIBOR + 3.75%), 8/22/12	Entertainment Cruises	7,646,423	7,620,034	7,608,191
Premier Yachts, Inc. et al., Term B, First Lien, 9.48% (LIBOR + 7.00%), 8/22/13	Entertainment Cruises	1,921,233	1,914,806	1,911,627
Stolle Machinery Company, LLC, Second Lien, 8.98% (LIBOR + 6.50%), 9/29/13	Canning Machinery	5,950,000	5,950,000	5,652,500
Sunrise Medical LTC LLC et al., Second Lien, 9.31% (LIBOR + 6.50%), 12/28/13	Healthcare Equipment	14,400,000	14,400,000	14,400,000(c)
Total Safety U.S. Inc., Second Lien, 9.54% (LIBOR + 6.50%), 12/8/13	Industrial Safety Equipment	9,000,000	9,000,000	8,370,000
United Subcontractors, Inc., Second Lien, 12.42% (LIBOR + 7.25% cash, 2.00% PIK), 6/27/13	Building and Construction	10,007,778	10,007,778	5,103,967
Water Pik, Inc., Second Lien, 7.98% (LIBOR + 5.50%), 6/15/14	Consumer Products	30,000,000	30,000,000	27,900,000(c)
WBS Group LLC et al., Second Lien, 9.01% (LIBOR + 6.25%), 6/7/13	Software	20,000,000	20,000,000	17,200,000(c)
Wembley, Inc., Second Lien, 7.11% (LIBOR + 4.25%), 8/23/12(g)	Gaming	1,000,000	1,000,000	325,000
Westward Dough Operating Company, LLC, Term Loan A, First Lien, 6.70% (LIBOR + 4.00%), 3/30/11	Restaurants	6,850,000	6,850,000	6,308,000(c)
Westward Dough Operating Company, LLC, Term Loan B, First Lien, 9.70% (LIBOR + 7.00%), 3/30/11(g)	Restaurants	8,334,656	8,334,656	7,972,300(c)
York Tape & Label, Inc. et al., Second Lien, 9.73% (LIBOR + 7.25%), 9/30/13	Printing	45,197,368	44,804,819	44,293,421
<b>Total Senior Secured Loans</b>			<u>770,942,306</u>	<u>695,417,429</u>
<b>Preferred Stock—0.9%</b>				
Facet Holdings Corp., Class A, 12.00% PIK(g)	Medical Devices	900	900,000	— (c)
Fitness Together Holdings, Inc., Series A, 8.00% PIK	Personal Fitness	187,500	187,500	187,500(c)
M & M Tradition Holdings Corp., Series A Convertible, 16.00% PIK(i)	Sheet Metal Fabrication	5,376	5,376,000	5,537,280(c)
Tygem Holdings, Inc., 8.00% PIK(f)(g)	Metals	10,789,367	10,826,867	— (c)
Tygem Holdings, Inc., Series B Convertible(f)(k)	Metals	54,574,501	14,725,535	— (c)
<b>Total Preferred Stock</b>			<u>32,015,902</u>	<u>5,724,780</u>

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**  
**Schedules of Investments (Unaudited)—(Continued)**  
**June 30, 2008**

Portfolio Company	Industry	Principal Amount or Number of Shares/Units	Cost(a)	Fair Value
<b>Common Stock—1.7%(k)</b>				
BKC ASW Blocker, Inc.(i)(l)	Utility Vehicles	1,000	\$ 250,000	\$ 394,149(c)
BKC DVSH Blocker, Inc.(m)	Augmentative Communication Products	100	1,000,000	1,000,000(c)
BKC MTCH Blocker, Inc.(n)	Transportation	1,000	5,000,000	4,400,000(c)
Facet Holdings Corp.	Medical Devices	10,000	100,000	— (c)
Fitness Together Holdings, Inc.	Personal Fitness	62,500	62,500	43,600(c)
M & M Tradition Holdings Corp.(i)	Sheet Metal Fabrication	500,000	5,000,000	5,310,000(c)
MGHC Holding Corporation	Bedding—Retail	205,000	2,050,000	38,400(c)
Tygem Holdings, Inc.(f)	Metals	3,596,456	3,608,956	— (c)
<b>Total Common Stock</b>			<u>17,071,456</u>	<u>11,186,149</u>
<b>Limited Partnership/Limited Liability Company Interests—3.8%</b>				
ARS Investment Holdings, LLC(k)	HVAC/Plumbing Services	66,902	—	560,000(c)
Big Dumpster Coinvestment, LLC(k)	Waste Management Equipment	—	5,333,333	1,000,000(c)
Marsico Parent Superholdco, LLC, 16.75% PIK, acquired 11/28/07(b)	Finance	1,750	1,650,005	1,540,000
PG Holdco, LLC, 15% PIK	Healthcare Services	333	333,333	333,333(c)
PG Holdco, LLC, Class A(k)	Healthcare Services	16,667	166,667	166,667(c)
Prism Business Media Holdings LLC(i)(k)	Information Services	68	14,943,200	13,540,000(c)
Sentry Common Investors, LLC(k)	Security Services	147,271	147,271	73,900(c)
Sentry Security Systems Holdings, LLC, 8.00% PIK	Security Services	602,729	602,729	602,729(c)
WBS Group Holdings, LLC, Class B, 16.00% PIK	Software	8,000	8,000,000	8,000,000(c)
<b>Total Limited Partnership/Limited Liability Company Interests</b>			<u>31,176,538</u>	<u>25,816,629</u>
<b>Equity Warrants/Options—0.2%(k)</b>				
ATEP Holdings, Inc., expire 10/24/15	Plastic Packaging	470	—	— (c)
ATH Holdings, Inc., expire 10/24/15	Plastic Packaging	470	—	— (c)
ATPP Holdings, Inc., expire 10/24/15	Plastic Packaging	470	90,112	— (c)
ATPR Holdings, Inc., expire 10/24/15	Plastic Packaging	470	—	— (c)
Fitness Together Holdings, Inc., expire 7/14/16	Personal Fitness	105,263	56,000	39,000(c)
Kaz, Inc., expire 12/8/16	Consumer Products	49	512,000	369,275(c)
Kaz, Inc., expire 12/8/16	Consumer Products	16	64,000	56,050(c)
Kaz, Inc., expire 12/8/16	Consumer Products	16	24,000	27,295(c)
Kaz, Inc., expire 12/8/16	Consumer Products	16	9,000	14,125(c)
Marsico Superholdco SPV, LLC, expire 12/14/19, acquired 11/28/07(b)	Finance	455	444,450	784,100
<b>Total Equity Warrants/Options</b>			<u>1,199,562</u>	<u>1,289,845</u>

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**

**Schedules of Investments (Unaudited)—(Continued)**  
**June 30, 2008**

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value</u>
<b>TOTAL INVESTMENTS INCLUDING UNEARNED INCOME</b>			\$1,286,385,040	\$1,155,792,560
<b>UNEARNED INCOME—(1.0)%</b>			(6,583,468)	(6,583,468)
<b>TOTAL INVESTMENTS—171.0%</b>			<u>\$1,279,801,572</u>	<u>1,149,209,092</u>
<b>OTHER ASSETS &amp; LIABILITIES (NET)—(71.0)%</b>				(477,022,981)
<b>NET ASSETS—100.0%</b>				<u>\$ 672,186,111</u>

- (a) Represents amortized cost for fixed income securities and unearned income, and cost for preferred and common stock, limited partnership/limited liability company interests and equity warrants/options.
- (b) These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 7.8% of net assets at June 30, 2008.
- (c) Fair value of this investment determined by or under the direction of the Company's Board of Directors (see Note 2). The aggregate fair value of these investments (net of unearned income) is \$652,615,215, or 97.1% of net assets at June 30, 2008.
- (d) Non-U.S. company or principal place of business outside the U.S.
- (e) Principal amount is denominated in Euros.
- (f) "Controlled" investments under the Investment Company Act of 1940, whereby the Company owns more than 25% of the portfolio company's outstanding voting securities, are as follows:

<u>Controlled Investments</u>	<u>Fair Value at December 31, 2007</u>	<u>Gross Additions (Cost)*</u>	<u>Net Unrealized Gain (Loss)</u>	<u>Fair Value at June 30, 2008</u>	<u>Interest Income**</u>
Al Solutions, Inc.					
Subordinated Debt	\$12,648,145	\$1,032,088	\$(3,913,333)	\$9,766,900	\$1,073,757
Tygem Holdings, Inc.:					
Preferred Stock	—	—	—	—	—
Preferred Stock Series B					
Convertible	2,613,900	2,500,000	(5,113,900)	—	—
Common Stock	—	—	—	—	—
Less: Unearned Income	(427,650)	35,198	—	(392,452)	—
<b>Totals</b>	<u>\$14,834,395</u>	<u>\$3,567,286</u>	<u>\$(9,027,233)</u>	<u>\$9,374,448</u>	<u>\$1,073,757</u>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

\*\* For the six months ended June 30, 2008. There were no realized gains (losses) or dividend income from these securities during the period. The aggregate fair value of controlled investments (net of unearned income) at June 30, 2008 represents 1.4% of net assets.

- (g) Non-accrual status (in default) at June 30, 2008 and therefore non-income producing.
- (h) Approximately 69% of the senior secured loans to the Company's portfolio companies bear interest at a floating rate that may be determined by reference to the London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR), or other base rate (commonly the Federal Funds Rate or the Prime Rate), at the borrower's option. Additionally, the borrower under a senior secured loan generally has the option to select from interest reset periods of one, two, three or six months and may alter that selection at the end of any reset

The accompanying notes are an integral part of these financial statements.

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period. The stated interest rate represents the weighted average interest rate as of June 30, 2008 of all contracts within the specified loan facility. Current reset frequencies for floating rate instruments other than senior secured loans are indicated by Q (quarterly) or S (semiannually).

- (i) “Non-controlled, affiliated” investments under the Investment Company Act of 1940, whereby the Company owns 5% or more (but not more than 25%) of the portfolio company’s outstanding voting securities, are as follows:

Non-controlled, Affiliated Investments	Fair Value at December 31, 2007	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at June 30, 2008	Net Realized Gain (Loss)***	Interest Income***	Dividend Income***
<b>American SportWorks LLC:</b>								
Senior Secured Loan	\$13,202,280	\$ 200,994	\$ —	\$ —	\$13,403,274	\$ —	\$1,233,833	\$ —
Common Stock	406,689	—	—	(12,540)	394,149	—	—	—
<b>M&amp;M Tradition Holdings Corp.:</b>								
Preferred Stock	9,415,180	—	(3,832,000)	(45,900)	5,537,280	112,783	—	737,050
Common Stock	5,000,000	—	—	310,000	5,310,000	—	—	—
<b>Penton Media, Inc.</b>								
Senior Secured Loan	21,250,000	897,018	—	(3,557,018)	18,590,000	—	1,120,492	—
<b>Prism Business Media Holdings LLC</b>								
Limited Liability Co. Interest	16,500,000	—	—	(2,960,000)	13,540,000	—	—	—
Less: Unearned Income	(361,467)	27,770	—	—	(333,697)	—	—	—
<b>Totals</b>	<b>\$65,412,682</b>	<b>\$1,125,782</b>	<b>\$(3,832,000)</b>	<b>\$(6,265,458)</b>	<b>\$56,441,006</b>	<b>\$ 112,783</b>	<b>\$2,354,325</b>	<b>\$737,050</b>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

\*\* Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category.

\*\*\* For the six months ended June 30, 2008.

The aggregate fair value of non-controlled, affiliated investments (net of unearned income) at June 30, 2008 represents 8.4% of net assets.

- (j) Principal amount is denominated in Canadian dollars.
- (k) Non-income producing equity securities at June 30, 2008.
- (l) The Company is the sole stockholder of BKC ASW Blocker, Inc., which is the beneficiary of 5% or more (but not more than 25%) of the voting securities of American SportWorks LLC.
- (m) The Company is the sole stockholder of BKC DVSH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of DynaVox Systems LLC.
- (n) The Company is the sole stockholder of BKC MTCH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of Marquette Transportation Company Holdings, LLC.

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**
**Schedules of Investments  
December 31, 2007**

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value</u>
<b>Senior Secured Notes—6.2%</b>				
AGY Holding Corp., Second Lien, 11.00%, 11/15/14, acquired 10/20/06(c)	Glass Yarns/ Fibers	\$15,000,000	\$ 15,000,000	\$ 14,550,000
TriMark Acquisition Corp., Second Lien, 11.50% (9.50% cash, 2.00% PIK), 11/30/13	Food Service Equipment	30,277,111	30,277,111	30,277,111(d)
<b>Total Senior Secured Notes</b>			<u>45,277,111</u>	<u>44,827,111</u>
<b>Unsecured Debt—24.8%</b>				
AMC Entertainment Holdings, Inc., 9.99% PIK (LIBOR + 5.00%/Q), 6/13/12	Entertainment	12,661,936	12,395,105	11,981,357
ASM Intermediate Holdings Corp. II, 12.00% PIK, 12/27/13	Marketing Services	45,152,493	45,152,493	42,669,106
BE Foods Investments, Inc., 10.50% PIK (LIBOR + 5.25%/Q), 7/11/12	Food	25,486,292	24,683,196	23,702,251
Big Dumpster Acquisition, Inc., 13.50% PIK, 7/5/15	Waste Management Equipment	32,756,167	32,756,167	32,756,167(d)
Lucite International Luxembourg Finance S.à.r.l., 13.64% PIK (EURIBOR + 9.00%/Q), 7/14/14(e)	Chemicals	10,978,044(f)	13,666,704	14,987,131
Marquette Transportation Company Holdings, LLC, 14.75% PIK, 3/21/14	Transportation	39,500,000	39,500,000	39,500,000(d)
Marsico Parent Holdco, LLC et al., 12.50% PIK, 7/15/16, acquired 11/28/07(c)	Finance	9,000,000	9,000,000	9,045,000
Marsico Parent Superholdco, LLC et al., 14.50% PIK, 1/15/18, acquired 11/28/07(c)	Finance	6,000,000	5,658,622	5,685,687
<b>Total Unsecured Debt</b>			<u>182,812,287</u>	<u>180,326,699</u>
<b>Subordinated Debt—14.9%</b>				
A & A Manufacturing Co., Inc., 14.00% (12.00% cash, 2.00% PIK), 4/2/14	Protective Enclosures	18,777,852	18,777,852	18,777,852(d)
Advanstar, Inc., 11.84% PIK (LIBOR + 7.00%/Q), 11/30/15	Printing/ Publishing	6,441,546	6,441,546	6,441,546
Al Solutions, Inc., 16.00% PIK, 12/29/13(g)	Metals	12,648,145	12,648,145	12,648,145(d)
Conney Safety Products, LLC, 16.00%, 10/01/14	Safety Products	25,000,000	25,000,000	25,000,000(d)
Mattress Giant Corporation, 13.25% (11.00% cash, 2.25% PIK), 8/1/12	Bedding —Retail	13,944,709	13,840,288	13,247,474
MediMedia USA, Inc., 11.38%, 11/15/14, acquired multiple dates(c)	Information Services	8,000,000	8,074,656	8,220,000
Sentry Security Systems, LLC, 15.00% (12.00% cash, 3.00% PIK), 8/7/12	Security Services	10,274,409	10,274,409	10,274,409(d)

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**
**Schedules of Investments—(Continued)**
**December 31, 2007**

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value</u>
U.S. Security Holdings, Inc., 13.00% (11.00% cash, 2.00% PIK), 5/8/14, acquired 5/10/06(c)	Security Services	\$ 7,000,000	\$ 7,000,000	\$ 6,650,000
Wastequip, Inc., 12.00% (10.00% cash, 2.00% PIK), 2/5/15	Waste Management Equipment	7,561,250	7,561,250	7,561,250(d)
<b>Total Subordinated Debt</b>			<u>109,618,146</u>	<u>108,820,676</u>
<b>Senior Secured Loans—97.9%(h)</b>				
Advanstar Communications Inc., Second Lien, 9.84% (LIBOR + 5.00%), 11/30/14	Printing/Publishing	14,000,000	14,000,000	12,880,000
Alpha Media Group Inc., Second Lien, 12.33% (LIBOR + 7.50%), 2/11/15	Publishing	20,000,000	19,236,444	18,400,000
American Residential Services L.L.C., Second Lien, 12.00% (10.00% cash, 2.00% PIK), 4/17/15	HVAC/Plumbing Services	40,000,000	40,000,000	40,000,000(d)
American Safety Razor Company, LLC, Second Lien, 11.69% (LIBOR + 6.25%), 1/30/14	Consumer Products	10,000,000	10,000,000	9,950,000
American SportWorks LLC, Second Lien, 18.00% (15.00% cash, 3.00% PIK), 6/27/14(i)	Utility Vehicles	13,202,280	13,202,280	13,202,280(d)
AmQuip Crane Rental LLC, Second Lien, 10.63% (LIBOR + 5.75%), 6/29/14	Construction Equipment	22,000,000	22,000,000	21,340,000
Applied Tech Products Corp. et al., Tranche A, First Lien, 11.75% PIK (Base Rate + 4.50%), 10/24/10	Plastic Packaging	4,847,723	4,829,127	4,847,723(d)
Applied Tech Products Corp. et al., Tranche B, Second Lien, 15.75% PIK (Base Rate + 8.50%), 4/24/11	Plastic Packaging	2,308,004	2,295,861	1,568,358(d)
Applied Tech Products Corp. et al., Tranche C, Third Lien, 19.25% PIK (Base Rate + 12.00%), 10/24/11(j)	Plastic Packaging	916,240	851,534	— (d)
Arclin US Holdings Inc., Second Lien, 11.40% (LIBOR + 6.50%), 7/10/15	Chemicals	14,500,000	14,500,000	14,500,000(d)
Bankruptcy Management Solutions, Inc., Second Lien, 11.10% (LIBOR + 6.25%), 7/31/13	Software	24,687,500	24,687,500	20,367,188
The Bargain! Shop Holdings Inc., Term Loan B, First Lien, 11.81% (CBA + 7.00%), 7/1/12(e)	Discount Stores	19,739,508(k)	18,414,992	19,800,510(d)
Berlin Packaging L.L.C., Second Lien, 11.85% (LIBOR + 6.50%), 8/17/15	Rigid Packaging	24,000,000	23,312,346	23,040,000
Cannondale Bicycle Corporation, Second Lien, 10.85% (LIBOR + 6.00%), 6/5/10	Bicycles/ Apparel	10,000,000	10,000,000	10,000,000(d)
Champion Energy Corporation et al., First Lien, 12.50%, 5/22/11	Heating and Oil Services	34,000,000	34,000,000	34,000,000(d)

The accompanying notes are an integral part of these financial statements.



**BlackRock Kelso Capital Corporation**

**Schedules of Investments—(Continued)**

**December 31, 2007**

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value</u>
Custom Direct, Inc. et al., Second Lien, 10.84% (LIBOR + 6.00%), 12/31/14	Printing	\$10,000,000	\$10,000,000	\$ 8,500,000
Deluxe Entertainment Services Group Inc., Second Lien, 10.83% (LIBOR + 6.00%), 11/11/13	Entertainment	12,000,000	12,000,000	10,800,000
DynaVox Systems LLC, Term Loan B, First Lien, 8.38% (LIBOR + 3.50%), 6/30/11	Augmentative Communication Products	3,351,322	3,333,809	3,351,322(d)
DynaVox Systems LLC, Term Loan C, First Lien, 9.88% (LIBOR + 5.00%), 12/13/11	Augmentative Communication Products	1,750,000	1,740,579	1,750,000(d)
Eight O'Clock Coffee Company et al., Second Lien, 11.38% (LIBOR + 6.50%), 7/31/13	Coffee Distributor	14,000,000	14,000,000	13,440,000
Electrical Components International Holdings Company, Second Lien, 11.37% (LIBOR + 6.50%), 5/1/14	Electronics	20,000,000	20,000,000	16,000,000
Event Rentals, Inc., Acquisition Loan, First Lien, 9.05% (LIBOR + 4.00%), 12/19/13	Party Rentals	15,000,000	15,000,000	14,925,000
Facet Technologies, LLC, Second Lien, 11.88% (LIBOR + 7.00%), 1/26/12	Medical Devices	27,000,000	27,000,000	27,000,000(d)
Fairway Group Holdings Corp. et al., Term B Loan, First Lien, 9.96% (LIBOR + 5.00%), 1/18/13	Retail Grocery	1,485,000	1,481,877	1,485,000(d)
Fairway Group Holdings Corp. et al., Term C Loan, Second Lien, 13.00% (12.00% cash, 1.00% PIK), 1/18/14	Retail Grocery	11,601,670	11,551,996	11,601,670(d)
Fitness Together Franchise Corporation, First Lien, 11.40% (LIBOR + 6.25%), 7/14/12	Personal Fitness	13,150,000	13,099,256	13,099,256(d)
Heartland Automotive Services II Inc. et al., Term Loan A, First Lien, 12.00% (Base Rate + 4.75%), 2/27/12(j)	Automobile Repair	3,558,311	3,555,669	3,415,978
Heartland Automotive Services II Inc. et al., Acquisition Loan, First Lien, 12.25% (Base Rate + 5.00%), 2/27/12(j)	Automobile Repair	1,740,000	1,740,000	1,722,600
HIT Entertainment, Inc., Second Lien, 10.38% (LIBOR + 5.50%), 2/26/13	Entertainment	1,000,000	1,000,000	950,000
InterMedia Outdoor, Inc., Second Lien, 11.58% (LIBOR + 6.75%), 1/31/14	Printing/Publishing	10,000,000	10,000,000	9,600,000
Isola USA Corp., First Lien, 9.58% (LIBOR + 4.75%), 12/18/12	Electronics	9,900,000	9,776,400	9,306,000
Isola USA Corp., Second Lien, 12.83% (LIBOR + 7.75%), 12/18/13	Electronics	25,000,000	25,000,000	23,500,000
Kaz, Inc. et al., M&E Loan, First Lien, 9.69% (LIBOR + 4.50%), 12/8/08	Consumer Products	3,000,000	3,000,000	3,000,000(d)
Kaz, Inc. et al., First Lien, 16.00% (12.00% cash, 4.00% PIK), 12/8/11	Consumer Products	41,753,560	41,274,295	41,274,295(d)

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**
**Schedules of Investments—(Continued)**
**December 31, 2007**

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value</u>
LJVH Holdings Inc., Second Lien, 10.33% (LIBOR + 5.50%), 1/19/15(e)	Specialty Coffee	\$25,000,000	\$ 25,000,000	\$ 23,000,000
MCCI Group Holdings, LLC, Second Lien, 12.71% (LIBOR + 7.25%), 6/21/13	Healthcare Services	29,000,000	28,938,983	29,000,000(d)
Oriental Trading Company, Inc., Second Lien, 10.85% (LIBOR + 6.00%), 1/31/14	Party Supplies and Novelties	3,000,000	3,000,000	2,790,000
Penton Media, Inc. et al., Second Lien, 9.98% (LIBOR + 5.00%), 2/1/14(i)	Information Services	25,000,000	24,665,642	21,250,000
Physiotherapy Associates, Inc. et al., Second Lien, 11.41% (LIBOR + 6.50%), 12/31/13	Rehabilitation Centers	17,000,000	17,000,000	15,810,000
Precision Parts International Services Corp. et al., First Lien, 10.08% (LIBOR + 4.75% cash, 0.75% PIK), 9/30/11	Automotive Parts	4,853,442	4,853,442	4,368,097
Premier Yachts, Inc. et al., Term A, First Lien, 8.69% (LIBOR + 3.75%), 8/22/12	Entertainment Cruises	7,877,183	7,847,172	7,837,797
Premier Yachts, Inc. et al., Term B, First Lien, 11.94% (LIBOR + 7.00%), 8/22/13	Entertainment Cruises	1,921,233	1,914,184	1,911,626
Stolle Machinery Company, LLC, Second Lien, 11.38% (LIBOR + 6.50%), 9/29/13	Canning Machinery	8,500,000	8,500,000	8,245,000
Sunrise Medical LTC LLC et al., Second Lien, 11.35% (LIBOR + 6.50%), 12/28/13	Healthcare Equipment	14,400,000	14,400,000	14,040,000
Total Safety U.S. Inc., Second Lien, 11.33% (LIBOR + 6.50%), 12/8/13	Industrial Safety Equipment	9,000,000	9,000,000	8,730,000
United Subcontractors, Inc., Second Lien, 12.21% (LIBOR + 7.25%), 6/27/13	Building and Construction	10,000,000	10,000,000	7,850,000
Water Pik, Inc., Second Lien, 10.49% (LIBOR + 5.50%), 6/15/14	Consumer Products	30,000,000	30,000,000	29,400,000(d)
WBS Group LLC et al., Second Lien, 11.35% (LIBOR + 6.25%), 6/7/13	Software	20,000,000	20,000,000	20,000,000(d)
Wembley, Inc., Second Lien, 9.72% (LIBOR + 4.25%), 8/23/12	Gaming	1,000,000	1,000,000	910,000
Westward Dough Operating Company, LLC, Term Loan A, First Lien, 8.83% (LIBOR + 4.00%), 3/30/11	Restaurants	6,850,000	6,850,000	6,850,000(d)
Westward Dough Operating Company, LLC, Term Loan B, First Lien, 11.83% (LIBOR + 7.00%), 3/30/11	Restaurants	8,334,656	8,334,656	8,334,656(d)
York Tape & Label, Inc. et al., Second Lien, 12.25% (LIBOR + 7.25%), 9/30/13	Printing	45,197,368	44,767,550	44,293,421
<b>Total Senior Secured Loans</b>			<u>741,955,594</u>	<u>713,237,777</u>
<b>Preferred Stock—1.7%</b>				
Facet Holdings Corp., Class A, 12.00% PIK	Medical Devices	900	900,000	318,420(d)
Fitness Together Holdings, Inc., Series A, 8.00% PIK	Personal Fitness	187,500	187,500	187,500(d)

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**

**Schedules of Investments—(Continued)**

**December 31, 2007**

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value</u>
M & M Tradition Holdings Corp., Series A Convertible, 16.00% PIK(i)	Sheet Metal Fabrication	9,208	\$ 9,208,000	\$ 9,415,180(d)
Tygem Holdings, Inc., 8.00% PIK(g)(j)	Metals	10,789,367	10,826,867	— (d)
Tygem Holdings, Inc., Series B Convertible(g)(l)	Metals	45,567,701	12,225,535	2,613,900(d)
<b>Total Preferred Stock</b>			<b>33,347,902</b>	<b>12,535,000</b>
<b>Common Stock—1.7%(l)</b>				
BKC ASW Blocker, Inc.(i)(m)	Utility Vehicles	1,000	250,000	406,689(d)
BKC MTCH Blocker, Inc.(n)	Transportation	1,000	5,000,000	5,100,000(d)
Facet Holdings Corp.	Medical Devices	10,000	100,000	— (d)
Fitness Together Holdings, Inc.	Personal Fitness	62,500	62,500	77,400(d)
M & M Tradition Holdings Corp.(i)	Sheet Metal Fabrication	500,000	5,000,000	5,000,000(d)
MGHC Holding Corporation	Bedding—Retail	205,000	2,050,000	1,700,000(d)
Tygem Holdings, Inc.(g)	Metals	3,596,456	3,608,956	— (d)
<b>Total Common Stock</b>			<b>16,071,456</b>	<b>12,284,089</b>
<b>Limited Partnership/Limited Liability Company Interests—4.2%</b>				
ARS Investment Holdings, LLC(l)	HVAC/Plumbing Services	66,902	—	575,000(d)
Big Dumpster Coinvestment, LLC(l)	Waste Management Equipment	—	5,333,333	3,200,000(d)
Marsico Parent Superholdco, LLC, 16.75% PIK, acquired 11/28/07(c)	Finance	1,750	1,650,005	1,657,860
Prism Business Media Holdings LLC(i)(l)	Information Services	68	14,943,201	16,500,000(d)
Sentry Common Investors, LLC(l)	Security Services	147,271	147,271	147,300(d)
Sentry Security Systems Holdings, LLC, 8.00% PIK	Security Services	602,729	602,729	602,729(d)
WBS Group Holdings, LLC, Class B, 16.00% PIK	Software	8,000	8,000,000	8,000,000(d)
<b>Total Limited Partnership/Limited Liability Company Interests</b>			<b>30,676,539</b>	<b>30,682,889</b>
<b>Equity Warrants/Options—0.2%(l)</b>				
ATEP Holdings, Inc., expire 10/24/15	Plastic Packaging	470	—	— (d)
ATH Holdings, Inc., expire 10/24/15	Plastic Packaging	470	—	— (d)
ATPP Holdings, Inc., expire 10/24/15	Plastic Packaging	470	90,112	— (d)
ATPR Holdings, Inc., expire 10/24/15	Plastic Packaging	470	—	— (d)
Fitness Together Holdings, Inc., expire 7/14/16	Personal Fitness	105,263	56,000	55,400(d)
Kaz, Inc., expire 12/8/16	Consumer Products	49	512,000	477,065(d)
Kaz, Inc., expire 12/8/16	Consumer Products	16	64,000	81,554(d)

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**  
**Schedules of Investments—(Continued)**  
**December 31, 2007**

Portfolio Company	Industry(a)	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value
Kaz, Inc., expire 12/8/16	Consumer Products	16	\$ 24,000	\$ 44,333(d)
Kaz, Inc., expire 12/8/16	Consumer Products	16	9,000	25,378(d)
Marsico Superholdco SPV, LLC, expire 12/14/19, acquired 11/28/07(c)	Finance	455	444,450	446,672
<b>Total Equity Warrants/Options</b>			<u>1,199,562</u>	<u>1,130,402</u>
<b>TOTAL INVESTMENTS INCLUDING UNEARNED INCOME</b>			1,160,958,597	1,103,844,643
<b>UNEARNED INCOME—(0.8)%</b>			(5,583,857)	(5,583,857)
<b>TOTAL INVESTMENTS—150.8%</b>			<u>\$1,155,374,740</u>	<u>1,098,260,786</u>
<b>OTHER ASSETS &amp; LIABILITIES (NET)—(50.8)%</b>				(370,068,917)
<b>NET ASSETS—100.0%</b>				<u>\$ 728,191,869</u>

(a) Unaudited.

(b) Represents amortized cost for fixed income securities and unearned income, and cost for preferred and common stock, limited partnership/limited liability company interests and equity warrants/options.

(c) These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 6.4% of net assets at December 31, 2007.

(d) Fair value of this investment determined by or under the direction of the Company's Board of Directors (see Note 2). The aggregate fair value of these investments (net of unearned income) is \$559,803,995, or 76.9% of net assets at December 31, 2007.

(e) Non-U.S. company or principal place of business outside the U.S.

(f) Principal amount is denominated in Euros.

(g) "Controlled" investments under the Investment Company Act of 1940, whereby the Company owns more than 25% of the portfolio company's outstanding voting securities, are as follows:

Controlled Investments	Fair Value at December 31, 2006	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at December 31, 2007	Interest Income***
Al Solutions, Inc.						
Subordinated Debt	\$22,000,000	\$ 3,296,290	\$(12,648,145)	\$ —	\$12,648,145	\$3,808,869
Tygem Holdings, Inc.:						
Preferred Stock	10,826,867	—	—	(10,826,867)	—	—
Preferred Stock Series B	—	12,225,535	—	(9,611,635)	2,613,900	—
Convertible						
Common Stock	3,608,956	—	—	(3,608,956)	—	—
Less: Unearned Income	(998,763)	571,113	—	—	(427,650)	—
<b>Totals</b>	<u>\$35,437,060</u>	<u>\$16,092,938</u>	<u>\$(12,648,145)</u>	<u>\$(24,047,458)</u>	<u>\$14,834,395</u>	<u>\$3,808,869</u>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

\*\* Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category.

The accompanying notes are an integral part of these financial statements.

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\*\*\* For the year ended December 31, 2007. There were no realized gains (losses) or dividend income from these securities during the year.

The aggregate fair value of controlled investments (net of unearned income) at December 31, 2007 represents 2.0% of net assets.

- (h) Approximately 80% of the senior secured loans to the Company's portfolio companies bear interest at a floating rate that may be determined by reference to the London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR), Canadian Bankers' Acceptance Rate (CBA), or other base rate (commonly the Federal Funds Rate or the Prime Rate), at the borrower's option. Additionally, the borrower under a senior secured loan generally has the option to select from interest reset periods of one, two, three or six months and may alter that selection at the end of any reset period. The stated interest rate represents the weighted average interest rate as of December 31, 2007 of all contracts within the specified loan facility. Current reset frequencies for floating rate instruments other than senior secured loans are indicated by Q (quarterly) or S (semiannually).
- (i) "Non-controlled, affiliated" investments under the Investment Company Act of 1940, whereby the Company owns 5% or more (but not more than 25%) of the portfolio company's outstanding voting securities, are as follows:

<u>Non-controlled, Affiliated Investments</u>	<u>Fair Value at December 31, 2006</u>	<u>Gross Additions (Cost)*</u>	<u>Net Unrealized Gain (Loss)</u>	<u>Fair Value at December 31, 2007</u>	<u>Interest/ Other Income**</u>	<u>Dividend Income**</u>
<b>American SportWorks LLC:</b>						
Senior Secured Loan	\$ —	\$ 13,202,280	\$ —	\$ 13,202,280	\$ 1,248,969	\$ —
Common Stock	—	250,000	156,689	406,689	—	—
<b>M&amp;M Tradition Holdings Corp.:</b>						
Preferred Stock	—	9,208,000	207,180	9,415,180	300,000	1,191,434
Common Stock	—	5,000,000	—	5,000,000	—	—
<b>Penton Media, Inc.</b>						
Senior Secured Loan	—	24,665,642	(3,415,642)	21,250,000	2,010,213	—
<b>Prism Business Media Holdings LLC</b>						
Limited Liability Co. Interest	—	14,943,201	1,556,799	16,500,000	—	—
Less: Unearned Income	—	(361,467)	—	(361,467)	—	—
<b>Totals</b>	<u>\$ —</u>	<u>\$ 66,907,656</u>	<u>\$ (1,494,794)</u>	<u>\$ 65,412,682</u>	<u>\$ 3,559,182</u>	<u>\$ 1,191,434</u>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

\*\*\* For the year ended December 31, 2007. There were no realized gains (losses) from these securities during the year.

The aggregate fair value of non-controlled, affiliated investments (net of unearned income) at December 31, 2007 represents 9.0% of net assets.

- (j) Non-accrual status (in default) at December 31, 2007 and therefore non-income producing.
- (k) Principal amount is denominated in Canadian dollars.
- (l) Non-income producing equity securities at December 31, 2007.
- (m) The Company is the sole stockholder of BKC ASW Blocker, Inc., which is the beneficiary of 5% or more (but not more than 25%) of the voting securities of American SportWorks LLC.
- (n) The Company is the sole stockholder of BKC MTCH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of Marquette Transportation Company Holdings, LLC.

The accompanying notes are an integral part of these financial statements.

**BlackRock Kelso Capital Corporation**

**Notes to Financial Statements (Unaudited)**

**1. Organization**

BlackRock Kelso Capital Corporation (the “Company”) was organized as a Delaware corporation on April 13, 2005 and was initially funded on July 25, 2005. The Company has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). In addition, for tax purposes the Company has qualified and has elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986 (the “Code”). The Company’s investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company invests primarily in middle-market companies in the form of senior and junior secured and unsecured debt securities and loans, each of which may include an equity component, and by making direct preferred, common and other equity investments in such companies.

On July 25, 2005, the Company completed a private placement of 35,366,589 shares of its common stock at a price of \$15.00 per share, receiving net proceeds of \$529,333,799. On July 2, 2007, the Company completed an initial public offering through which it sold an additional 10,000,000 shares of its common stock at a price of \$16.00 per share and listed its shares on The NASDAQ Global Select Market (collectively, the “Public Market Event”). Net proceeds from the Public Market Event of \$150,110,500 reflected the payment of an underwriting discount of \$8,400,000 and legal fees and other offering costs of \$1,489,500.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnotes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted herein. These financial statements should be read in conjunction with the Company’s financial statements and notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission (“SEC”) on March 17, 2008.

**2. Significant accounting policies**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ and such differences could be material.

The significant accounting policies consistently followed by the Company are:

- (a) Investments for which market quotations are readily available are valued at such market quotations unless they are deemed not to represent fair value. The Company generally obtains market quotations from an independent pricing service or one or more broker-dealers or market makers. However, debt investments with remaining maturities within 60 days are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. Debt and equity securities for which market quotations are not readily available or for which market quotations are deemed not to represent fair value are valued at fair value as determined in good faith by or under the direction of the Company’s Board of Directors. Because the Company expects that there will not be a readily available market value for many of the investments in its portfolio, the Company expects to value many of its portfolio investments at fair value as determined in good faith by or under the direction of the Board of Directors using a consistently applied valuation process in accordance with a documented valuation policy that has been reviewed and approved by the Board of Directors. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company’s investments may differ significantly from the values that would have been used had a readily available market value existed for such investments and may differ materially from the values that the Company may ultimately realize. In addition, changes in the market environment and other events may have differing impacts on the market quotations used to value some of our investments than on the fair values of our investments for which market quotations are not readily available. Market quotations may be deemed not to represent fair value in certain circumstances where BlackRock Kelso Capital Advisors LLC, the Company’s investment advisor (the “Advisor”), believes that facts and circumstances applicable to an issuer, a

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seller or purchaser or the market for a particular security cause current market quotations to not reflect the fair value of the security. Examples of these events could include cases in which material events are announced after the close of the market on which a security is primarily traded, when a security trades infrequently causing a quoted purchase or sale price to become stale or in the event of a “forced” sale by a distressed seller.

With respect to the Company’s investments for which market quotations are not readily available or for which market quotations are deemed not to represent fair value, the Board of Directors undertakes a multi-step valuation process each quarter, as described below:

- (i) The quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of the Advisor responsible for the portfolio investment;
- (ii) The investment professionals provide recent portfolio company financial statements and other reporting materials to independent valuation firms engaged by the Board of Directors, such firms conduct independent appraisals each quarter and their preliminary valuation conclusions are documented and discussed with senior management of the Advisor;
- (iii) The audit committee of the Board of Directors reviews the preliminary valuations of the independent valuation firms; and
- (iv) The Board of Directors discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of the Advisor, the respective independent valuation firms and the audit committee.

With respect to the initial valuations of unquoted investments by the investment professionals of the Advisor, upon acquisition each unquoted investment generally is valued at cost until the end of the second calendar quarter following its acquisition date. As of that date, an independent valuation firm conducts the initial independent appraisal of the investment.

The types of factors that the Company may take into account in fair value pricing its investments include, as relevant, the enterprise value of the portfolio company, the nature and realizable value of any collateral, the portfolio company’s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. Determination of fair values involves subjective judgments and estimates. Accordingly, these notes to the financial statements express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on the financial statements.

- (b) Security transactions are accounted for on the trade date unless there are substantial conditions to the purchase.
- (c) Gains or losses on the sale of investments are calculated using the specific identification method.
- (d) Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. For loans and securities with contractual payment-in-kind (“PIK”) income, which represents contractual interest or dividends accrued and added to the principal balance and which generally becomes due at maturity, PIK income is not accrued if the portfolio company valuation indicates that the PIK income is not collectible. Origination, structuring, closing, commitment and other upfront fees and discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment. Unamortized origination, structuring, closing, commitment and other upfront fees are recorded as unearned income. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, structuring, closing, commitment and other upfront fees are recorded as interest income. Expenses are recorded on an accrual basis.
- (e) The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Code, and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from federal income and excise taxes. Therefore, no provision has been recorded for federal income or excise taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on estimated excess taxable income as required.

In order to qualify for favorable tax treatment as a RIC, the Company is required to distribute annually to its stockholders at least 90% of investment company taxable income, as defined by the Code. To avoid federal excise taxes, the Company must distribute annually at least 98% of its income (both ordinary income and net capital gains).

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- (f) Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by the Board of Directors. Net realized capital gains, if any, generally are distributed at least annually, although the Company may decide to retain such capital gains for investment.
- (g) Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest generally is reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current.
- (h) Recently Issued Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. The Company adopted SFAS 157 on January 1, 2008. The adoption of SFAS 157 did not have a material impact on the Company's financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which is effective for fiscal years beginning after November 15, 2008. SFAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. The Company is currently evaluating the impact of adopting SFAS 161 on its financial statements. At this time, the impact on the Company's financial statements has not been determined.

### **3. Agreements and related party transactions**

The Company has entered into an Investment Management Agreement (the "Management Agreement") with the Advisor, under which the Advisor, subject to the overall supervision of the Company's Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, the Advisor receives a base management fee (the "Management Fee") from the Company quarterly in arrears at an annual rate of 2.0% of the Company's total assets, including any assets acquired with the proceeds of leverage.

The Advisor contractually agreed to waive its rights to receive one-half of the amount of the Management Fee the Advisor would otherwise be entitled to receive from the Company until the first date on which 90% of the assets of the Company were invested in portfolio companies in accordance with the Company's investment objective or the first anniversary of the Closing, whichever was sooner (the "Ramp-Up Date"). The Ramp-Up Date occurred on July 25, 2006. Thereafter, the Advisor agreed to waive, until such time as the Company had completed the Public Market Event, one-quarter of the amount of the Management Fee the Advisor would otherwise be entitled to receive from the Company. All such fee waivers terminated upon completion of the Public Market Event.

For the three and six months ended June 30, 2008, the Advisor earned \$5,583,589 and \$11,150,449, respectively, in base management fees from the Company. For the three and six months ended June 30, 2007, the Advisor earned \$3,400,913 and \$6,170,719, respectively, in such fees, net of the waiver provision.

The Management Agreement provides that the Advisor or its affiliates may be entitled to an incentive management fee (the "Incentive Fee") under certain circumstances. The determination of the Incentive Fee, as described in more detail below, will result in the Advisor or its affiliates receiving no Incentive Fee payments if returns to Company stockholders, as described in more detail below, do not meet an 8.0% annualized rate of return and will result in the Advisor or its affiliates receiving less than the full amount of the Incentive Fee percentage until returns to stockholders exceed an approximate 13.3% annualized rate of return. 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 the market price of the Company's common stock.



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The Advisor will be entitled to receive the Incentive Fee 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 the Ramp-Up Date and ended on June 30, 2007.
- The "transition period" began on July 1, 2007 and ended on June 30, 2008.
- The initial "trailing four quarters' periods" will end 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 stock 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.* For each of the first three measurement periods referred to above (the pre-offering period, the transition period and each trailing four quarters' 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. The amount of the excess described in this paragraph for each period is referred to 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 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 portion of the Incentive Fee based on capital gains is calculated separately for each of two periods: the pre-offering period (on a quarterly basis) 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. The amount of the excess described in this paragraph is referred to 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 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, 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 with respect to any period, the Company accounts for its assets on a security-by-security basis. In addition, the Company uses the "period-to-period" method pursuant to which the portion of the Incentive Fee based on capital gains for any period is 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 Investment Advisers Act of 1940 by the SEC and its staff, the calculation of unrealized depreciation for each portfolio security over a period is based on the fair value of the security at the end of the period compared to the fair value at the beginning of the period. Incentive Fees earned in any of the periods described above are not subject to modification or repayment based upon performance in a subsequent period.

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For the three and six months ended June 30, 2008, the Advisor earned no Incentive Fees from the Company. Although the Company did not incur any Incentive Fees during the six months ended June 30, 2008 and during the last calendar quarter of 2007, it may incur such fees in the future relating to investment performance since September 30, 2007 measured on a trailing four quarters' basis. For the three and six months ended June 30, 2007, the Advisor earned \$5,831,674 and \$9,524,323, respectively, in Incentive Fees.

The Management Agreement provides 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 the Management 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 three and six months ended June 30, 2008 the Company incurred \$263,951 and \$538,849, respectively, for costs and expenses reimbursable to the Advisor under the Management Agreement. For the three and six months ended June 30, 2007, the Company incurred \$194,174 and \$390,267, respectively, in such costs and expenses.

From time to time, the Advisor may pay amounts owed by the Company to third party providers of goods or services. The Company will subsequently reimburse the Advisor for such amounts paid on its behalf. Reimbursements to the Advisor for the three and six months ended June 30, 2008 were \$405,673 and \$806,831, respectively. Reimbursements to the Advisor for the three and six months ended June 30, 2007 were \$408,072 and \$717,325, respectively.

No person who is an officer, director or employee of the Advisor and who serves as a director of the Company receives any compensation from the Company for such services. Directors who are not affiliated with the Advisor receive compensation for their services and reimbursement of expenses incurred to attend meetings.

The Company also has entered into an administration agreement with BlackRock Financial Management, Inc. (the "Administrator") under which the Administrator provides administrative services to the Company. For providing these services, facilities and personnel, 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 the Company's officers and their respective staffs. The PNC Financial Services Group, Inc. ("PNC") is a significant stockholder of the ultimate parent of the Administrator. For the three and six months ended June 30, 2008 the Company incurred \$248,418 and \$512,561, respectively, for administrative services expenses payable to the Administrator under the administration agreement. For the three and six months ended June 30, 2007, the Company incurred \$213,681 and \$388,681, respectively, in such expenses.

PNC Global Investment Servicing Inc. ("PGIS"), a subsidiary of PNC, provides administrative and accounting services to the Company pursuant to a Sub-Administration and Accounting Services Agreement. PFPC Trust Company, another subsidiary of PNC, provides custodian services to the Company pursuant to a Custodian Services Agreement. Also, PGIS provides transfer agency and compliance support services to the Company pursuant to a Transfer Agency Agreement and a Compliance Support Services Agreement, respectively. For the services provided to the Company by PGIS and its affiliates, PGIS is entitled to an annual fee of 0.02% of the Company's average net assets plus reimbursement of reasonable expenses, and a base fee, payable monthly. PFPC Trust Company may charge the Company additional fees for cash overdraft balances or for sweeping excess cash balances.

For the three and six months ended June 30, 2008 the Company incurred \$73,009 and \$122,334, respectively, for administrative, accounting, custodian and transfer agency services fees payable to PGIS and its affiliates under the related agreements. For the three and six months ended June 30, 2007, the Company incurred \$68,329 and \$127,032, respectively, for such fees payable to PGIS and its affiliates.

In November 2007, the Company's Board of Directors authorized the purchase by the Advisor from time to time in the open market of an indeterminate number of shares of the Company's common stock, in the Advisor's discretion, subject to compliance with the Company's and the Advisor's applicable policies and requirements of law. Pursuant to that authorization, during the six months ended June 30, 2008, the Advisor purchased 103,735 shares of the Company's common stock in the open market for \$1,228,448, excluding brokerage commissions.

In 2006, the Company's 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 the Company's 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 the Company's most recently determined net asset value per share at the time of sale. Pursuant to this authorization, during the six months ended June 30, 2007, the Company 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.

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In 2006, the Company's Board of Directors authorized the issuance and sale from time to time of an indeterminate number of shares of the Company's common stock to the Advisor at a price per share equal to the Company's 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 this authorization, during the six months ended June 30, 2007, the Company issued and sold to the Advisor in private placements 184,300 shares of common stock for aggregate proceeds of approximately \$2,791,000.

At June 30, 2008 and December 31, 2007, the Advisor owned directly approximately 380,000 and 276,000 shares, respectively, of the Company's common stock, representing 0.7% and 0.5% of the total shares outstanding. The Advisor's allocable portion of shares of the Company's common stock owned indirectly by an entity in which the Advisor holds a non-voting investment interest was approximately 1,342,000 and 854,000 shares at June 30, 2008 and December 31, 2007, 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 3.2% and 2.1% of the Company's total shares outstanding at June 30, 2008 and December 31, 2007, respectively. At June 30, 2008 and December 31, 2007, other entities affiliated with the Administrator and PGIS beneficially owned indirectly approximately 3,083,000 and 2,843,000 shares, respectively, of the Company's common stock, representing approximately 5.6% and 5.4% of the total shares outstanding. At June 30, 2008 and December 31, 2007, an entity affiliated with the Administrator and PGIS owned 36.5% of the members' interests of the Advisor.

In 2006, BlackRock, Inc. ("BlackRock") and Merrill Lynch & Co., Inc. ("Merrill Lynch") completed a merger of Merrill Lynch's investment management business, Merrill Lynch Investment Managers ("MLIM"), and BlackRock to create a new independent asset management company that operates under the BlackRock name. Pursuant to the underwriting agreement with respect to the Public Market Event, 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 the Company's 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, MLPF&S received approximately \$1,800,000 of the underwriting fee paid by the Company on July 2, 2007.

#### 4. Earnings (loss) per share

The following information sets forth the computation of basic and diluted net increase (decrease) in net assets per share (earnings (loss) per share) resulting from operations for the three and six months ended June 30, 2008 and 2007.

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Numerator for basic and diluted net increase (decrease) in net assets per share	\$ 11,859,334	\$ 12,623,533	\$ (27,614,180)	\$ 29,651,813
Denominator for basic and diluted weighted average shares	53,289,838	40,968,979	53,059,946	39,741,957
Basic/diluted net increase (decrease) in net assets per share resulting from operations	\$ 0.22	\$ 0.31	\$ (0.52)	\$ 0.75

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

#### 5. Investments

Purchases of long-term investments for the three months ended June 30, 2008 and 2007 totaled \$80,042,350 and \$297,210,707, respectively, and for the six months ended June 30, 2008 and 2007 totaled \$174,601,047 and \$511,089,886, respectively. Sales/repayments of long-term investments for the three months ended June 30, 2008 and 2007 totaled \$23,497,861 and \$166,539,550, respectively, and for six months ended June 30, 2008 and 2007 totaled \$51,483,558 and \$183,081,131, respectively.

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At June 30, 2008, investments consisted of the following:

	Cost	Fair Value
Senior secured notes	\$ 53,633,217	\$ 52,491,950
Unsecured debt	197,683,985	186,962,488
Subordinated debt	182,662,074	176,903,290
Senior secured loans:		
First lien	177,130,950	174,719,593
Second/other priority lien	593,811,356	520,697,836
Total senior secured loans	770,942,306	695,417,429
Preferred stock	32,015,902	5,724,780
Common stock	17,071,456	11,186,149
Limited partnership/limited liability company interests	31,176,538	25,816,629
Equity warrants/options	1,199,562	1,289,845
Total investments including unearned income	1,286,385,040	1,155,792,560
Unearned income	(6,583,468)	(6,583,468)
Total investments	<u>\$1,279,801,572</u>	<u>\$1,149,209,092</u>

At December 31, 2007, investments consisted of the following:

	Cost	Fair Value
Senior secured notes	\$ 45,277,111	\$ 44,827,111
Unsecured debt	182,812,287	180,326,699
Subordinated debt	109,618,146	108,820,676
Senior secured loans:		
First lien	181,045,458	181,279,860
Second/other priority lien	560,910,136	531,957,917
Total senior secured loans	741,955,594	713,237,777
Preferred stock	33,347,902	12,535,000
Common stock	16,071,456	12,284,089
Limited partnership/limited liability company interests	30,676,539	30,682,889
Equity warrants/options	1,199,562	1,130,402
Total investments including unearned income	1,160,958,597	1,103,844,643
Unearned income	(5,583,857)	(5,583,857)
Total investments	<u>\$1,155,374,740</u>	<u>\$1,098,260,786</u>

The industry composition of the portfolio at fair value at June 30, 2008 and December 31, 2007 was as follows:

Industry	June 30, 2008	December 31, 2007
Printing, Publishing and Media	10.9%	12.5%
Other Services	10.4	10.9
Business Services	9.9	10.6
Consumer Products	9.1	10.4
Healthcare	7.4	6.1
Manufacturing	7.0	8.1
Electronics	6.0	4.9
Retail	5.6	4.8
Beverage, Food and Tobacco	5.2	6.8
Chemicals	4.9	4.0
Transportation	4.3	4.0
Distribution	3.9	2.3
Metals	3.8	1.4
Entertainment and Leisure	3.7	5.2

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<u>Industry</u>	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Utilities	2.9	3.1
Finance	2.7	1.5
Containers and Packaging	1.9	2.7
Building and Real Estate	0.4	0.7
Total	<u>100.0%</u>	<u>100.0%</u>

### 6. Foreign Currency Transactions

We may enter into forward foreign currency contracts from time to time to facilitate settlement of purchases and sales of investments denominated in foreign currencies or to help mitigate the impact that an adverse change in foreign exchange rates would have on the value of our investments denominated in foreign currencies. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date (usually the security transaction settlement date) at a negotiated forward rate. Risks may arise as a result of the potential inability of the counterparties to meet the terms of their contracts. Details of open forward foreign currency contracts at June 30, 2008 and at December 31, 2007, respectively, were as follows:

<u>Foreign Currency</u>	<u>Settlement Date</u>	<u>Amount and Transaction</u>	<u>US\$ Value at Settlement Date</u>	<u>US\$ Value at June 30, 2008</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Euro	July 23, 2008	11,400,000 Sold	\$ 17,939,006	\$ 17,917,592	\$ 21,414
Canadian dollar	July 23, 2008	18,650,000 Sold	18,567,726	18,312,726	255,000
Canadian dollar	July 23, 2008	13,409,000 Sold	13,139,341	13,166,507	(27,166)
Total			<u>\$ 49,646,073</u>	<u>\$ 49,396,825</u>	<u>\$ 249,248</u>

<u>Foreign Currency</u>	<u>Settlement Date</u>	<u>Amount and Transaction</u>	<u>US\$ Value at Settlement Date</u>	<u>US\$ Value at December 31, 2007</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Euro	January 23, 2008	11,000,000 Sold	\$ 15,485,448	\$ 16,058,413	\$ (572,965)
Canadian dollar	January 23, 2008	19,750,000 Sold	20,045,552	19,924,531	121,021
Total			<u>\$ 35,531,000</u>	<u>\$ 35,982,944</u>	<u>\$ (451,944)</u>

### 7. Credit agreement and borrowings

In accordance with the 1940 Act, with certain limited exceptions, the Company is only permitted to borrow such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. On December 28, 2007, the Company amended and restated its Senior Secured, Multi-Currency Credit Agreement (the "Credit Agreement"). Under the amended Credit Agreement, the lenders agreed to extend credit to the Company in an aggregate principal amount not to exceed \$600 million outstanding, at any one time, consisting of \$455 million in revolving loan commitments and \$145 million in term loan commitments. Total revolving loan commitments reverted to \$400 million on April 14, 2008. The Credit Agreement has a stated maturity date of December 6, 2010 and is secured by substantially all of the assets in the Company's portfolio, including cash and cash equivalents. The term loans under the facility mature on the termination date of the Credit Agreement, have been fully drawn and, once repaid, may not be reborrowed. Subject to certain exceptions, the interest rate payable under the facility is LIBOR plus 87.5 basis points with respect to revolving loans and LIBOR plus 150 basis points with respect to term loans. The Credit Agreement also includes an "accordion" feature that allows the Company to increase the size of the credit facility under certain circumstances to a maximum of \$1 billion with respect to the revolving loans and \$395 million with respect to the term loans. The Credit Agreement is used to supplement the Company's equity capital to make additional portfolio investments and for other general corporate purposes.

At June 30, 2008, the Company had \$484,000,000 drawn on the credit facility, consisting of \$339,000,000 under the revolving loan commitments and \$145,000,000 under the term loan commitments. At December 31, 2007, the Company had \$381,300,000 drawn on the credit facility, consisting of \$236,300,000 under the revolving loan commitments and \$145,000,000 under the term loan commitments. The weighted average annual interest cost for the three and six months ended June 30, 2008 was 3.82% and 4.39%, respectively, exclusive of 0.175% in commitment fees on undrawn amounts and of other prepaid expenses related to establishing the credit facility.

The average debt outstanding on the credit facility during the three and six months ended June 30, 2008 was \$445,618,639 and \$427,958,978, respectively. The maximum amount borrowed during the three and six months ended June 30, 2008 was \$484,000,000 and during the three and six months ended June 30, 2007 was \$430,803,995. The remaining amount available under the facility was \$61,000,000 at June 30, 2008.

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At June 30, 2008, the Company was in compliance with all financial and operational covenants required by the Credit Agreement.

### 8. Commitments and contingencies

At December 31, 2007, the Company had a commitment outstanding to make an equity investment of up to \$2,500,000 in an existing portfolio company, which commitment was funded in January 2008. The Company had no such commitments outstanding at June 30, 2008.

In the normal course of business, the Company enters into contractual agreements that provide general indemnifications against losses, costs, claims and liabilities arising from the performance of individual obligations under such agreements. The Company has had no prior claims or payments pursuant to such agreements. The Company's individual maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on management's experience, the Company expects the risk of loss to be remote.

### 9. Fair value of financial instruments

The carrying values of the Company's financial instruments approximate fair value. The carrying values of receivables, other assets, accounts payable and accrued expenses approximate fair value due to their short maturities. The carrying value of the Company's credit facility payable approximates fair value because it bears interest at a variable rate, based on current market.

For cash and cash equivalents, foreign currency, investments and forward foreign currency transactions, effective January 1, 2008, the Company adopted SFAS 157. SFAS 157 defines fair value as the price that the Company would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment. SFAS 157 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

SFAS 157 establishes a hierarchy that classifies these inputs into the three broad levels listed below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by its Board of Directors that is consistent with SFAS 157 (see Note 2). Consistent with this valuation policy, the Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

The following table summarizes the fair values of the Company's cash and cash equivalents, foreign currency, investments and forward foreign currency transactions based on the inputs used as of June 30, 2008 in determining such fair values:

<u>Valuation Inputs</u>	<u>Cash and Cash Equivalents</u>	<u>Foreign Currency</u>	<u>Investments</u>	<u>Forward Foreign Currency Contracts</u>
Level 1 - Price quotations	\$ 4,731,097	\$204,179	\$ —	\$ —
Level 2 - Significant other observable inputs	—	—	496,593,877	249,248
Level 3 - Significant unobservable inputs	—	—	652,615,215	—
Total Fair Value	<u>\$ 4,731,097</u>	<u>\$204,179</u>	<u>\$1,149,209,092</u>	<u>\$ 249,248</u>

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The following are reconciliations for the three and six months ended June 30, 2008, respectively, of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>Investments</u>
Fair value at March 31, 2008	\$578,789,707
Amortization of premium/discount - net	355,701
Net realized gain	130,971
Net change in unrealized appreciation or depreciation	(8,471,411)
Net purchases, sales or redemptions	48,690,350
Net transfers in or out of Level 3	33,119,897
Fair value at June 30, 2008	<u>\$652,615,215</u>
Fair value at December 31, 2007	\$559,803,995
Amortization of premium/discount - net	738,294
Net realized gain	163,334
Net change in unrealized appreciation or depreciation	(24,426,458)
Net purchases, sales or redemptions	63,670,678
Net transfers in or out of Level 3	52,665,372
Fair value at June 30, 2008	<u>\$652,615,215</u>

All realized and unrealized gains and losses are included in earnings (changes in net assets) and are reported as separate line items within the Company's statements of operations. Transfers in or out of Level 3 represents the value of any investment where a change in the pricing level occurred from the beginning to the end of the period. For the three and six months ended June 30, 2008, the net change in unrealized appreciation or depreciation on investments for which significant unobservable inputs (Level 3) were used in determining fair value that are still held by the Company as of June 30, 2008 was \$(8,340,440) and \$(24,263,124), respectively. At June 30, 2008 and December 31, 2007, the net unrealized depreciation on the investments that use Level 3 inputs was \$49,734,183 and \$25,307,726, respectively.

At June 30, 2008 and December 31, 2007, the aggregate fair value of the investments that use Level 3 inputs represented 97.1% and 76.9%, respectively, of net assets.

## 10. Financial highlights

The following per share data and ratios have been derived from information provided in the financial statements. The following is a schedule of financial highlights for a common share outstanding during the six months ended June 30, 2008 and 2007.

	<u>Six months ended June 30, 2008</u>	<u>Six months ended June 30, 2007</u>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 13.78	\$ 14.93
Net investment income	0.88	0.79
Net realized and unrealized gain (loss)	(1.40)	(0.04)
Total from investment operations	(0.52)	0.75
Dividend distributions to stockholders from net investment income	(0.86)	(0.84)
Effect of anti-dilution (dilution)	(0.09)	0.23
Offering costs	—	(0.19)
Net decrease in net assets	(1.47)	(0.05)
Net asset value, end of period	<u>\$ 12.31</u>	<u>\$ 14.88</u>
Market price, end of period(1)	<u>\$ 9.46</u>	<u>\$ 14.75</u>
Total return based on market value(2)(3)	(32.67)%	—
Total return based on net asset value(2)(3)	(2.91)%	5.34%
<b>Ratios / Supplemental Data:</b>		
Ratio of operating expenses to average net assets(4)(5)	4.13%	5.76%
Ratio of credit facility related expenses to average net assets(4)	2.85%	3.04%
Ratio of total expenses to average net assets(4)(5)	6.98%	8.80%
Ratio of net investment income to average net assets(4)	13.47%	10.27%
Net assets, end of period	\$ 672,186,111	\$ 761,180,089
Average debt outstanding	\$ 427,958,978	\$ 274,741,110
Weighted average shares outstanding	53,059,946	39,741,957
Average debt per share(6)	\$ 8.07	\$ 6.91
Portfolio turnover(3)	5%	20%

(1) The Company's common stock commenced trading on The NASDAQ Global Select Market on June 27, 2007. There was no established public trading market for the stock prior to that date.



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- (2) Total return was calculated based on the change in market value per share or net asset value per common share during the period, as indicated. Total return calculations take into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan and do not reflect brokerage commissions.
- (3) Not annualized.
- (4) Annualized.
- (5) For the six months ended June 30, 2008 and 2007, the ratio of operating expenses before management fee waiver to average net assets is 4.13% and 6.43%, respectively, and the ratio of total expenses before management fee waiver to average net assets is 6.98% and 9.47%, respectively.
- (6) Average debt per share is calculated as average debt outstanding divided by the weighted average shares outstanding during the period.

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

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

#### **Overview**

We were incorporated in Delaware on April 13, 2005 and were initially funded on July 25, 2005 via a private placement of our common stock. Our investment objective is to provide a combination of current income and capital appreciation. We intend to invest primarily in debt and equity securities of private and certain public U.S. middle-market companies.

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

On July 2, 2007, we completed an initial public offering through which we sold an additional 10,000,000 shares of our common stock at a price of \$16.00 per share and listed our shares on The NASDAQ Global Select Market (collectively, the "Public Market Event").

#### **Investments**

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

As a BDC, we must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in "eligible portfolio companies." Under the relevant SEC rules, the term "eligible portfolio company" includes all private companies and companies whose securities are not listed on a national securities exchange. These rules also permit us to include as qualifying assets certain follow-on investments in companies that were eligible portfolio companies at the time of initial investment but that no longer meet the definition.

The SEC recently adopted a rule under the 1940 Act to further expand the definition of eligible portfolio company to include certain public companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million. The new rule became effective on July 21, 2008. We will



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continue to monitor closely any developments with respect to the definition of an eligible portfolio company and intend to adjust our investment focus as needed to comply with and/or take advantage of the new rule, as well as any other regulatory, legislative, administrative or judicial actions in this area.

### **Revenues**

We generate revenues primarily in the form of interest on the debt we hold, dividends on our equity interests and capital gains on the sale of warrants and other debt or equity interests that we acquire in portfolio companies. Our investments in fixed income instruments generally have an expected maturity of three to ten years, although we have no lower or upper constraint on maturity, and our debt investments bear interest at a fixed or floating rate. Interest on our debt investments is generally payable quarterly or semi-annually. Payments of principal of our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt instruments and preferred stock investments may defer payments of cash interest or dividends or pay interest or dividends in-kind. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of prepayment fees, commitment, origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

### **Expenses**

Our primary operating expenses include the payment of a base management fee and, depending on our operating results, an incentive management fee, expenses reimbursable under the management agreement, administration fees and the allocable portion of overhead under the administration agreement. The base management fee and incentive management fee compensate the Advisor for work in identifying, evaluating, negotiating, closing and monitoring our investments. Our management agreement with the Advisor provides that we 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 the management 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 us. We bear all other costs and expenses of our operations and transactions.

### **Critical accounting policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. Our critical accounting policies are further described in the notes to the financial statements and in Note 2 to the financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

### **Recently issued accounting pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. The Company adopted SFAS 157 on January 1, 2008. The adoption of SFAS 157 did not have a material impact on the Company's financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which is effective for fiscal years beginning after November 15, 2008. SFAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. The Company is currently evaluating the impact of adopting SFAS 161 on its financial statements. At this time, the impact on the Company's financial statements has not been determined.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

## Portfolio and investment activity

During the quarter ended June 30, 2008, we invested approximately \$80.0 million across two new and three existing portfolio companies. The new investments consisted primarily of senior loans secured by first liens (\$14.4 million, or 18%) or second liens (\$9.0 million, or 11% of the total), unsecured or subordinated debt securities (\$55.3 million, or 69%), senior secured notes (\$0.3 million, or less than 1%) and equity securities (\$1.0 million, or 1%). Additionally, we received proceeds from sales/repayments of principal of approximately \$23.5 million during the quarter ended June 30, 2008.

At June 30, 2008, our portfolio of \$1.15 billion (at fair value) consisted of 64 portfolio companies and was invested 60% in senior secured loans, 31% in unsecured or subordinated debt securities, 5% in senior secured notes, 4% in equity investments and less than 1% in cash, cash equivalents and foreign currency. Our average portfolio company investment by value was approximately \$18.0 million. Our largest portfolio company investment by value was approximately \$49.8 million and our five largest portfolio company investments by value comprised approximately 18% of our portfolio at June 30, 2008. At December 31, 2007, our portfolio of \$1.10 billion (at fair value) consisted of 60 portfolio companies and was invested 64% in senior secured loans, 26% in unsecured or subordinated debt securities, 5% in equity investments, 4% in senior secured notes and approximately 1% in cash, cash equivalents and foreign currency. Our average portfolio company investment by value was approximately \$18.3 million at December 31, 2007. Our largest portfolio company investment by value was approximately \$44.9 million and our five largest portfolio company investments by value comprised approximately 20% of our portfolio at December 31, 2007.

Our weighted average yield of the debt and income producing equity securities in our portfolio was 11.3% at June 30, 2008 and 12.4% at December 31, 2007. The weighted average yields on our senior secured loans and other debt securities were 10.3% and 12.8%, respectively, at June 30, 2008, versus 11.9% and 13.3%, respectively, at December 31, 2007. Yields are computed using interest rates and dividend yields as of the balance sheet date and include amortization of loan origination and commitment fees, original issue discount and market premium or discount, weighted by the amortized cost of the respective investment. Yields exclude common equity investments, preferred equity investments with no stated dividend rate, short-term investments, cash, cash equivalents and foreign currency.

At June 30, 2008, 48% of our debt investments bore interest based on floating rates, such as LIBOR, EURIBOR, the Federal Funds Rate or the Prime Rate, and 52% bore interest at fixed rates. At December 31, 2007, 60% of our debt investments bore interest based on floating rates and 40% bore interest at fixed rates.

The Advisor employs a grading system for our entire portfolio. The Advisor grades all loans on a scale of 1 to 4. This system is intended to reflect the performance of the borrower's business, the collateral coverage of the loans and other factors considered relevant. Generally, the Advisor assigns only one loan grade to each portfolio company for all loan investments in that portfolio company; however, the Advisor will assign multiple ratings when appropriate for different investments in one portfolio company. The following is a description of the conditions associated with each investment rating:

**Grade 1:** Investments in portfolio companies whose performance is substantially within the Advisor's expectations and whose risk factors are neutral to favorable to those at the time of the original investment.

**Grade 2:** Investments in portfolio companies whose performance is below the Advisor's expectations and that require closer monitoring; however, no loss of investment return (interest and/or dividends) or principal is expected.

**Grade 3:** Investments in portfolio companies whose performance is below the Advisor's expectations and for which risk has increased materially since origination. Some loss of investment return is expected, but no loss of principal is expected. Companies graded 3 will generally be out of compliance with debt covenants and will be unlikely to make debt repayments on their original schedule.

**Grade 4:** Investments in portfolio companies whose performance is materially below the Advisor's expectations where business trends have deteriorated and risk factors have increased substantially since the original investment. Investments graded 4 are those for which some loss of principal is expected.

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The Advisor monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, the Advisor and our Board of Directors review these investment ratings on a quarterly basis. Our average investment rating was 1.32 at June 30, 2008. The following is a distribution of the investment ratings of our portfolio companies as of June 30, 2008 and December 31, 2007:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Grade 1	\$ 856,260,053	\$ 910,545,131
Grade 2	252,403,408	154,212,434
Grade 3	21,953,278	17,888,578
Grade 4	25,175,821	21,198,500
Total investments including unearned income	1,155,792,560	1,103,844,643
Unearned income	(6,583,468)	(5,583,857)
Total investments	<u>\$1,149,209,092</u>	<u>\$1,098,260,786</u>

### Results of operations

*Operating results for the three months ended June 30, 2008 as compared to June 30, 2007*

#### **Investment income**

Investment income totaled \$34,873,936 and \$33,207,565, respectively, for the three months ended June 30, 2008 and 2007, of which \$21,251,008 and \$24,153,242 were attributable to interest and fees on senior secured loans, \$12,966,651 and \$8,547,392 to interest earned on other debt securities, \$646,119 and \$480,200 to dividends from preferred equity securities, \$8,408 and \$21,731 to interest earned on short-term investments and cash equivalents, and \$1,750 and \$5,000 to other income, respectively. The increase in investment income compared to the prior period reflects the growth of our portfolio as a result of the deployment of debt capital under our Credit Facility and equity capital from our initial public offering in July 2007. Total investments and borrowings increased to \$1,149,209,092 and \$484,000,000, respectively, at June 30, 2008, compared to \$1,081,322,108 and \$430,803,995 at June 30, 2007. Many of our floating rate debt investments bear interest based on LIBOR. Investment income increased despite lower prevailing levels of LIBOR compared to the prior period, as fixed rate instruments as a percentage of our debt investments increased to 52% at June 30, 2008 from 36% at June 30, 2007.

#### **Expenses**

Net expenses for the three months ended June 30, 2008 and 2007 were \$11,610,343 and \$15,849,392, respectively, which consisted of \$5,583,589 and \$3,400,913 in base management fees (net of base management fee waivers of \$0 and \$1,133,638, respectively), \$0 and \$5,831,674 in incentive management fees due to the Advisor, \$311,998 and \$259,773 in administrative services expenses, \$240,141 and \$396,195 in professional fees, \$98,235 and \$66,667 in director fees, \$263,951 and \$194,174 in Advisor expenses, \$138,853 and \$48,844 in insurance expenses, \$4,292,574 and \$5,434,516 in interest expense and fees related to the Credit Facility, \$167,230 and \$82,264 in amortization of debt issuance costs, and \$513,772 and \$134,372 in other expenses, respectively. No incentive management fees were incurred during the most recent period due primarily to the increase in unrealized depreciation on investments. In comparison to the prior period, interest expense and fees related to the Credit Facility declined due to lower prevailing levels of LIBOR. Professional fees declined due to efficiencies achieved in connection with management's evaluation and testing of internal controls and procedures. The increase in general and administrative expenses other than professional fees reflects the growth of our portfolio and higher costs associated with being a publicly-traded company following the Public Market Event.

#### **Net investment income**

Net investment income was \$23,263,593 and \$17,358,173, respectively, for the three months ended June 30, 2008 and 2007 (which amounts would have been \$23,263,593 and \$16,224,535, respectively, without base management fee waivers). The increase was primarily due to portfolio growth and the benefits of leverage from increased borrowings under our Credit Facility.

#### **Net realized gain or loss**

Net realized loss of \$(1,518,453) for the three months ended June 30, 2008 was the result of \$211,059 in net gains realized from the disposition of investments and \$(1,729,512) in net losses realized on foreign currency transactions during the period. For the three months ended June 30, 2007, the net realized gain was \$469,187.

#### **Net unrealized appreciation or depreciation**

For the three months ended June 30, 2008 and 2007, the change in net unrealized appreciation or depreciation was an increase in net unrealized depreciation of \$(9,885,806) and \$(5,203,827), respectively. For the three months ended June 30, 2008, the increase in net unrealized depreciation was comprised of an increase in net unrealized depreciation on investments of \$(11,471,395) and an increase in net unrealized appreciation on foreign currency translation of \$1,585,589. For the three months

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ended June 30, 2007, the increase in net unrealized depreciation was comprised of an increase in net unrealized depreciation on investments of \$(5,611,947) and an increase in net unrealized appreciation on foreign currency translation of \$408,120. The net change in unrealized appreciation or depreciation was primarily a result of declines in market quotations for the quoted investments in our portfolio, as well as reductions in the valuations of several unquoted investments, including Tygem Holdings, Inc. We believe the declines in valuations of our investments are due primarily to instability of the credit markets and changes in the current interest rate environment. The unrealized depreciation on investments does not have an impact on our current ability to pay distributions to stockholders.

### ***Net increase in net assets resulting from operations***

The net increase in net assets resulting from operations for the three months ended June 30, 2008 and 2007 was \$11,859,334 and \$12,623,533, respectively. As compared to the prior period, the decrease primarily reflects the increase in net unrealized depreciation on investments.

### ***Operating results for the six months ended June 30, 2008 as compared to June 30, 2007***

#### ***Investment income***

Investment income totaled \$70,568,453 and \$58,259,795, respectively, for the six months ended June 30, 2008 and 2007, of which \$43,962,023 and \$42,514,687 were attributable to interest and fees on senior secured loans, \$25,065,282 and \$14,801,569 to interest earned on other debt securities, \$1,521,753 and \$740,677 to dividends from preferred equity securities, \$17,099 and \$184,367 to interest earned on short-term investments and cash equivalents, and \$2,296 and \$18,495 to other income, respectively. The increase in investment income compared to the prior period reflects the growth of our portfolio as a result of the deployment of debt capital under our Credit Facility and equity capital from our initial public offering in July 2007. Total investments and borrowings increased to \$1,149,209,092 and \$484,000,000, respectively, at June 30, 2008, compared to \$1,081,322,108 and \$430,803,995 at June 30, 2007.

#### ***Expenses***

Net expenses for the six months ended June 30, 2008 and 2007 were \$24,090,853 and \$26,887,249, respectively, which consisted of \$11,150,449 and \$6,170,719 in base management fees (net of base management fee waivers of \$0 and \$2,056,907, respectively), \$0 and \$9,524,323 in incentive management fees due to the Advisor, \$605,433 and \$478,476 in administrative services expenses, \$838,471 and \$542,786 in professional fees, \$192,735 and \$130,172 in director fees, \$538,849 and \$390,267 in Advisor expenses, \$276,436 and \$89,775 in insurance expenses, \$9,506,631 and \$9,149,321 in interest expense and fees related to the Credit Facility, \$333,425 and \$144,969 in amortization of debt issuance costs, and \$648,424 and \$266,441 in other expenses, respectively. In comparison to the prior period, incentive management fees decreased primarily due to the increase in unrealized depreciation on investments. The increase in other expenses reflects the growth of our portfolio and higher costs associated with being a publicly-traded company following the Public Market Event.

#### ***Net investment income***

Net investment income was \$46,477,600 and \$31,372,546, respectively, for the six months ended June 30, 2008 and 2007 (which amounts would have been \$46,477,600 and \$29,315,639, respectively, without base management fee waivers). The increase was primarily due to portfolio growth and the benefits of leverage from increased borrowings under our Credit Facility.

#### ***Net realized gain or loss***

Net realized loss of \$(1,312,938) for the six months ended June 30, 2008 was the result of \$239,422 in net gains realized from the disposition of investments and \$(1,552,360) in net losses realized on foreign currency transactions during the period. For the six months ended June 30, 2007, the net realized gain was \$276,312.

#### ***Net unrealized appreciation or depreciation***

For the six months ended June 30, 2008 and 2007, the change in net unrealized appreciation or depreciation was an increase in net unrealized depreciation of \$(72,778,842) and \$(1,997,045), respectively. For the six months ended June 30, 2008, the increase in net unrealized depreciation was comprised of an increase in net unrealized depreciation

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on investments of \$(73,478,528) and an increase in net unrealized appreciation on foreign currency translation of \$699,686. For the six months ended June 30, 2007, the increase in net unrealized depreciation was comprised of an increase in net unrealized depreciation on investments of \$(2,434,635) and an increase in net unrealized appreciation on foreign currency translation of \$437,590. The net change in unrealized appreciation or depreciation was primarily a result of declines in market quotations for the quoted investments in our portfolio, as well as reductions in the valuations of several unquoted investments, including Tygem Holdings, Inc. We believe the declines in valuations of our investments are due primarily to instability of the credit markets and changes in the current interest rate environment. The unrealized depreciation on investments does not have an impact on our current ability to pay distributions to stockholders.

### ***Net increase (decrease) in net assets resulting from operations***

The net increase (decrease) in net assets resulting from operations for the six months ended June 30, 2008 and 2007 was \$(27,614,180), and \$29,651,813, respectively. As compared to the prior period, the decrease primarily reflects the increase in net unrealized depreciation on investments.

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

During the six months ended June 30, 2008, we generated operating cash flows primarily from interest earned and fees received on senior secured loans and other debt securities, and from sales of selected portfolio company investments or repayments of principal, as well as from dividends earned on preferred equity investments.

Our primary uses of funds from operations during the six months ended June 30, 2008 consisted of investments in portfolio companies (net of sales and repayments) of \$123,117,489, base management fees of \$11,150,449 and interest and fees incurred on Credit Facility borrowings of \$9,506,631.

Our operating activities resulted in a net use of cash of \$71,344,414 for the six months ended June 30, 2008.

On December 28, 2007, we amended and restated our senior secured, multi-currency Credit Facility to provide us with \$600,000,000 in total availability, consisting of \$455,000,000 in revolving loan commitments and \$145,000,000 in term loan commitments. Total revolving loan commitments reverted to \$400,000,000 on April 14, 2008. Subject to certain conditions, we have the ability in the future to seek additional commitments from new and existing lenders up to an aggregate amount not to exceed \$1,000,000,000 with respect to revolving loans and \$395,000,000 with respect to term loans. The interest rate applicable to borrowings under the Credit Facility is LIBOR plus 87.5 basis points with respect to revolving loans and LIBOR plus 150 basis points with respect to term loans. The term loans mature on December 6, 2010, the termination date of the Credit Facility, and term loans, once repaid, may not be reborrowed. The Credit Facility will continue to be used to supplement our equity capital to make additional portfolio investments and for general corporate purposes. At June 30, 2008, we had \$484,000,000 drawn and outstanding under the Credit Facility, with \$61,000,000 available to us.

Our financing activities resulted in a net inflow of cash of \$70,997,816 for the six months ended June 30, 2008, primarily from net borrowings under our Credit Facility.

At June 30, 2008, we had \$4,731,097 in cash and cash equivalents. In addition, we had \$204,179 in foreign currency at that date.

On April 24, 2008, at our 2008 Annual Meeting of Stockholders, the holders of our common stock approved a proposal that would enable us, in one or more public or private offerings and with approval of our Board of Directors and subject to certain other conditions, to sell or otherwise issue shares of our common stock at a price below its then current net asset value. The authorization is effective for a period expiring on the earlier of April 24, 2009 or the date of our 2009 Annual Meeting of Stockholders, which is expected to be held in May 2009. Our Board of Directors has adopted a policy to limit our ability to sell common stock at a price below net asset value to circumstances in which the price per share of our common stock is equal to 95% or greater of its net asset value per share in effect on the date any such sale is priced.

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### **Contractual Obligations**

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings under our Credit Facility at June 30, 2008 is as follows:

	Payments Due By Period (dollars in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Credit Facility Payable(1)	\$484	\$ —	\$ 484	\$ —	\$ —

(1) At June 30, 2008, \$61 million remained unused under our Credit Facility.

### **Off-Balance sheet financing**

At December 31, 2007, our only off-balance sheet contractual obligation or arrangement consisted of a commitment to make an equity investment of up to \$2.5 million in an existing portfolio company, which commitment was funded in January 2008. We had no off-balance sheet contractual obligations or arrangements at June 30, 2008.

### **Dividends**

We intend to distribute quarterly dividends to our stockholders. Our quarterly dividends are determined by our Board of Directors. Dividends declared by the Company since July 25, 2005 (inception of operations) have been as follows:

Dividend Amount Per Share Outstanding	Record Date	Pay Date
\$0.20	December 31, 2005	January 31, 2006
\$0.20	March 15, 2006	June 30, 2006
\$0.23	June 15, 2006	June 30, 2006
\$0.30	September 15, 2006	September 29, 2006
\$0.42	December 31, 2006	January 31, 2007
\$0.42	March 15, 2007	March 30, 2007
\$0.42	May 15, 2007	May 31, 2007
\$0.42	September 14, 2007	September 28, 2007
\$0.43	December 14, 2007	December 31, 2007
\$0.43	March 17, 2008	June 30, 2008
\$0.43	June 16, 2008	June 30, 2008
\$0.43	September 15, 2008	September 30, 2008

Tax characteristics of all dividends are reported to stockholders on Form 1099 after the end of the calendar year.

The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Code, and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from federal income and excise taxes. Therefore, no provision has been recorded for federal income or excise taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on estimated excess taxable income as required.

In order to qualify for favorable tax treatment as a RIC, the Company is required to distribute annually to its stockholders at least 90% of investment company taxable income, as defined by the Code. To avoid federal excise taxes, the Company must distribute annually at least 98% of its income (both ordinary income and net capital gains).

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Dividends reinvested pursuant to our dividend reinvestment plan totaled \$17,231,470 for the six months ended June 30, 2008, versus \$48,820,270 for the six months ended June 30, 2007. Pursuant to our dividend reinvestment plan, the dividend reinvestment price for the dividend paid to stockholders on June 30, 2008 was 95% of the closing market price of our common stock on that date, or \$8.987 per common share, which was less than our net asset value. Reinvestment at this price resulted in dilution of our net asset value of approximately \$0.09 per share at June 30, 2008.

With respect to the dividends paid to stockholders, income we receive from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to stockholders. For the three and six months ended June 30, 2008, these fees totaled \$1,734,438 and \$2,571,938, respectively. For the three and six months ended June 30, 2007, such fees totaled \$2,499,512 and \$3,793,262, respectively. We anticipate earning additional upfront fees in the future and such fees may cause our taxable income to exceed our GAAP income, although the differences are expected to be temporary in nature.

## Recent developments

On June 22, 2008, the owners of the Advisor amended its limited liability operating agreement to reduce the voting power of certain of its owners, which may enable us to enter into transactions with persons that previously would have been considered affiliated persons. The amendment may have been deemed to cause an "assignment," as defined in the 1940 Act, of our investment management agreement and such an assignment results in termination of the agreement under the 1940 Act. Pursuant to the approval of our Board of Directors at an in-person meeting on March 5, 2008 and of our stockholders at our Annual Meeting of Stockholders on March 27, 2007, we have entered into a new investment management agreement, the terms of which are identical to the previous investment management agreement, except for the date of the agreement and the expiration of its initial term. The date of the new agreement is June 22, 2008 and its initial term expires on June 22, 2010.

On August 7, 2008, our Board of Directors declared a dividend of \$0.43 per share, payable on September 30, 2008 to stockholders of record at the close of business on September 15, 2008.

On August 7, 2008, our Board of Directors approved a share repurchase plan under which we may repurchase up to 2.5% of our outstanding shares of common stock from time to time in open market or privately negotiated transactions. The repurchase plan does not obligate us to acquire any specific number of shares and may be discontinued at any time. We intend to fund any repurchases with available cash. The repurchase plan is expected to be in effect through the earlier of June 30, 2009 or until the approved number of shares have been repurchased.

On August 7, 2008, we adopted certain amendments to our by-laws to comply with requirements of The NASDAQ Global Select Market with respect to our ability to issue common stock in uncertificated form and to clarify our named officer positions.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates. At June 30, 2008, 48% of our debt investments bore interest based on floating rates, such as LIBOR, EURIBOR, the Federal Funds Rate or the Prime Rate. The interest rates on such investments generally reset by reference to the current market index after one to six months.

To illustrate the potential impact of changes in interest rates, we have performed the following analysis based on our June 30, 2008 balance sheet and assuming no changes in our investment structure. Net asset value is analyzed using the assumptions that interest rates, as defined by the LIBOR and U.S. Treasury yield curves, increase or decrease and that the yield curves of the rate shocks will be parallel to each other. Under this analysis, an instantaneous 100 basis point increase in LIBOR and U.S. Treasury yields would cause a decline of approximately \$14,400,000, or \$0.27 per share, in the value of our net assets at June 30, 2008 and a corresponding 100 basis point decrease in LIBOR and U.S. Treasury yields would cause an increase of approximately \$14,000,000, or \$0.26 per share, in the value of our net assets on that date.

While hedging activities may help to insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the three and six months ended June 30, 2008 and 2007, we did not engage in any interest rate hedging activity.

## Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

There have been no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We and the Advisor are not currently subject to any material legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in our most recent Form 10-K filing.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.



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**Item 6. Exhibits.**

**(a) Exhibits.**

- 3.3 Amended and Restated By-Laws of the Registrant.
- 10.1 Investment Management Agreement between the Registrant and BlackRock Kelso Capital Advisors LLC.
- 31.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

BLACKROCK KELSO CAPITAL CORPORATION

Date: August 8, 2008

By: /s/ James R. Maher  
James R. Maher  
Chief Executive Officer

Date: August 8, 2008

By: /s/ Frank D. Gordon  
Frank D. Gordon  
Chief Financial Officer

**AMENDED AND RESTATED  
BY-LAWS  
OF  
BLACKROCK KELSO CAPITAL CORPORATION**

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BLACKROCK KELSO CAPITAL CORPORATION  
BY-LAWS

These By-Laws are made and adopted pursuant to the Certificate of Incorporation establishing BlackRock Kelso Capital Corporation (hereinafter the "BDC"), dated as of April 13, 2005, as from time to time amended (hereinafter the "Certificate"). All words and terms capitalized in these By-Laws shall have the meaning or meanings set forth for such words or terms in the Certificate.

ARTICLE I

SHAREHOLDER MEETINGS

1.1 Place. All meetings of stockholders shall be held at the principal executive office of the BDC or at such other place as shall be set by the Board of Directors and stated in the notice of the meeting.

1.2 Annual Meeting. An annual meeting of the stockholders for the election of directors and the transaction of any business within the powers of the BDC shall be held on a date and at the time set by the Board of Directors.

1.3 Notice. Not less than ten nor more than 60 days before each meeting of stockholders, the secretary shall give to each stockholder entitled to vote at such meeting and to each stockholder not entitled to vote who is entitled to notice of the meeting written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called, either by mail, by presenting it to such stockholder personally, by leaving it at the stockholder's residence or usual place of business or by any other means permitted by Delaware law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at the stockholder's address as it appears on the records of the BDC, with postage thereon prepaid.

Any business of the BDC may be transacted at an annual meeting of stockholders without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice. No business shall be transacted at a special meeting of stockholders except as specifically designated in the notice.

1.4 Chairman. The Chairman shall act as chairman at all meetings of the Shareholders; in the Chairman's absence, the Director or Directors present at each meeting may elect a temporary chairman for the meeting, who may be one of themselves.

1.5 Proxies; Voting. Shareholders may vote either in person or by duly executed proxy and each full share represented at the meeting shall have one vote, all as provided in Article IV of the Certificate.

1.6 Inspectors of Election. In advance of any meeting of Shareholders, the Directors may appoint Inspectors of Election to act at the meeting or any adjournment thereof. If

Inspectors of Election are not so appointed, the Chairman of any meeting of Shareholders may, and on the request of any Shareholder or Shareholder proxy shall, appoint Inspectors of Election of the meeting. The number of Inspectors of Election shall be either one or three. If appointed at the meeting on the request of one or more Shareholders or proxies, a majority of Shares present shall determine whether one or three Inspectors of Election are to be appointed, but failure to allow such determination by the Shareholders shall not affect the validity of the appointment of Inspectors of Election. In case any person appointed as Inspector of Election fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Directors in advance of the convening of the meeting or at the meeting by the person acting as chairman. The Inspectors of Election shall determine the number of Shares outstanding, the Shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, shall receive votes, ballots or consents, shall hear and determine all challenges and questions in any way arising in connection with the right to vote, shall count and tabulate all votes or consents, determine the results, and do such other acts as may be proper to conduct the election or vote with fairness to all Shareholders. If there are three Inspectors of Election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. On request of the Chairman of the meeting, or of any Shareholder or Shareholder proxy, the Inspectors of Election shall make a report in writing of any challenge or question or matter determined by them and shall execute a certificate of any facts found by them.

1.7 Records at Shareholder Meetings. At each meeting of the Shareholders, there shall be made available for inspection at a convenient time and place during normal business hours, if requested by Shareholders, the minutes of the last previous Annual or Special Meeting of Shareholders of the BDC and a list of the Shareholders of the BDC, as of the record date of the meeting or the date of closing of transfer books, as the case may be. Such list of Shareholders shall contain the name and the address of each Shareholder in alphabetical order and the number of Shares owned by such Shareholder. Shareholders shall have such other rights and procedures of inspection of the books and records of the BDC as are granted to shareholders of a Delaware business corporation.

1.8 Quorum at Shareholder Meetings. The holders of a majority of the outstanding shares of capital stock entitled to vote at the meeting of Shareholders, present in person or represented by proxy, shall constitute a quorum at all meetings of the Shareholders, except as otherwise provided by the Delaware General Corporation Law or the Certificate. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum. If a quorum is not present, the chairman of the meeting or the holders of a majority of the shares present in person or represented by proxy at the meeting, and entitled to vote at the meeting, may adjourn the meeting to another time and/or place. When a specified item of business requires a vote by the holders of a class or series of shares of capital stock (if the BDC shall then have outstanding shares of more than one class or series) voting as a class or series, the holders of a majority of the shares of such class or series shall constitute a quorum (as to such class or series) for the transaction of such item of business, except as otherwise provided by the Delaware General Corporation Law or by the Certificate.

ARTICLE II

DIRECTORS

2.1 General Powers. The business and affairs of the BDC shall be managed under the direction of its Board of Directors.

2.2 Number, Tenure and Qualifications. At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of directors, provided that the number thereof shall never be less than two, nor more than nine, and further provided that the tenure of office of a director shall not be affected by any decrease in the number of directors.

2.3 Annual and Regular Meetings. Meetings of the Directors shall be held from time to time upon the call of the Chairman, the Chief Executive Officer, the Secretary or a majority of the Directors. Regular meetings of the Directors may be held without call or notice and shall generally be held quarterly. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be stated in the notice or waiver of notice of such meeting, and no notice need be given of action proposed to be taken by unanimous written consent.

2.4 Chairman; Records. The Chairman shall act as chairman at all meetings of the Directors; in absence of a chairman, the Directors present shall elect one of their number to act as temporary chairman. The results of all actions taken at a meeting of the Directors, or by unanimous written consent of the Directors, shall be recorded by the person appointed by the Board of Directors as the meeting secretary.

ARTICLE III

OFFICERS

3.1 Officers of the BDC. The officers of the BDC shall consist of a Chairman, a Chief Executive Officer, a Secretary, a Treasurer and such other officers or assistant officers as may be elected or authorized by the Directors. Any two or more of the offices may be held by the same Person, except that the same person may not be both Chief Executive Officer and Secretary. The Chairman shall be a Director, but no other officer of the BDC need be a Director.

3.2 Election and Tenure. At the initial organization meeting, the Directors shall elect the Chairman, Chief Executive Officer, Secretary, Treasurer and such other officers as the Directors shall deem necessary or appropriate in order to carry out the business of the BDC. Such officers shall serve at the pleasure of the Directors or until their successors have been duly elected and qualified. The Directors may fill any vacancy in office or add any additional officers at any time.

3.3 Removal of Officers. Any officer may be removed at any time, with or without cause, by action of a majority of the Directors. This provision shall not prevent the making of a contract of employment for a definite term with any officer and shall have no effect upon any cause of action which any officer may have as a result of removal in breach of a



contract of employment. Any officer may resign at any time by notice in writing signed by such officer and delivered or mailed to the Chairman, Chief Executive Officer, or Secretary, and such resignation shall take effect immediately upon receipt by the Chairman, Chief Executive Officer, or Secretary, or at a later date according to the terms of such notice in writing.

3.4 Vacancies. A vacancy in any office may be filled by the Board of Directors for the balance of the term.

3.5 Bonds and Surety. Any officer may be required by the Directors to be bonded for the faithful performance of such officer's duties in such amount and with such sureties as the Directors may determine.

3.6 Chairman, Chief Executive Officer, and Vice Presidents. The Chairman shall, if present, preside at all meetings of the Shareholders and of the Directors and shall exercise and perform such other powers and duties as may be from time to time assigned to such person by the Directors. Subject to such supervisory powers, if any, as may be given by the Directors to the Chairman, the Chief Executive Officer shall be the chief executive officer of the BDC and, subject to the control of the Directors, shall have general supervision, direction and control of the business of the BDC and of its employees and shall exercise such general powers of management as are usually vested in the office of Chief Executive Officer of a corporation. Subject to direction of the Directors, the Chairman and the Chief Executive Officer shall each have power in the name and on behalf of the BDC to execute any and all loans, documents, contracts, agreements, deeds, mortgages, registration statements, applications, requests, filings and other instruments in writing, and to employ and discharge employees and agents of the BDC. Unless otherwise directed by the Directors, the Chairman and the Chief Executive Officer shall each have full authority and power, on behalf of all of the Directors, to attend and to act and to vote, on behalf of the BDC at any meetings of business organizations in which the BDC holds an interest, or to confer such powers upon any other persons, by executing any proxies duly authorizing such persons. The Chairman and the Chief Executive Officer shall have such further authorities and duties as the Directors shall from time to time determine. In the absence or disability of the Chief Executive Officer, the Vice-Presidents in order of their rank as fixed by the Directors or, if more than one and not ranked, the Vice-President designated by the Directors, shall perform all of the duties of the Chief Executive Officer, and when so acting shall have all the powers of and be subject to all of the restrictions upon the Chief Executive Officer. Subject to the direction of the Directors, and of the Chief Executive Officer, each Vice-President shall have the power in the name and on behalf of the BDC to execute any and all instruments in writing, and, in addition, shall have such other duties and powers as shall be designated from time to time by the Directors or by the Chief Executive Officer.

3.7 Secretary. The Secretary shall maintain the minutes of all meetings of, and record all votes of, Shareholders, Directors and the Executive Committee, if any. The Secretary shall be custodian of the seal of the BDC, if any, and the Secretary (and any other person so authorized by the Directors) shall affix the seal, or if permitted, facsimile thereof, to any instrument executed by the BDC which would be sealed by a Delaware business corporation and shall attest the seal and the signature or signatures of the officer or officers executing such instrument on behalf of the BDC. The Secretary shall also perform any other duties commonly incident to such office in a Delaware business corporation, and shall have such other authorities and duties as the Directors shall from time to time determine.

3.8 Treasurer. Except as otherwise directed by the Directors, the Treasurer shall have the general supervision of the monies, funds, securities, notes receivable and other valuable papers and documents of the BDC, and shall have and exercise under the supervision of the Directors and of the Chief Executive Officer all powers and duties normally incident to the office. The Treasurer may endorse for deposit or collection all notes, checks and other instruments payable to the BDC or to its order. The Treasurer shall deposit all funds of the BDC in such depositories as the Directors shall designate. The Treasurer shall be responsible for such disbursement of the funds of the BDC as may be ordered by the Directors or the Chief Executive Officer. The Treasurer shall keep accurate account of the books of the BDC's transactions which shall be the property of the BDC, and which together with all other property of the BDC in the Treasurer's possession, shall be subject at all times to the inspection and control of the Directors. Unless the Directors shall otherwise determine, the Treasurer shall be the principal accounting officer of the BDC and shall also be the principal financial officer of the BDC. The Treasurer shall have such other duties and authorities as the Directors shall from time to time determine. Notwithstanding anything to the contrary herein contained, the Directors may authorize any adviser, administrator, manager or transfer agent to maintain bank accounts and deposit and disburse funds.

3.9 Other Officers and Duties. The Directors may elect such other officers and assistant officers as they shall from time to time determine to be necessary or desirable in order to conduct the business of the BDC. Assistant officers shall act generally in the absence of the officer whom they assist and shall assist that officer in the duties of the office. Each officer, employee and agent of the BDC shall have such other duties and authority as may be conferred upon such person by the Directors or delegated to such person by the Chief Executive Officer.

3.10 Salaries. The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director.

#### ARTICLE IV

#### COMMITTEES

4.1 Number, Tenure and Qualifications. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee and other committees, composed of one or more directors, to serve at the pleasure of the Board of Directors.

4.2 Powers. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The By-laws may provide that in the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not such member

or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, or in the By-laws of the Corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by law to be submitted to stockholders for approval or (ii) adopting, amending or repealing any By-law of the Corporation.

4.3 Meetings. Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors. A majority of the members of the committee shall constitute a quorum for the transaction of business at any meeting of the committee. The act of a majority of the committee members present at a meeting shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or, in the absence of a chairman, any two members of any committee (if there are at least two members of the Committee) may fix the time and place of its meeting unless the Board shall otherwise provide. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another director to act in the place of such absent member. Each committee shall keep minutes of its proceedings.

4.4 Telephone Meetings. Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

4.5 Written Consent By Committees. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each member of the committee and such written consent is filed with the minutes of proceedings of such committee.

4.6 Vacancies. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternate members to replace any absent or disqualified member or to dissolve any such committee.

## ARTICLE V

### MISCELLANEOUS

5.1 Contracts. The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the BDC and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the BDC when authorized or ratified by action of the Board of Directors and executed by an authorized person.

5.2 Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the BDC shall be signed by such officer or agent of the BDC in such manner as shall from time to time be determined by the Board of Directors.

5.3 Deposits. All funds of the BDC not otherwise employed shall be deposited from time to time to the credit of the BDC in such banks, trust companies or other depositories as the Board of Directors may designate.

5.4 Signatures. All contracts and other instruments shall be executed on behalf of the BDC by its properly authorized officers, agent or agents, as provided in the Certificate or By-laws or as the Directors may from time to time by resolution provide.

5.5 Seal. The Board of Directors may authorize the adoption of a seal by the BDC. The seal shall contain the name of the BDC and the year of its incorporation and the words "Incorporated Delaware." The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

5.6 Affixing Seal. Whenever the BDC is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the BDC.

5.7 Accounting Year. The Board of Directors shall have the power, from time to time, to fix the fiscal year of the BDC by a duly adopted resolution.

5.8 Authorization of Distributions. Dividends and other distributions upon the stock of the BDC may be authorized by the Board of Directors, subject to the provisions of law and the Certificate of Incorporation. Dividends and other distributions may be paid in cash, property or stock of the BDC, subject to the provisions of law and the Certificate of Incorporation.

5.9 Contingencies. Before payment of any dividends or other distributions, there may be set aside out of any assets of the BDC available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the BDC or for such other purpose as the Board of Directors shall determine to be in the best interest of the BDC, and the Board of Directors may modify or abolish any such reserve.

5.10 Investment Policy. Subject to applicable law and the provisions of the Certificate of Incorporation, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the BDC as it shall deem appropriate in its sole discretion.

ARTICLE VI

STOCK TRANSFERS

6.1 Certificates. The shares of stock of the BDC shall be represented by a certificate, unless and until the Board of Directors adopts a resolution permitting shares to be uncertificated. Notwithstanding the adoption of any such resolution providing for uncertificated shares, every holder of stock of the BDC theretofore represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to a certificate or certificates which shall represent and certify the number of shares of each class of stock held by him, her or it in the BDC. Each certificate shall be signed by the Chairman or a vice president and countersigned by the secretary or an assistant secretary or the treasurer or an assistant treasurer and may be sealed with the seal, if any, of the BDC. The signatures may be either manual or facsimile. Certificates shall be consecutively numbered; and if the BDC shall, from time to time, issue several classes of shares, each class may have its own number series. A certificate is valid and may be issued whether or not an officer who signed it is still an officer when it is issued. Each certificate representing shares which are restricted as to their transferability or voting powers, which are preferred or limited as to their dividends or as to their allocable portion of the assets upon liquidation or which are redeemable at the option of the BDC, shall have a statement of such restriction, limitation, preference or redemption provision, or a summary thereof, plainly stated on the certificate. In lieu of such statement or summary, the BDC may set forth upon the face or back of the certificate a statement that the BDC will furnish to any stockholder, upon request and without charge, a full statement of such information.

6.2 Transfer Agents, Registrars and the Like. The Directors shall have authority to employ and compensate such transfer agents and registrars with respect to the Shares of the BDC as the Directors shall deem necessary or desirable. In addition, the Directors shall have power to employ and compensate such dividend disbursing agents, warrant agents and agents for the reinvestment of dividends as they shall deem necessary or desirable. Any of such agents shall have such power and authority as is delegated to any of them by the Directors.

6.3 Transfer of Shares. Stock of the BDC shall be transferable in the manner prescribed by applicable law and in these By-Laws. Transfers of stock shall be made on the books of the BDC, and in the case of certificated shares of stock, only by the person named in the certificate or by such person's attorney lawfully constituted in writing and upon the surrender of the certificate therefor, properly endorsed for transfer and payment of all necessary transfer taxes; or, in the case of uncertificated shares of stock, upon receipt of proper transfer instructions from the registered holder of the shares or by such person's attorney lawfully constituted in writing, and upon payment of all necessary transfer taxes and compliance with appropriate procedures for transferring shares in uncertificated form; provided, however, that such surrender and endorsement, compliance or payment of taxes shall not be required in any case in which the officers of the BDC shall determine to waive such requirement. With respect to certificated shares of stock, every certificate exchanged, returned or surrendered to the BDC shall be marked "Cancelled," with the date of cancellation, by the Secretary of the BDC or the transfer agent thereof. No transfer of stock shall be valid as against the BDC for any purpose until it shall have been entered in the stock records of the BDC by an entry showing from and to whom transferred.

6.4 Replacement Certificate. Any officer designated by the Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the BDC alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, an officer designated by the Board of Directors may, in his or her discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he shall require and/or to give bond, with sufficient surety, to the BDC to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

6.5 Closing of Transfer Books or Fixing of Record Date. The Board of Directors may set, in advance, a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or determining stockholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of stockholders, not less than ten days, before the date on which the meeting or particular action requiring such determination of stockholders of record is to be held or taken.

In lieu of fixing a record date, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not longer than 20 days. If the stock transfer books are closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least ten days before the date of such meeting.

If no record date is fixed and the stock transfer books are not closed for the determination of stockholders, (a) the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day on which the notice of meeting is mailed or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of stockholders entitled to receive payment of a dividend or an allotment of any other rights shall be the close of business on the day on which the resolution of the directors, declaring the dividend or allotment of rights, is adopted.

When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except when (i) the determination has been made through the closing of the transfer books and the stated period of closing has expired or (ii) the meeting is adjourned to a date more than 120 days after the record date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

6.6 Stock Ledger. The BDC shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger containing the name and address of each stockholder and the number of shares of each class held by such stockholder.

6.7 Fractional Stock; Issuance of Units. The Board of Directors may issue fractional stock or provide for the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the Certificate of Incorporation or these By-laws, the Board of Directors may issue units consisting of different securities of the BDC. Any security issued in a unit shall have the same characteristics as any identical securities issued by the BDC, except that the Board of Directors may provide that for a specified period securities of the BDC issued in such unit may be transferred on the books of the BDC only in such unit.

6.8 Registered Shareholders. The BDC may deem and treat the holder of record of any Shares as the absolute owner thereof for all purposes and shall not be required to take any notice of any right or claim of right of any other person.

## ARTICLE VII

### AMENDMENT OF BY-LAWS

7.1 Amendment and Repeal of By-Laws. In accordance with Section 10.1 of the Certificate of Incorporation, the Directors shall have the power to amend or repeal the By-Laws or adopt new By-Laws at any time. Action by the Directors with respect to the By-Laws shall be taken by an affirmative vote of a majority of the Directors. The Directors shall in no event adopt By-Laws which are in conflict with the Certificate, and any apparent inconsistency shall be construed in favor of the related provisions in the Certificate.

## ARTICLE VIII

### NOTICE

8.1 Notices. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws (except as otherwise stated therein or herein), to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at such person's address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by telegram, telex or cable.

8.2 Waiver of Notices. Whenever any notice is required by applicable law, the Certificate of Incorporation or these By-Laws (except as stated therein or herein), to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed by the person or persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting, present in person or represented by proxy, shall constitute a waiver of notice of such meeting, except where the person attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of stockholders or any regular or special meeting of the directors or members of a committee of directors need be specified in any written waiver of notice unless so required by law, the Certificate of Incorporation or these By-Laws.

INVESTMENT MANAGEMENT AGREEMENT

AGREEMENT, dated as of June 22, 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 Officer

*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.

$$\begin{aligned}
 &\text{Incentive Fee with respect to net income} = 50\% \times (13.33\% \times \$500.0 \text{ million} - \text{Hurdle amount}) + 20\% \times (\text{transition period net income less the excess (if any) of transition period net unrealized capital depreciation over transition period net realized capital gains} - 13.33\% \times \$500.0 \text{ million}) - \text{incentive fees paid to date with respect to transition period net income} \\
 &= 50\% \times (\$66.66 \text{ million} - \$40.0 \text{ million}) + 20\% \times (\$67.5 \text{ million} - \$66.66 \text{ million}) - \$0.0 \text{ million} \\
 &= 50\% \times \$26.66 \text{ million} + 20\% \times \$0.84 \text{ million} - \$0.0 \text{ million} \\
 &= \$13.5 \text{ million}
 \end{aligned}$$

*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.

- (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

$$= 50\% \times (\$46.0 \text{ million} - \$40.0 \text{ million}), \text{ up to a limit of } 20\% \times \$8.0 \text{ million}$$

$$= 50\% \times \$6.0 \text{ million, up to a limit of } \$1.6 \text{ million}$$

$$= \$1.6 \text{ million}$$

#### 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

$$= 50\% \times (\$41.0 \text{ million} - \$40.0 \text{ million}), \text{ up to a limit of } 20\% \times \$3.0 \text{ million}$$

$$= 50\% \times \$1.0 \text{ million, up to a limit of } \$0.6 \text{ million}$$

$$= \$0.5 \text{ million}$$

#### Conclusion

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

**CEO CERTIFICATION**

I, James R. Maher, Chairman of the Board and Chief Executive Officer of BlackRock Kelso Capital Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BlackRock Kelso Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2008

By: /s/ James R. Maher

James R. Maher  
Chairman of the Board and  
Chief Executive Officer

**CFO CERTIFICATION**

I, Frank D. Gordon, Chief Financial Officer and Treasurer of BlackRock Kelso Capital Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BlackRock Kelso Capital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2008

By: /s/ Frank D. Gordon

Frank D. Gordon  
Chief Financial Officer and Treasurer

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of BlackRock Kelso Capital Corporation (the "Company") for the quarter ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), James R. Maher, as Chief Executive Officer of the Company, and Frank D. Gordon, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James R. Maher

\_\_\_\_\_  
Name: James R. Maher

Title: Chief Executive Officer

Date: August 8, 2008

/s/ Frank D. Gordon

\_\_\_\_\_  
Name: Frank D. Gordon

Title: Chief Financial Officer

Date: August 8, 2008