

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

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

Commission file number 814-00712

**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 52nd Street, New York, New York  
(Address of Principal Executive Offices)

10022  
(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class  
Common Stock, par value  
\$0.001 per share

Name of Each Exchange on Which Registered  
The NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer as defined in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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 aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant at June 30, 2014 (the last business day of the Registrant's most recently completed second quarter) was \$615,698,996 based upon the last sales price reported for such date on The NASDAQ Global Select Market. For purposes of this disclosure, shares of common stock beneficially owned by persons who own 5% or more of the outstanding shares of common stock and shares beneficially owned by executive officers and directors of the Registrant and members of their families have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes. The Registrant has no non-voting common stock.

There were 74,672,320 shares of the Registrant's common stock outstanding at March 5, 2015.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2015 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Report.

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**BLACKROCK KELSO CAPITAL CORPORATION**  
**2014 FORM 10-K ANNUAL REPORT**

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**PART I**

**ITEM 1. BUSINESS**

**General**

BlackRock Kelso Capital Corporation (“BlackRock Kelso,” the “Company” or the “Registrant,” which may also be referred to as “we,” “us” or “our”) provides middle-market companies with flexible financing solutions, including senior and junior secured, unsecured and subordinated debt securities and loans, and equity securities. Our strategy is to provide capital to meet our clients’ current and future needs across this spectrum, creating long-term partnerships with growing middle-market companies.

We are an externally-managed, non-diversified closed-end management investment company. We have elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, which we refer to as the 1940 Act. In addition, for tax purposes we intend to continue to qualify as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, which we refer to as the Code. As a BDC, we are required to comply with certain regulatory requirements. See “Regulation” for discussion of BDC regulation and other regulatory considerations. We are also registered as an investment advisor under the Investment Advisers Act of 1940 which we refer to as the “Advisers Act”.

Our investment objective is to generate both current income and capital appreciation through our debt and equity investments. We invest primarily in middle-market companies and target investments throughout the capital structure that we believe provide an attractive risk-adjusted return. The term “middle-market” refers to companies with annual revenues typically between \$50 million and \$1 billion. Our targeted investment typically ranges between \$10 million and \$50 million, although the investment sizes may be more or less than the targeted range and the size of our investments may grow with our capital availability. We generally seek to invest in companies that operate in a broad variety of industries and that generate positive cash flows.

Although most of our investments are in senior and junior secured, unsecured and subordinated loans to U.S. private and certain public middle-market companies, we invest throughout the capital structure, which may include common and preferred equity, options and warrants, credit derivatives, high-yield bonds, distressed debt and other structured securities. We may from time to time invest up to 30% of our assets opportunistically in other types of investments, including securities of other public companies and foreign securities.

The senior and junior secured loans in which we invest generally have stated terms of three to ten years and the subordinated debt investments we make generally have stated terms of up to ten years, but the expected average life of such senior and junior secured loans and subordinated debt is generally between three and seven years. However, we may invest in securities of any maturity or duration. The debt that we invest in typically is not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than “Baa3” by Moody’s Investors Service, lower than “BBB-” by Fitch Ratings or lower than “BBB-” by Standard & Poor’s). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

We were incorporated on April 13, 2005, commenced operations with private funding on July 25, 2005, and completed our initial public offering on July 2, 2007. Since the commencement of our operations, the team of investment professionals of BlackRock Kelso Capital Advisors LLC (the “Advisor”, “BKCA”, “BlackRock Kelso Capital Advisors” or the “Existing Advisor”), including our senior management, has evaluated more than 3,100 investment opportunities and completed 168 investments, aggregating over \$3.7 billion in capital provided to middle-market companies through December 31, 2014.

During the year ended December 31, 2014, we invested approximately \$531.7 million across eighteen new and several existing portfolio companies. This compares to approximately \$533.7 million across twenty one new and several existing portfolio companies for the year ended December 31, 2013. Sales, repayments and other exits of investment principal totaled \$581.5 million during the year ended December 31, 2014, versus \$442.6 million during the year ended December 31, 2013.

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At December 31, 2014, our portfolio consisted 47 portfolio companies was invested 52% in senior secured loans, 21% in equity investments, 18% in unsecured or subordinated debt securities, 8% in senior secured notes, and 1% in cash and cash equivalents. This compares to our portfolio of 51 portfolio companies was invested 43% in senior secured loans, 22% in equity investments, 18% in senior secured notes, 16% in unsecured or subordinated debt securities and 1% in cash and cash equivalents at December 31, 2013. Our average investment by portfolio company at amortized cost, excluding investments below \$5.0 million, was approximately \$29.4 million at December 31, 2014. As compared to December 31, 2013 our average investment by portfolio company at amortized cost, excluding investments below \$5.0 million, was approximately \$26.0 million.

The weighted average yield of the debt and income producing equity securities in our portfolio at fair value was 11.7% at December 31, 2014 and 12.1% at December 31, 2013. The weighted average yields on our senior secured loans and other debt securities at fair value were 11.3% and 12.9%, respectively, at December 31, 2014, versus 11.4% and 13.1%, at December 31, 2013. The weighted average yield of the debt and income producing equity securities in our portfolio at their current cost basis was 11.6% at December 31, 2014 and 12.0% at December 31, 2013. The weighted average yields on our senior secured loans and other debt securities at their current cost basis were 11.2% and 12.5%, respectively, at December 31, 2014, versus 11.4% and 13.0%, respectively, at December 31, 2013.

### **BlackRock Kelso Capital Advisors**

Our investment activities are managed by the Advisor. The Advisor is responsible for sourcing potential investments, conducting research on prospective investments, analyzing investment opportunities, structuring our investments, and monitoring our investments and portfolio companies on an ongoing basis. The Advisor is led by James R. Maher, Chairman and Chief Executive Officer of the Company and the Advisor, and Michael B. Lazar, Chief Operating Officer of the Company and the Advisor. They are supported by the Advisor's team of employees, including 15 investment professionals who have extensive experience in commercial and mezzanine lending, investment banking, accounting, corporate law and private equity investing. Additionally, the Advisor has an investment committee that includes Messrs. Maher and Lazar. Senior management as well as other key personnel of the Advisor have critical industry experience and relationships that we rely on to implement our business plan.

On November 5, 2014, BlackRock Advisors, LLC ("BlackRock Advisors"), a wholly owned indirect subsidiary of BlackRock, Inc. ("BlackRock"), and BlackRock Kelso Capital Advisors, entered into a definitive agreement wherein BlackRock Advisors will acquire certain assets of BKCA (the "Transaction"). On February 18, 2015, the stockholders approved a new investment advisory agreement between the BDC and BlackRock Advisors, including a new management and incentive fee structure. The fee structure will be effective on the second anniversary of the Transaction date. Based on the terms of the definitive agreement, BlackRock Advisors will enter into an investment management agreement with the Company and serve as BKCC's investment manager following the completion of the Transaction.

BlackRock has substantial investment and portfolio management experience, which we believe will be beneficial to the Company and our stockholders. As part of the BlackRock platform, we will continue to seek to enhance the risk-return profile of the Company, strengthen its distribution paying capacity and optimize the valuation for our shareholders.

Upon completion of the Transaction, James R. Maher and Michael B. Lazar will be stepping down from their roles with the Company. Mr. Maher, the Company's Chairman and Chief Executive Officer ("CEO"), will remain on the Board of Directors ("Board") and will become a senior advisor to BlackRock to assist in the transition of the business. Mr. Lazar, Chief Operating Officer of the Company, has also agreed to serve as an advisor to BlackRock in transitioning the business, including portfolio responsibility and business operations. Mr. Lazar will step down from the Board at closing. Steven Sterling, Managing Director and head of BlackRock's Global Capital Markets group, will assume the role of CEO of the Company at closing, subject to Board approval.

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In addition, as disclosed in the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on December 23, 2014 the Company proposed the following amendments to the exiting investment management agreement between the Company and the Advisor (such agreement, the "Existing Agreement"). The amendment will: (a) reduce the base management fee from 2.00% of the Company's total assets to 1.75% of the Company's total assets, excluding cash, and (b) change the structure of the incentive management fee based on the Company's performance (the "Incentive Fee") in a manner will (i) reduce the "hurdle rate" required for the Existing Advisor to earn, and be paid, the Incentive Fee, (ii) adjust the related "catch-up" provision, (iii) adjust the period over which the Incentive Fee on income is based, (iv) eliminate the off-set of any net unrealized capital depreciation during such period in respect of the Incentive Fee based on income and (v) introduce a deferral feature on the income portion of the Incentive Fee during periods when our total return does not equal or exceed the hurdle rate. The only change in the Incentive Fee on capital gains is the removal of the hurdle and associated catch-up provision with respect to such portion of the Incentive Fee. Please reference the complete Proxy Statement filed with the Securities and Exchange Commission on December 23, 2014 for further information on the fee structure.

Completion of the Transaction is expected to occur in the first quarter of 2015 and remains subject to customary closing conditions.

### **Administration**

We have entered into an administration agreement with BlackRock Financial Management, Inc. (the "Administrator") under which the Administrator provides certain administrative services to us. For providing these services, facilities and personnel, we reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of certain of our officers and their respective staffs.

### **Market opportunity**

We believe that current market conditions present opportunities for investment in middle-market companies with attractive risk-adjusted returns for several reasons, including:

*The current market environment may mean more favorable terms for investments in middle-market companies.* We believe the tight supply of credit due to deleveraging by banks provides a promising environment in which to originate investments in middle-market companies. We believe we are able to structure investments with lower leverage multiples, higher current returns, greater opportunity for equity appreciation, better prepayment protection, and more meaningful financial covenants than are typically available on commensurate investments in large liquid market companies.

*Middle-market companies have faced increasing difficulty in accessing the capital markets.* While many middle-market companies were able to raise funds by raising debt in the capital markets in the past, we believe this approach to financing has become more difficult, as transactions have increased in size to address investors' demands for greater liquidity in securities such as high yield bonds. In addition, we believe that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing large, liquid capital markets transactions.

*There is a large pool of uninvested private equity capital likely to seek additional capital to support private investments.* We believe there is a large pool of uninvested private equity capital available to middle-market companies. We expect that private equity firms will be active investors in middle-market companies and that these private equity firms will seek to supplement their equity investments with senior secured and junior loans and equity co-investments from other sources, such as us.

*Middle-market companies are increasingly seeking private sources for debt and equity capital.* We believe that many middle-market companies prefer to execute transactions with private capital providers such as us, rather than execute high-yield bond or equity transactions in the public markets, which may necessitate increased financial and regulatory compliance and reporting obligations.

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*Consolidation among commercial banks has reduced the focus on middle-market business.* We believe that many senior lenders have de-emphasized their service and product offerings to middle-market companies in favor of lending to large corporate clients, managing capital markets transactions and providing other non-credit services to their customers.

### **Competitive advantages**

We believe we possess the following competitive advantages over other capital providers to middle-market companies:

*Demonstrated ability to deploy capital consistent with our investment policies.* Since our inception, we have invested in excess of \$3.7 billion across 168 portfolio companies through December 31, 2014. We have a portfolio yield at fair value of approximately 11.7% at December 31, 2014. In 2014, we invested approximately \$531.7 million of gross assets.

*Proven transaction sourcing strategy.* Since the inception of operations, we have sourced and reviewed more than 3,100 potential investments and have a proven process through which it has invested in excess of \$3.7 billion through December 31, 2014. The Advisor, identifies potential investments through its dynamic transaction origination efforts. The origination efforts include calling on financial institutions such as investment banks, commercial banks, specialty finance companies and private equity firms; as well as on advisory firms, trade associations and the owners and managers of middle-market companies with whom its investment professionals and investment committee members have relationships. We expect that our ability to leverage these relationships will continue to result in the referral of investment opportunities to us and provide us with a competitive advantage.

*Highly experienced investment team.* Our investment activities are carried out by BlackRock Kelso Capital Advisors LLC and led by James R. Maher and Michael B. Lazar with guidance from the Advisor's investment committee. The investment committee is comprised of Messrs. Maher and Lazar, and certain employees of BlackRock, Inc. ("BlackRock") and certain principals of Kelso & Company, L.P. ("Kelso"). The Advisor's investment professionals, as well as members of the investment committee, have extensive experience in fixed income, public equity and private equity investing, and possess a broad range of transaction, financial, managerial and investment skills.

Our executive officers and directors and the employees of the Advisor serve or may serve as investment advisors, officers, directors or principals of entities or investment funds that operate in the same or a related line of business as we do and/or investment funds managed by our affiliates. We note that any affiliated investment vehicle currently formed or formed in the future and managed or to be managed in the future by the Advisor or its affiliates may have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Advisor or its affiliates may face conflicts in allocating investment opportunities between us and such other entities. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by the Advisor or its affiliates. However, the Advisor and its affiliates will endeavor to allocate investment opportunities in a fair and equitable manner and consistent with applicable allocation procedures. In any such case, if the Advisor forms other affiliates in the future, we may co-invest on a concurrent basis with such other affiliates, subject to compliance with applicable regulations and regulatory guidance, as well as applicable allocation procedures. In certain circumstances, negotiated co-investments may be made only if we receive an order from the Securities and Exchange Commission ("SEC") permitting us to do so. Neither BlackRock nor Kelso currently advise us. Additionally, Kelso does not participate in the activities of the Advisor. A subsidiary of BlackRock provides certain administrative services to us as of and for the year ended December 31, 2014.

*Disciplined investment process with focus on preservation of capital.* In making investment decisions, the Advisor employs a disciplined and selective review process that focuses on, among other things, a thorough analysis of the underlying issuer's business and the performance drivers of that business, as well as an assessment of the legal and economic features of each particular investment.

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*Cost-effective and high quality infrastructure.* We benefit from the existing infrastructure and administrative capabilities of the Administrator. For providing these services, facilities and personnel, we reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement.

### **Operating and regulatory structure**

Our investment activities are managed by the Advisor and supervised by our Board of Directors, a majority of whom are independent of us, the Advisor and our affiliates. The Advisor is registered under the Advisers Act. Under our investment management agreement (“Management Agreement”), we have agreed to pay the Advisor an annual base management fee based on our total assets, as well as an incentive management fee based on our performance. The Management Agreement also 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 Advisor under that 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.

Also, while we may borrow funds to make investments, our ability to use debt is limited in certain significant respects. As a BDC and a RIC for tax purposes, we are dependent on our ability to raise capital through the issuance of our common stock. RICs generally must distribute substantially all of their earnings to stockholders in order to achieve pass-through tax treatment, which prevents us from using those earnings to support operations, which may include new investments (including investments into existing portfolio companies). Further, BDCs must maintain an asset coverage ratio (the ratio of total assets less total liabilities other than indebtedness to total indebtedness) of not less than 200% in order to incur debt or issue senior securities, meaning generally that for every dollar of debt incurred or senior securities issued, we must have two dollars of assets. Our existing debt arrangements also require that we maintain an asset coverage ratio of not less than 200%, among other things.

### **Portfolio composition**

We have built an investment portfolio that includes primarily senior and junior secured, senior and junior unsecured and subordinated loans to U.S. private middle-market companies. We invest a range of \$10 million to \$50 million of capital, on average, per transaction, although the investment sizes may be more or less and are expected to grow with our capital availability. Although most of our investments are in senior and junior secured, senior and junior unsecured and subordinated loans to U.S. private and certain public middle-market companies, we invest throughout the capital structure of these companies, which may include investing in common and preferred equity, options and warrants, credit derivatives, high-yield bonds, distressed debt and other structured securities. We generally seek to invest in companies that operate in a broad variety of industries and that generate positive cash flows. While our focus is to generate current income through these investments, we also seek capital appreciation.

We generally are not permitted to invest in any private company in which any of our affiliates holds an existing investment, except to the extent permitted by the 1940 Act. We may, however, co-invest on a concurrent basis with our affiliates, subject to compliance with applicable regulations and regulatory guidance, as well as applicable allocation procedures. We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds.

At December 31, 2014, our portfolio consisted 47 portfolio companies was invested 52% in senior secured loans, 21% in equity investments, 18% in unsecured or subordinated debt securities, 8% in senior secured notes, and 1% in cash and cash equivalents.

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The industry composition of our portfolio, at fair market value, at December 31, 2014 and 2013 was as follows:

Industry	December 31,	
	2014	2013
Financial Services	14.2%	4.9%
Consumer Products	14.1	14.6
Energy	10.9	5.4
Healthcare	10.3	12.1
Chemicals	9.8	8.5
Personal and Other Services	8.0	17.1
Building and Real Estate	7.4	2.7
Manufacturing	6.8	8.3
Printing, Publishing and Media	5.8	5.6
Business Services	4.6	7.1
Defense	3.6	—
Retail	2.0	2.8
Distribution	0.8	1.6
Beverage, Food and Tobacco	0.7	3.5
Containers and Packaging	0.7	0.2
Electronics	0.3	5.6
Total	100.0%	100.0%

The geographic composition of the portfolio at fair value at December 31, 2014 was United States 96.8%, Canada 2.0% and the Cayman Islands 1.2%, and at December 31, 2013 was United States 93.1%, Canada 6.5% and the Cayman Islands 0.4%. The geographic composition is determined by several factors including the location of the corporate headquarters of the portfolio company.

### **Investment selection criteria**

The Advisor chooses investments and constructs our portfolio based on the investment experience of its professionals and a detailed investment analysis for each investment opportunity. In analyzing each prospective portfolio company, the Advisor has identified several criteria it believes are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for the Advisor's investment decisions on our behalf, although each prospective portfolio company may fail to meet one or more of these criteria. Generally, the Advisor seeks to utilize its access to information generated by its investment professionals to identify prospective investments and to structure investments quickly and effectively. Furthermore, the Advisor seeks to identify those companies exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on the relative value of the security in the company's capital structure.

*Value Orientation/Positive Cash Flow.* The Advisor's investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value orientation. The Advisor focuses on companies in which it can invest at relatively low multiples of operating cash flow and that are profitable at the time of investment on an operating cash flow basis. Typically, the Advisor does not invest in start-up companies or companies having speculative business plans.

*Experienced Management.* The Advisor generally requires that portfolio companies have an experienced management team. The Advisor also generally requires portfolio companies to have in place proper incentives to induce management to succeed and to act in concert with our interests as investors, which may include having significant equity interests.



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*Strong Competitive Position in Industry.* The Advisor seeks to invest in companies that have strong market positions within their respective markets or market niches and are well positioned to capitalize on growth opportunities. The Advisor seeks companies that demonstrate significant competitive advantages versus their competitors, which it believes should help to protect their market position and profitability.

*Exit Strategy.* The Advisor seeks to invest in companies that it believes will provide a steady stream of cash flow to repay loans and/or build equity value. With respect to loans and debt securities, the Advisor expects that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments will be a key means by which we exit these investments over time. In addition, the Advisor also seeks to invest in companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock or another capital market transaction. With respect to our equity investments, the Advisor will look to exit such investments via repurchases by the portfolio company, public offerings and sales pursuant to merger and acquisition transactions.

*Liquidation Value of Assets.* The prospective liquidation value of the assets, if any, collateralizing loans in which we invest is an important factor in the Advisor's credit analysis. The Advisor emphasizes both tangible assets, such as accounts receivable, inventory, equipment and real estate, and intangible assets, such as intellectual property, customer lists, networks and databases.

### **Investment selection process**

The Advisor selectively narrows prospective investment opportunities through a process designed to identify the most attractive opportunities. If the senior investment professionals responsible for the transaction and the Advisor's senior management determine that an investment opportunity merits pursuit, the Advisor engages in an intensive due diligence process. This process involves extensive research into the target company, its management, its industry, its growth prospects and its ability to withstand adverse conditions.

In conducting their due diligence, the Advisor's investment professionals use publicly available information as well as information from their extensive relationships with former and current management teams, consultants, competitors and investment bankers, among others. Though each transaction involves a somewhat different approach, the Advisor often undertakes the following due diligence steps. Initially, the investment team involved in the transaction may meet with management to get an insider's view of the business and probe for potential weaknesses in business prospects. They may also visit headquarters and company operations, meeting top-and middle-level executives. Independently from the company, the investment team may check management's backgrounds and references. With information provided by the company, the investment team performs a detailed review of historical financial performance and the quality of earnings. To assess both business prospects and standard practices, they may contact customers and vendors and conduct a competitive analysis, comparing the company to its main competitors on an operating, financial, market share and valuation basis. The investment team also researches the industry for historic growth trends and future prospects utilizing industry analysts at BlackRock, third party research, industry association literature and general news. Furthermore, they assess asset value and the ability of physical infrastructure and information systems to handle anticipated growth and investigate any legal risks and the viability of current financial and accounting systems. Attorneys and independent accountants as well as outside advisors, as appropriate, may conduct additional due diligence on behalf of the Advisor.

After the Advisor has identified an investment opportunity and completed due diligence, the investment team involved in the transaction prepares a written investment analysis. Senior investment professionals involved in the transaction review the analysis, and if they are in favor of making the potential investment, present it first to Messrs. Maher and Lazar and then, if approved by Messrs. Maher and Lazar, to the Advisor's investment committee for guidance, under certain circumstances.

## Investment structure

Once the Advisor determines that a prospective portfolio company is a suitable investment, it works with the management of that company, any intermediaries and other capital providers, including senior and junior debt security investors and equity capital providers, to structure an investment.

We invest in portfolio companies primarily in the form of senior and junior secured loans and unsecured and subordinated loans. The senior and junior secured loans generally have terms of three to ten years. We obtain security interests in the assets of our portfolio companies that serve as collateral in support of the repayment of the senior and junior secured loans. The collateral may take the form of first or second priority liens on the assets of a portfolio company.

The Advisor structures unsecured and subordinated debt securities and loans to have relatively high floating or fixed interest rates that provide us with current investment income. These debt securities and loans generally have terms of up to ten years. Such unsecured and subordinated debt securities and loans may have interest-only payments in the early years, with amortization of principal deferred to the later years of the loan. Also, some of these loans will be collateralized by a subordinate lien on some or all of the assets of the company.

In some cases, our debt investments may provide for a portion of the interest payable to be payment-in-kind (“PIK”) interest. To the extent interest is PIK, it is payable through the increase of the principal amount of the loan by the amount of the interest due on the then-outstanding principal amount of the loan. We are required to recognize PIK interest, a non-cash source of income, as taxable income, increasing the amounts we are required to distribute to stockholders to qualify for the federal income tax benefits applicable to RICs.

In the case of the senior secured and junior loans, the Advisor tailors the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that aims to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, the Advisor seeks to limit the downside potential of our investments. The Advisor may accomplish this through requiring a total return on our investment (including both interest and potential equity appreciation) that compensates us for credit risk or through incorporating call protection into the investment structure. The Advisor may also negotiate covenants in connection with our investments that protect the preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

In general, our debt investments include financial covenants and terms that require the portfolio company to reduce leverage over time, thereby enhancing its credit quality. These methods may include, among others: maintenance leverage covenants requiring a decreasing ratio of debt to cash flow; maintenance cash flow covenants requiring an increasing ratio of cash flow to interest expense and possibly other cash expenses such as capital expenditures, cash taxes and mandatory principal payments; and debt incurrence prohibitions, limiting a company’s ability to relever its balance sheet. In addition, limitations on asset sales and capital expenditures prevent a company from changing the nature of its business or capitalization without our consent.

Structurally, subordinated loans usually rank junior in priority of payment to senior debt, such as senior bank debt, and are often unsecured. As such, other creditors may rank senior to us in the event of insolvency. However, subordinated loans rank senior to common and preferred equity in a borrower’s capital structure. Due to their higher risk profile and often less restrictive covenants as compared to senior loans, subordinated loans generally earn higher interest yields than senior secured loans. We believe that subordinated loans offer an attractive alternative investment opportunity. In many cases investors in subordinated loans receive opportunities to invest directly in the equity securities of borrowers, and from time to time also may receive warrants to purchase equity securities.

Our debt investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Warrants we receive with our debt may require only a nominal cost to exercise, and thus,

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as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We generally seek to structure the warrants to provide provisions protecting our rights as a minority-interest holder, and we generally seek to structure puts or rights to sell such securities back to the company upon the occurrence of specified events.

Our equity investments may consist of preferred equity that pays dividends on a current basis or preferred equity that does not pay current dividends. Preferred equity generally has a preference over common equity as to distributions on liquidations and dividends. In some cases, we may acquire common equity. Our equity investments frequently are not control-oriented investments, and in many cases, we acquire equity securities as part of a group of private equity investors in which we are not the lead investor. We may also receive equity through portfolio company restructurings. Our preferred and common equity investments typically are made in conjunction with loans to these companies.

### **Ongoing relationship with portfolio companies**

The Advisor monitors our portfolio companies on an ongoing basis. The Advisor monitors the financial trends of each portfolio company to determine if it is meeting its business plans and to assess the appropriate course of action for each company.

The Advisor has several methods of evaluating and monitoring the performance and fair values of our investments, which may include the following and other methods:

- assessment of success of the portfolio company in adhering to its business plan and compliance with covenants;
- periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- comparisons to other companies in the industry;
- attendance at and participation in board meetings;
- review of interim and annual financial statements and financial projections for portfolio companies; and
- retention of third-party valuation firms to assist in determination of fair value.

### **Managerial assistance**

As a BDC, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance or exercising strategic or managerial influence over such companies. We may receive fees for these services. The Advisor will provide managerial assistance on our behalf to those portfolio companies that request this assistance. Employees of the Advisor have experience providing managerial assistance to private operating companies like our portfolio companies, and such assistance has tended to be related to board representation and to strategic and financing transactions. The Advisor generally will not receive any direct compensation from our portfolio companies for providing managerial assistance although it may do so from time to time.

### **Investment rating system**

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

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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 generally will 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.

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 Board of Directors review these investment ratings on a quarterly basis. Our average investment rating was 1.27 at December 31, 2014 and 1.14 at December 31, 2013. The following is a distribution of the investment ratings of our portfolio companies at December 31, 2014 and 2013:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Grade 1	\$ 980,351,780	\$ 1,054,695,245
Grade 2	242,173,859	159,112,129
Grade 3	11,074,000	2,912,000
Grade 4	23,548,349	572,675
Not Rated	568,750	680,415
Total investments	<u>\$ 1,257,716,738</u>	<u>\$ 1,217,972,464</u>

The investment rating process begins with each portfolio company or investment being initially evaluated by the transaction team, led by a senior investment professional that is responsible for the portfolio company relationship. This evaluation generally is completed no less frequently than quarterly. At the Advisor's weekly investment professionals' meeting, the transaction team presents an update on the activities of any company rated below Grade 1. Each quarter, all investment professionals attend a separate investment rating meeting. At these quarterly meetings, the transaction team responsible for each portfolio investment reviews each portfolio company and suggests a rating for each investment for discussion among the investment professionals. At the conclusion of discussion, and subject to the approval of the Advisor's chief executive officer and chief operating officer, the Advisor's chief financial officer records the internal investment ratings for review by the Board of Directors quarterly.

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### **Valuation Procedures**

We conduct the valuation of our assets, pursuant to which our net asset value shall be determined, consistent with U.S. generally accepted accounting principles (“GAAP”) and the 1940 Act. We value our assets on a quarterly basis. Our valuation procedures are set forth in more detail below:

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 obtains market quotations, when available, from an independent pricing service or one or more broker-dealers or market makers and utilizes the average of the range of bid and ask quotations.

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 for substantially all of the investments in its portfolio, the Company expects to value substantially all 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.

Determination of fair value involves subjective judgments and estimates. Due to the inherent uncertainty and subjectivity 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.

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 has approved a multi-step valuation process applied 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 prepared by 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.

### **Investment management agreement**

We have entered into a Management Agreement with the Advisor, under which the Advisor, subject to the overall supervision of the Board of Directors, manages our day-to-day operations, and provides us with investment advisory services. For providing these services, the Advisor currently receives a base management fee (the “Management Fee”) at an annual rate of 2.0% of our total assets, including any assets acquired with the proceeds of leverage, payable quarterly in arrears.

The Management Agreement became effective on June 22, 2008 and its initial term expired on June 22, 2010. Since then, our Board of Directors has approved the agreement for successive one year terms with the most recently approved term scheduled to expire on June 22, 2015, or the completion of the transaction with BlackRock Advisors, as previously discussed, unless an additional one year term is approved by the Board of Directors.

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For the years ended December 31, 2014, 2013 and 2012, the Advisor earned \$23,641,231, \$21,629,665 and \$22,504,433, respectively, in base management fees under the Management Agreement.

### ***Incentive Management Fee***

The Management Agreement provides that the Advisor or its affiliates may currently 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 stockholders do not meet an 8.0% annualized rate of return during the applicable fee measurement period, and will result in the Advisor or its affiliates receiving less than the full amount of the Incentive Fee percentage until returns to stockholders exceed an approximate 13.3% annualized rate of return during such period. Annualized rate of return in this context is computed by reference to net asset value and does not take into account changes in the market price of the common stock.

The Advisor will be entitled to receive the Incentive Fee if our performance exceeds a "hurdle rate" during different measurement periods: trailing four quarters' periods (which apply only to the portion of the Incentive Fee based on income) and annual periods (which apply only to the portion of the Incentive Fee based on capital gains). The "trailing four quarters' periods" for purposes of determining the income portion of the Incentive Fee payable for the three months ended December 31, 2014 and 2013 was determined by reference to the four quarter periods ended on December 31, 2014 and 2013, respectively. The term "annual period" means the period beginning on July 1 of each calendar year and ending on June 30 of the next calendar year.

The hurdle rate for each measurement period is 2.0% multiplied by net asset values at the beginning of each calendar quarter during the measurement period, calculated after giving effect to any distributions that occurred during the measurement period. A portion of the Incentive Fee is based on our 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 trailing four quarters' period, the Company currently pays 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 of (A) over (B) 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 equal 20% of the period's income amount distributed or distributable to stockholders as described in clause (A) of the preceding paragraph. Thereafter, the portion of the Incentive Fee based on income for the period will equal 20% of the period's remaining excess income amount.

For the years ended December 31, 2014, 2013 and 2012, the Advisor earned \$9,972,822, \$10,889,088 and \$16,997,054 in Incentive Fees based on income, respectively.

***Annual Incentive Fee Based on Capital Gains.*** The portion of the Incentive Fee based on capital gains is calculated and paid on an annual basis beginning on July 1, 2007, the first day of the calendar quarter in which the Public Market Event occurred and each annual period thereafter, ending on June 30 of the next calendar year. For each annual period, the Company currently pays the Advisor an Incentive Fee based on the amount by which (A) net realized capital gains, if any, to the extent they exceed gross 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 of (A) over (B) 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 capital gain amount distributed or distributable to

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stockholders. Thereafter, the portion of the Incentive Fee based on capital gains for the period equals an amount such that the portion of the Incentive Fee payments to the Advisor based on capital gains for the period equals 20% of the period's remaining 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 capital 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 gross 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.

We are required under GAAP to accrue a hypothetical capital gains Incentive Fee based upon net realized capital gains and unrealized capital appreciation and depreciation on investments held at the end of each period. The accrual of this hypothetical capital gains incentive fee assumes all unrealized capital appreciation and depreciation is realized in order to reflect a hypothetical capital gains incentive fee that would be payable at each measurement date. If such amount is positive at the end of the period, then we record a capital gains incentive fee equal to 20% of such amount, less the amount of capital gains related incentive fees already accrued in prior periods. If the resulting amount is negative, the accrual for GAAP in a given period may result in an additional expense. There can be no assurance that such unrealized capital appreciation will be realized in the future. However, it should be noted that a fee so calculated and accrued would not be payable under the Investment Advisers Act of 1940 or the Management Agreement. Amounts actually paid will be consistent with the Advisers Act which specifically excludes consideration of unrealized capital appreciation.

The capital gains fee due to the Advisor as calculated under the Management Agreement as described above was zero at December 31, 2014, December 31, 2013 and 2012. In accordance with GAAP, the hypothetical incentive fee for the years ended December 31, 2014, 2013 and 2012, resulted in a capital gains incentive fee of \$17,533,209, \$20,259,349 and \$5,494,735, respectively.

### ***Expenses***

All investment professionals and staff of the Advisor, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by the Advisor. We will bear all other costs and expenses of our operations and transactions, including those relating to:

- our organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firms);
- expenses incurred by the Advisor payable to third parties in monitoring our investments and performing due diligence on prospective portfolio companies;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of future offerings of common shares and other securities, if any;
- the base management fee and any incentive management fee;
- dividends and distributions on our preferred shares, if any, and common shares;
- administration fees payable under the administration agreement;

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- fees payable to third parties relating to, or associated with, making investments;
- transfer agent, trustee, registrar, paying agent and custodial fees;
- registration fees;
- listing fees;
- taxes;
- independent director fees and expenses;
- costs of preparing and filing reports or other documents with the SEC;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- our fidelity bond;
- a portion of our directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- indemnification payments;
- direct costs and expenses of administration, including audit and legal costs; and
- all other expenses reasonably incurred by us or the Administrator, such as the allocable portion of overhead under the administration agreement, including rent and other allocable portions of the cost of certain of our officers and their respective staffs.

We will reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the Advisor 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. For the years ended December 31, 2014, 2013 and 2012, we incurred \$2,168,611, \$2,066,737 and \$1,991,416, respectively, for such investment advisor expenses under the Management Agreement.

From time to time, the Advisor may pay amounts owed by us to third party providers of goods or services. We will subsequently reimburse the Advisor for such amounts paid on our behalf. Reimbursements to the Advisor for the years ended December 31, 2014, 2013 and 2012, were \$3,490,730, \$2,808,014 and \$3,107,677, respectively.

### ***Indemnification***

The Management Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, the Advisor is not liable to us or any of our stockholders for any act or omission by it or its employees in the supervision or management of our investment activities or for any loss sustained by us or our stockholders, and provides for indemnification by us of its members, directors, officers, employees, agents and control persons for liabilities incurred by it in connection with their services to us, subject to certain limitations and conditions.

### ***Duration and termination***

The Management Agreement will continue in effect until June 22, 2015, or the completion of the transaction with BlackRock Advisors, as previously discussed, and if not sooner terminated, will continue in effect for successive periods of twelve months thereafter, provided that each continuance is specifically approved at least annually by both (1) the vote of a majority of our Board of Directors or the vote of a majority of our outstanding voting securities and (2) the vote of a majority of the Board of Directors who are not parties to the Management Agreement or interested persons (as such term is defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval. We may terminate the Management



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Agreement as a whole at any time, without the payment of any penalty, upon the vote of a majority of our Board of Directors or a majority of our outstanding voting securities or by the Advisor, on 60 days' written notice by either party to the other which can be waived by the non-terminating party. The Management Agreement will terminate automatically in the event of its assignment.

### **Organization of the Advisor**

The Advisor is organized as a Delaware limited liability company. The Advisor is registered as an investment advisor with the SEC under the Advisers Act. Its principal executive offices are located at 40 East 52<sup>nd</sup> Street, New York, New York. James R. Maher and Michael B. Lazar, the managing members of the Advisor, are the control persons of the Advisor.

On November 5, 2014, BlackRock Advisors, a wholly owned indirect subsidiary of BlackRock, and BlackRock Kelso Capital Advisors, entered into a definitive agreement wherein BlackRock Advisors will acquire certain assets of BKCA. On February 18, 2015, the stockholders approved a new investment advisory agreement between the BDC and BlackRock Advisors, including a new management and incentive fee structure. The fee structure will be effective on the second anniversary of the Transaction date. Based on the terms of the definitive agreement, BlackRock Advisors will enter into an investment management agreement with the Company and serve as BKCC's investment manager following the completion of the Transaction.

BlackRock has substantial investment and portfolio management experience, which we believe will be beneficial to the Company and our stockholders. As part of the BlackRock platform, we will continue to seek to enhance the risk-return profile of the Company, strengthen its distribution paying capacity and optimize the valuation for our shareholders.

Upon completion of the Transaction, James R. Maher and Michael B. Lazar will be stepping down from their roles with the Company. Mr. Maher, the Company's Chairman and Chief Executive Officer, will remain on the Board of Directors and will become a senior advisor to BlackRock to assist in the transition of the business. Mr. Lazar, Chief Operating Officer of the Company has also agreed to serve as an advisor to BlackRock in transitioning the business, including portfolio responsibility and business operations. Mr. Lazar will step down from the Board at closing. Steven Sterling, Managing Director and head of BlackRock's Global Capital Markets group, will assume the role of CEO of the Company at closing, subject to Board approval.

In addition, as disclosed in the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on December 23, 2014 the Company proposed the following amendments to the Existing Agreement. The amendment will: (a) reduce the base management fee from 2.00% of the Company's total assets to 1.75% of the Company's total assets, excluding cash, and (b) change the structure of the Incentive Fee in a manner will (i) reduce the "hurdle rate" required for the Existing Advisor to earn, and be paid, the Incentive Fee, (ii) adjust the related "catch-up" provision, (iii) adjust the period over which the Incentive Fee on income is based, (iv) eliminate the off-set of any net unrealized capital depreciation during such period in respect of the Incentive Fee based on income and (v) introduce a deferral feature on the income portion of the Incentive Fee during periods when our total return does not equal or exceed the hurdle rate. The only change in the Incentive Fee on capital gains is the removal of the hurdle and associated catch-up provision with respect to such portion of the Incentive Fee. Please reference the complete Proxy Statement filed with the Securities and Exchange Commission on December 23, 2014 for further information on the fee structure.

Completion of the Transaction is expected to occur in the first quarter of 2015 and remains subject to customary closing conditions.

### **Administration agreement**

We have entered into an administration agreement with the Administrator, a subsidiary of BlackRock, under which the Administrator provides certain administrative services to us. In payment for these services, facilities

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and personnel, we reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of certain of our officers and their respective staffs.

For the years ended December 31, 2014, 2013 and 2012, we incurred \$512,056, \$574,895 and \$322,013, respectively, for administrative services expenses payable to the Administrator under the administration agreement.

### **License agreements**

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

### **Competition**

A number of entities compete with us to make the types of investments that we make. We compete with other BDCs, public and private funds, commercial and investment banks, CLO funds, commercial financing companies, insurance companies, high yield investors and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified. Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or the restrictions that the Code imposes on us as a RIC.

### **Leverage**

On March 27, 2014, the Company entered into an Amended and Restated Senior Secured Revolving Credit Facility (the “Credit Facility”) which has an initial aggregate principal amount of up to \$405,000,000 and canceled the prior credit facility that was outstanding at December 31, 2013. The Credit Facility has a stated maturity date of March 27, 2019. The interest rate applicable to borrowings thereunder is generally LIBOR plus an applicable margin of 2.25%. The Credit Facility’s commitment may increase in size, under certain circumstances, up to a total of \$750,000,000.

On March 27, 2014, the Company entered into an Amended and Restated Senior Secured Term Loan Credit Agreement (the “Term Loan”) which has a principal amount of \$15,000,000. The Term Loan has a stated maturity date of March 27, 2019. The interest rate applicable to borrowings thereunder is generally LIBOR plus an applicable margin of 3.25%.

On February 19, 2013, the Company closed a private offering of \$100,000,000 in aggregate principal amount of 5.50% unsecured convertible senior notes due 2018 (the “Convertible Notes”). The initial purchasers of the Convertible Notes fully exercised their overallotment option and purchased an additional \$15,000,000 in aggregate principal amount of the Convertible Notes. The closing of the overallotment option took place on March 4, 2013. With the exercise of the overallotment option, a total of \$115,000,000 in aggregate principal

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amount of the Convertible Notes was sold. Net proceeds to the Company from the offering, including the exercise of the overallotment option, were approximately \$111,300,000. The Convertible Notes were only offered to qualified institutional buyers as defined in the Securities Act of 1933, as amended (the “Securities Act”) pursuant to Rule 144A under the Securities Act.

The Convertible Notes are unsecured and bear interest at a rate of 5.50% per year, payable semi-annually in arrears. In certain circumstances and during certain periods, the Convertible Notes are convertible into cash, shares of BlackRock Kelso Capital’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election, at an initial conversion rate of 86.0585 shares of common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$11.62 per share of the Company’s common stock, subject to defined anti-dilution adjustments. The Company does not have the right to redeem the Convertible Notes prior to maturity. The Convertible Notes mature on February 15, 2018, unless repurchased or converted in accordance with their terms prior to such date.

On January 18, 2011, the Company closed a private placement issuance of \$158,000,000 in aggregate principal amount of five-year, senior secured notes with a fixed interest rate of 6.50% and a maturity date of January 18, 2016 and \$17,000,000 million in aggregate principal amount of seven-year, senior secured notes with a fixed interest rate of 6.60% and a maturity date of January 18, 2018 (collectively, the “Senior Secured Notes”). The Senior Secured Notes were sold to certain institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. Interest on the Senior Secured Notes is due semi-annually on January 18 and July 18, commencing on July 18, 2011.

### **Staffing**

Services necessary for our business are provided by individuals who are employees of the Advisor or the Administrator and its affiliates, pursuant to the terms of the Management Agreement and the administration agreement. Each of our executive officers is an employee of the Advisor or the Administrator and its affiliates. Our executive officers are also executive officers of the Advisor. Our day-to-day investment operations are managed by the Advisor. The Advisor currently has 15 investment professionals who focus on origination and transaction development and monitoring of our investments. We reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the Advisor 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. In addition, we reimburse the Administrator for our allocable portion of expenses it incurs in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of certain of our officers and their respective staffs.

### **Regulation**

We are a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisors or sub-advisors), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless that change is approved by a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an “underwriter” as that term is defined in the Securities Act. We may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investment. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire

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securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except for registered money market funds we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one registered investment company or invest more than 10% of the value of our total assets in the securities of registered investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. None of these are fundamental policies and they may be changed without stockholder approval.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. We have adopted procedures to comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. The Sarbanes-Oxley Act requires us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and such regulations. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

### **The NASDAQ Global Select Market corporate governance regulations**

The NASDAQ Global Select Market has adopted corporate governance regulations with which listed companies must comply. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

### **Privacy principles**

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

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

We restrict access to nonpublic personal information about our stockholders to the Advisor’s employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our stockholders.

### **Available Information**

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934 (the “Exchange Act”). This information is available free of charge by calling us at (212) 810-5800 or on our website at [www.blackrockkelsco.com](http://www.blackrockkelsco.com). The information on our website is not deemed incorporated by reference in this Annual Report. You also may inspect and copy these reports, proxy statements and other information, as well as the Annual Report and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC’s Internet site at [www.sec.gov](http://www.sec.gov). Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC’s Public Reference Room, 100 F Street, NE, Washington, D.C. 20549.

**Item 1A. Risk Factors**

*Investing in our securities may be speculative and involves a high degree of risk. You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes thereto. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment in us.*

**Risks Related to Our Business**

***We may be unable to achieve our investment objective if we are unable to manage our investments effectively.***

Our ability to achieve our investment objective depends on our ability to manage our business, which depends, in turn, on the ability of the Advisor to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result is largely a function of the Advisor's investment process and, in conjunction with the Administrator, its ability to provide competent, attentive and efficient services to us. Our executive officers and many of the members of the Advisor's investment committee have substantial responsibilities to other clients in addition to their activities and responsibilities on our behalf. The investment professionals dedicated to us may also be required to provide managerial assistance to our portfolio companies. These demands on their time may distract them or slow our rate of investment. Any failure to manage our business effectively could have a material adverse effect on our business, financial condition and results of operations.

***We operate in a highly competitive market for investment opportunities.***

A number of entities compete with us to make the types of investments that we make. We compete with other BDCs, public and private funds, commercial and investment banks, CLO funds, commercial financing companies, insurance companies, high yield investors, hedge funds and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC and that the Code imposes on us as a RIC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to pursue attractive investment opportunities from time to time. We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that are comparable to or lower than the rates we offer. Rather, we compete with our competitors based on our existing investment platform, seasoned investment professionals, experience and focus on middle-market companies, disciplined investment philosophy, extensive industry focus and flexible transaction structuring.

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

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***The departure of our current Chief Executive Officer and Chief Operating Officer may adversely affect our ability to achieve our investment objective. Further, our new senior management subsequent to completion of the Transaction has no prior experience managing a BDC. BlackRock and BlackRock Advisors do not have experience managing BDCs.***

Upon consummation of the Transaction, our former Chief Executive Officer, James R. Maher, and our former Chief Operating Officer, Michael B. Lazar, will step down from their respective positions with us. However, each has agreed to provide transition and consulting services to us following the completion of the Transaction. Mr. Maher has agreed to provide transition consulting services to us for up to one year following the closing of the Transaction and Mr. Lazar has agreed to provide transition consulting services to us for a period of up to three months. Messrs. Maher and Lazar were co-founders of the Company. The departure of Messrs. Maher and Lazar may adversely affect our ability to achieve our investment objective. Further, even though 14 professionals that managed our investment portfolio and operations for our prior investment adviser serve as employees of our Advisor, our new senior management has no prior experience managing a BDC. As a result, an investment in our securities may entail more risk than the securities of a comparable company with senior management that has a substantial operating history with BDCs. BlackRock and BlackRock Advisors also do not have experience managing BDCs.

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

Upon consummation of the Transaction we will depend on the members of senior management of the Advisor, particularly Steven Sterling, a Managing Director of the Advisor, as well as James Keenan, a Managing Director of the Advisor, and other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These employees of the Advisor have critical industry experience and relationships that we rely on to implement our business plan. Our future success depends on the continued service of our Advisor's senior management team. The departure of any of the members of our Advisor's senior management or a significant number of the members of its investment team could have a material adverse effect on our ability to achieve our investment objective as well as our business, financial condition or results of operation. As a result, we may not be able to operate our business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer. There also could be no assurance the Advisor would replicate its historical success. In addition, we can offer no assurance that BlackRock Advisors, LLC will remain our investment adviser or that BlackRock Financial Management, Inc. will remain our administrator.

***Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effect of which may be adverse.***

Our Board of Directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results or value of our common stock. Nevertheless, the effects could adversely affect our business and impact our ability to make distributions to our stockholders.

***Should the Transaction not be consummated our Advisor has the right to resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, financial condition and results of operations.***

Our Advisor has the right, under our investment management agreement, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If our Advisor resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our business, financial condition and results of operations as

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well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition and results of operations.

***Capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets in the United States and abroad, which may have a negative impact on our business and operations.***

From time to time, capital markets may experience periods of disruption and instability, which may be evidenced by a lack of liquidity in debt capital markets, write-offs in the financial services sector, re-pricing of credit risk and failure of certain major financial institutions. While capital markets have improved, these conditions could deteriorate again and global financial markets could experience significant volatility. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints. There can be no assurance that adverse market conditions will not repeat themselves or worsen in the future.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

***Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.***

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation, which reduces our net asset value. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

***The downgrade of the U.S. credit rating and economic crisis in Europe could negatively impact our business, financial condition and earnings.***

Although U.S. lawmakers passed legislation to raise the federal debt ceiling and Standard & Poor's Ratings Services affirmed its 'AA+' long-term sovereign credit rating on the United States and revised the outlook on the long-term rating from negative to stable in June of 2013, U.S. debt ceiling and budget deficit concerns together with signs of deteriorating sovereign debt conditions in Europe continue to present the possibility of a credit-rating downgrade, economic slowdowns, or a recession for the United States. The impact of any further downgrades to the U.S. government's sovereign credit rating or downgraded sovereign credit ratings of European countries or the Russian Federation, or their perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. These developments, along with any further European sovereign debt issues, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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In October 2014, the Federal Reserve announced that it was concluding its bond-buying program. It is unknown what effect, if any, the conclusion of this program will have on credit markets and the value of our investments. These and any future developments and reactions of the credit markets toward these developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to obtain debt financing on favorable terms.

***Rising interest rates may adversely affect the value of our portfolio investments which could have an adverse effect on our business, financial condition and results of operations.***

Our debt investments may be based on floating rates, such as London Interbank Offer Rate (“LIBOR”), EURIBOR, the Federal Funds Rate or the Prime Rate. General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high yield bonds, and also could increase our interest expense, thereby decreasing our net income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

Because we have borrowed money, and may issue preferred stock to finance investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds or pay distributions on preferred stock and the rate that our investments yield. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase except to the extent we have issued fixed rate debt or preferred stock, which could reduce our net investment income.

You should also be aware that a change in the general level of interest rates can be expected to lead to a change in the interest rate we receive on many of our debt investments. Accordingly, a change in the interest rate could make it easier for us to meet or exceed the performance threshold and may result in a substantial increase in the amount of incentive fees payable to our Advisor with respect to the portion of the Incentive Fee based on income.

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

In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers’ Association (“BBA”) in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies as a result of these or future events, may result in changes to the manner in which LIBOR is determined. Potential changes, or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.



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***In addition to regulatory restrictions that restrict our ability to raise capital, our debt arrangements contain various covenants which, if not complied with, could accelerate repayment of our debt, thereby materially and adversely affecting our liquidity, financial condition and results of operations.***

The agreements governing our Credit Facility, Senior Secured Notes and the Term Loan require us to comply with certain financial and operational covenants. These covenants include:

- restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;
- restrictions on our ability to incur liens; and
- maintenance of a minimum level of stockholders' equity.

As of December 31, 2014, we were in compliance with all applicable covenants for our outstanding borrowings. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our debt arrangements. Failure to comply with these covenants would result in a default under these arrangements which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments on our debt and thereby have a material adverse impact on our business, financial condition and results of operations.

***The disposition of our investments may result in contingent liabilities.***

Most of our investments will involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us. We do not believe contingent liabilities were material at December 31, 2014.

***Substantially all of our assets are subject to security interests under our borrowings and if we default on our obligations, we may suffer adverse consequences, including the lenders foreclosing on our assets.***

As of December 31, 2014, substantially all of our assets were pledged as collateral under our Credit Facility. If we default on our obligations, the lenders may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests. In such event, we may be forced to sell our investments to raise funds to repay our outstanding borrowings in order to avoid foreclosure and these forced sales may be at times and at prices we would not consider advantageous. Moreover, such deleveraging of our company could significantly impair our ability to effectively operate our business in the manner in which we have historically operated. As a result, we could be forced to curtail or cease new investment activities and lower or eliminate the distributions that we pay to our stockholders.

In addition, if the lenders exercise their right to sell the assets pledged under our borrowings, such sales may be completed at distressed sale prices, thereby diminishing or potentially eliminating the amount of cash available to us after repayment of the amounts outstanding.

***Our Credit Facility matures in March 2019, and any inability to renew, extend or replace our Credit Facility could adversely impact our liquidity and ability to find new investments or maintain distributions to our stockholders.***

We maintain a multi-currency \$405 million senior secured credit facility with a group of lenders, under which we had approximately \$144.0 million of indebtedness outstanding at December 31, 2014. Availability under our Credit Facility was \$261.0 million at December 31, 2014. The Credit Facility's commitment may increase in size, under certain circumstances, up to a total of \$750 million. The Credit Facility has a stated

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maturity date of March 27, 2019. There can be no assurance that we will be able to renew, extend or replace the Credit Facility upon its maturity on terms that are favorable to us, if at all. Our ability to renew, extend or replace the Credit Facility will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to renew, extend or replace the Credit Facility at the time of its maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC.

***Our five-year Senior Secured Notes mature in January 2016 and our seven-year Senior Secured Notes mature in January 2018, and any inability to replace or repay our Senior Secured Notes could adversely impact our liquidity and ability to fund new investments or maintain distributions to our stockholders.***

In January 2011, we closed a private placement issuance of \$158 million in aggregate principal amount of five-year, senior secured notes with a fixed interest rate of 6.50% and a maturity date of January 18, 2016 and \$17 million in aggregate principal amount of seven-year senior secured notes with a fixed interest rate of 6.60% and a maturity date of January 18, 2018. There can be no assurance that we will be able to replace the Senior Secured Notes upon their maturity on terms that are favorable to us, if at all. Our ability to replace the Senior Secured Notes will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to replace or repay the Senior Secured Notes at the time of their maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC.

***Our five-year Convertible Notes are due in February 2018. Any inability to replace or repay our Convertible Notes could adversely impact our liquidity and ability to fund new investments or maintain distributions to our stockholders. Conversion of the Convertible Notes to shares of the Company's common stock could result in dilution per share for existing shareholders.***

On February 19, 2013 we closed on the Convertible Notes. The initial purchasers of the Convertible Notes fully exercised their overallocation option and purchased an additional \$15 million in aggregate principal amount of the Convertible Notes. The closing of the overallocation option took place on March 4, 2013. With the exercise of the overallocation option, a total of \$115 million in aggregate principal amount of the Convertible Notes have been sold. Net proceeds to the Company from the offering, including the exercise of the overallocation option, are approximately \$111.3 million. The Convertible Notes were only offered to qualified institutional buyers as defined in the Securities Act pursuant to Rule 144A under the Securities Act.

The Convertible Notes are unsecured and bear interest at a rate of 5.50% per year, payable semi-annually in arrears. In certain circumstances and during certain periods, the Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 86.0585 shares of common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$11.62 per share of our common stock, subject to defined anti-dilution adjustments. We do not have the right to redeem the Convertible Notes prior to maturity. The Convertible Notes mature on February 15, 2018, unless repurchased or converted in accordance with their terms prior to such date.

There can be no assurance that we will be able to replace the Convertible Notes upon their maturity on terms that are favorable to us, if at all. Our ability to replace the Convertible Notes will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to replace or repay the Convertible Notes at the time of their maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC.

***Our Term Loan matures in May 2018, and any inability to renew, extend or replace our Term Loan could adversely impact our liquidity.***

On March 27, 2014, the Company entered into an Amended and Restated Senior Secured Term Loan Credit Agreement (the “Term Loan”) which has a principal amount of \$15,000,000. The Term Loan has a stated maturity date of March 27, 2019. The interest rate applicable to borrowings thereunder is generally LIBOR plus an applicable margin of 3.25%. There can be no assurance that we will be able to renew, extend or replace the Term Loan upon its maturity on terms that are favorable to us, if at all. Our ability to renew, extend or replace the Term Loan will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to renew, extend or replace the Term Loan at the time of its maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC.

***If we incur additional debt, it could increase the risk of investing in our common stock.***

We have indebtedness outstanding pursuant to our Credit Facility and may enter into new facilities and/or may increase the size of our existing credit facilities. We currently have outstanding \$175 million of Senior Secured Notes, \$115 million of Convertible Notes and \$15 million of Term Loan. Lenders under our Credit Facility, Senior Secured Notes and Convertible Senior Notes have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. We have granted a security interest in our assets in connection with our Credit Facility, Senior Secured Notes and the Term Loan.

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

As a BDC, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock we may issue in the future, of at least 200%. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions.

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation is based on our level of borrowing at December 31, 2014, which represented borrowings equal to 34% of our total assets. On such date, we also had \$1,302.1 million in total assets; an average cost of funds of 4.9%; \$448.2 million in debt outstanding; and \$782.0 million of total net assets. In order to compute the “Corresponding Return to Common Stockholders,” the “Assumed Return on Portfolio (Net of Expenses Other than Interest)” is multiplied by the total value of our assets at December 31, 2014 to obtain an assumed return to us. From this amount, the interest expense calculated by multiplying the interest rate of 4.9% by the \$448.2 million debt is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our

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net assets at December 31, 2014 to determine the “Corresponding Return to Common Stockholders.” Actual interest payments may be different.

<u>Assumed Return on Portfolio (Net of Expenses Other than Interest)(1)</u>	<u>-10%</u>	<u>-5%</u>	<u>0%</u>	<u>5%</u>	<u>10%</u>
<u>Corresponding Return to Common Stockholders</u>	<u>-19.5%</u>	<u>-11.1%</u>	<u>-2.8%</u>	<u>5.5%</u>	<u>13.8%</u>

- (1) The assumed portfolio return in the table is based on SEC regulations and is not a prediction of, and does not represent, our projected or actual performance. The table also assumes that we will maintain a constant level of leverage. The amount of leverage that we use will vary from time to time.

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

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

- shares of our common stock are exposed to incremental risk of loss; therefore, a decrease in the value of our investments would have a greater negative impact on the value of our common shares than if we did not use leverage;
- adverse changes in interest rates could reduce or eliminate the incremental income we make with the proceeds of any leverage;
- our ability to make distributions on our common stock will be restricted if our asset coverage ratio is not at least 200% and any amounts used to service indebtedness or preferred stock may not be available for such distributions;
- such securities are governed by an indenture or other instrument containing covenants restricting our operating flexibility;
- we, and indirectly our stockholders, bear the cost of issuing and paying interest or making distributions on such securities; and
- any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock.

### ***There is a risk that we may not make distributions and consequently will be subject to corporate-level income tax.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Also, restrictions and provisions in our existing and any future debt arrangements may limit our ability to make distributions. If we do not distribute a certain percentage of our income annually, we could fail to qualify for tax treatment as a RIC, and we would be subject to corporate-level federal income tax. See “Material U.S. Federal Tax Matters.” We cannot assure you that you will receive distributions at a particular level or at all.

### ***There is a risk that a portion of our distributions to stockholders may include a return of stockholder capital.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distributions. A portion of such distributions may include a return of stockholder capital. Distributions in excess of our current and accumulated earnings and profits are considered non-taxable distributions and serve to reduce the basis of our shares in the hands of the common stockholders rather than being currently taxable.

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

In accordance with U.S. generally accepted accounting principles, or GAAP, and tax regulations, we include in income certain amounts that we have not yet received in cash, such as payment-in-kind, or PIK, interest, which represents contractual interest added to the loan balance and due at the end of the loan term. The increases in loan balances as a result of contracted PIK arrangements are included in income for the period in which such PIK interest was received, which is often in advance of receiving cash payment. We also may be required to include in income certain other amounts that we will not receive in cash. Any warrants that we receive in connection with our debt investments are generally valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants are allocated to the warrants that we receive. This will generally result in “original issue discount” for tax purposes, which we must recognize as ordinary income, increasing the amounts we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because such original issue discount income would not be accompanied by cash, we would need to obtain cash from other sources to satisfy such distribution requirements. If we are unable to obtain cash from other sources to satisfy such distribution requirements, we may fail to qualify for favorable tax treatment as a RIC and, thus, could become subject to a corporate-level income tax on all of our income. Other features of the debt instruments that we hold may also cause such instruments to generate original issue discount, resulting in a distribution requirement in excess of current cash received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. If we are unable to meet these distribution requirements, we will not qualify for favorable tax treatment as a RIC or, even if such distribution requirements are satisfied, we may be subject to tax on the amount that is undistributed. Accordingly, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements and avoid tax. See “Material U.S. Federal Tax Matters.”

***To the extent OID and PIK interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.***

Our investments may include OID instruments and PIK interest arrangements, which represents contractual interest added to a loan balance and due at the end of such loan’s term. To the extent OID or PIK interest constitute a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

- The higher interest rates of OID and PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.
- Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.
- OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. OID and PIK income may also create uncertainty about the source of our cash distributions.
- For accounting purposes, any cash distributions to shareholders representing OID and PIK income are not treated as coming from paid-in capital, even if the cash to pay them comes from offering proceeds. As a result, despite the fact that a distribution representing OID and PIK income could be paid out of amounts invested by our stockholders, the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.
- PIK interest has the effect of generating investment income at a compounding rate, thereby further increasing the incentive fees payable to the Adviser. Similarly, all things being equal, the deferral associated with PIK interest also decreases the loan-to-value ratio at a compounding rate.

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***Because we are required to distribute substantially all of our net investment income and net realized capital gains to our stockholders, we will continue to need additional capital to finance our growth.***

We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. If we can meet certain requirements, including source of income, asset diversification and distribution requirements, and if we continue to qualify as a BDC, we will continue to qualify to be a RIC under the Code and will not have to pay corporate-level taxes on income we distribute to our stockholders, allowing us to substantially reduce or eliminate our corporate-level tax liability. As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, if at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value and profitability could decline.

***Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized losses in our investment portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods.

***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.***

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act, or the subsequent testing by our independent registered public accounting firm (when undertaken, as noted below), may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors and lenders to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

***Our current or future Advisor and its affiliates, officers and employees may have certain conflicts of interest.***

The Advisor, its officers and employees and members of its investment committee serve or may serve as investment advisers, officers, directors or principals of entities or investment funds that operate in the same or a related line of business as us and/or of investment funds managed by our affiliates. Accordingly, these individuals may have obligations to investors in those entities or funds, the fulfillment of which might not be in our best interests or the best interests of our stockholders. In addition, we note that any affiliated investment vehicle currently formed or formed in the future and managed by the Advisor or its affiliates may have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Advisor and/or its affiliates may face conflicts in allocating investment opportunities between us and such other entities. Although the Advisor and its affiliates will endeavor to allocate investment opportunities in a fair and equitable manner and consistent with applicable allocation procedures, it is

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possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by the Advisor or its affiliates. In any such case, if the Advisor forms other affiliates in the future, we may co-invest on a concurrent basis with such other affiliates, subject to compliance with applicable regulations and regulatory guidance, as well as applicable allocation procedures. In certain circumstances, negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance when any such order would be obtained or that one will be obtained at all.

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

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

### ***Our incentive fee structure and the formula for calculating the incentive fee may incentivize our Advisor to pursue speculative investments.***

The incentive fee payable by us to the Advisor may create an incentive for the Advisor to pursue investments on our behalf that are riskier or more speculative than would otherwise be the case in the absence of such compensation arrangement. The incentive fee payable to the Advisor is calculated based on a percentage of distributions on our common stock. The incentive fee payable by us to the Advisor also may induce the Advisor to invest on our behalf in instruments that have a deferred interest feature, even if such deferred payments would not provide cash necessary to enable us to pay current distributions to our stockholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment until the end of the term, if at all. Our net investment income used to calculate the income portion of our incentive fee, however, will include accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash and may never receive in cash if the portfolio company is unable to satisfy such interest payment obligation to us. The foregoing risks could be increased because the Advisor is not obligated to reimburse us for any incentive fee received even if we subsequently incur losses or never receive in cash income that was previously accrued.

### ***We may not replicate the success of BlackRock Kelso Capital Advisors LLC.***

As of the consummation of the Transaction we will no longer be managed by BlackRock Kelso Capital Advisors LLC. We can provide no assurance that we will replicate our historical performance when we were managed by BlackRock Kelso Capital Advisors LLC and our investment returns may be substantially lower than our returns when we were managed by BlackRock Kelso Capital Advisors LLC. Accordingly, we can offer no assurance that the Advisor will be able to implement our investment objective with the same degree of success as BlackRock Kelso Capital Advisors LLC had in the past or that shares of our common stock will trade at or above the current level.

### ***We are not managed by BlackRock, but rather one of its subsidiaries and may not replicate the success of that entity.***

Our performance may be lower or higher than the performance of other entities managed by BlackRock or its affiliates and their past performance is no guarantee of our future result.

### ***We may not replicate the success of BlackRock.***

Our investment strategies differ from those of BlackRock or its affiliates. As a BDC, we are subject to certain investment restrictions that do not apply to BlackRock. Our performance may be lower or higher than the performance of other entities managed by BlackRock or its affiliates and their past performance is no guarantee of our future results.

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***We may not replicate the historical performance of other investment companies and funds with which our investment professionals have been affiliated.***

The 1940 Act imposes numerous constraints on the investment activities of BDCs. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies (public companies with a market capitalization of less than \$250 million), cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder our Advisor's ability to take advantage of attractive investment opportunities and to achieve our investment objectives. In addition, the investment philosophy and techniques used by our Advisor may differ from those used by other investment companies and funds advised by our Advisor. Accordingly, we can offer no assurance that we will replicate the historical performance of other investment companies and funds with which our investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

***Substantially all of our portfolio investments are recorded at fair value as determined in good faith by or under the direction of our Board of Directors and, as a result, there is uncertainty regarding the value of our portfolio investments.***

There is not a readily available market value for substantially all of the investments in our portfolio. We value these investments quarterly at fair value as determined in good faith under the direction of our Board of Directors using a consistently applied valuation process in accordance with a documented valuation policy that has been reviewed and approved by our Board of Directors. Our Board of Directors utilizes the services of one or more independent valuation firms to aid in determining the fair value of these investments. Due to the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments and may differ materially from the amounts we realize on any dispositions of such investments. In addition, the impact of changes in the market environment and other events on the fair values of our investments that have no readily available market values may differ from the impact of such changes on the readily available market values for our other investments. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such investments.

***We may in the future determine to fund a portion of our investments by issuing preferred stock, which would magnify the potential gains or losses and the risks of investing in us in the same manner as our borrowings.***

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders and preferred stockholders are not subject to any of our expenses or losses, and are not entitled to participate in any income or appreciation in excess of their stated preference.

***We may experience fluctuations in our periodic results.***

We could experience fluctuations in our periodic results due to a number of factors, some of which are beyond our control, including our ability to make investments in companies that meet our investment criteria, the interest rates payable on the debt investments we make, the default rate on such investments, the level of our expenses (including the interest rates payable on our borrowings and the dividend rates on any preferred stock we may issue), variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.



***Changes in interest rates may affect our cost of capital and net investment income.***

General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net investment income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high-yield bonds, and also could increase our interest expense, thereby decreasing our net investment income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our distributions rate, which could reduce the value of our common stock.

***We face cyber-security risks.***

Our business operations rely upon secure information technology systems for data processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could have a material adverse effect on our business, results of operations and financial condition.

***The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.***

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

***We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.***

Our business is dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;

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- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

### **Risks Related to Our Investments**

*Our investments are risky and highly speculative, and we could lose all or part of our investment.*

Investing in private middle-market companies involves a high degree of risk and our financial results may be affected adversely if one or more of our significant portfolio investments defaults on its loans or fails to perform as we expect. We invest 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.

Investing in private middle-market companies involves a number of significant risks, including these companies:

- may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity;
- our executive officers, directors and the Advisor may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies;
- there is generally little public information about these companies; these companies and their financial information are not subject to the Exchange Act and other regulations that govern public companies, and we may be unable to uncover all material information about these companies, which may prevent us from making a fully informed investment decision and cause us to lose money on our investments;
- changes in laws and regulations, as well as their interpretations, may adversely affect the business, financial structure or prospects of these companies; and
- these companies may have difficulty accessing the capital markets to meet future capital needs.

In addition, in the course of providing significant managerial assistance to certain of our portfolio companies, certain of our officers and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, our officers and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through our indemnification of such officers and directors) and the diversion of management time and resources.

***We and the Advisor may be a party to legal proceedings in connection with our investments in our portfolio companies.***

From time to time, we and the Advisor may be a party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. While we cannot predict the outcome of these legal proceedings with certainty, we do not expect that these proceedings will have a material effect on our consolidated financial statements. We have been named as a defendant, together with BlackRock Kelso Capital Advisors LLC, our current investment adviser, and certain other defendants, in two wrongful death and personal injury actions filed in West Virginia at the facilities of one of our portfolio companies. We and BlackRock Kelso Capital Advisors LLC have filed motions to dismiss both cases. The litigations are in the early stages and it is not possible to predict with a reasonable degree of certainty the likelihood of an unfavorable outcome or the range of a potential loss, if any.

***An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.***

We invest primarily in privately held companies. Generally, little public information exists about these companies. We must therefore rely on the ability of our investment adviser to obtain adequate information to evaluate the potential risks of investing in these companies. These companies and their financial information generally are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. These factors could affect our investment returns.

***Our investments in lower credit quality obligations are risky and highly speculative, and we could lose all or part of our investment.***

Most of our debt investments are likely to be in lower grade obligations. The lower grade investments in which we invest may be rated below investment grade by one or more nationally-recognized statistical rating agencies at the time of investment or may be unrated but determined by the Advisor to be of comparable quality. Debt securities rated below investment grade are commonly referred to as “junk bonds” and are considered speculative with respect to the issuer’s capacity to pay interest and repay principal. The debt that we invest in typically is not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than “Baa3” by Moody’s Investors Service, lower than “BBB-” by Fitch Ratings or lower than “BBB-” by Standard & Poor’s). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

Investment in lower grade investments involves a substantial risk of loss. Lower grade securities or comparable unrated securities are considered predominantly speculative with respect to the issuer’s ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for lower grade debt tend to be very volatile and are less liquid than investment grade securities. For these reasons, your investment in our company is subject to the following specific risks: increased price sensitivity to a deteriorating economic environment; greater risk of loss due to default or declining credit quality; adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and if a negative perception of the lower grade debt market develops, the price and liquidity of lower grade securities may be depressed. This negative perception could last for a significant period of time.

***Any investments in distressed debt obligations may not produce income and may require us to bear large expenses in order to protect and recover our investment.***

At times, distressed debt obligations may not produce income and may require us to bear certain extraordinary expenses (including legal, accounting, valuation and transaction expenses) in order to protect and recover our investment. Therefore, to the extent we invest in distressed debt, our ability to achieve current

income for our stockholders may be diminished. We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt we invest in will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt we hold, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of our participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

***If we invest in preferred stock, we may incur additional risks.***

To the extent we invest in preferred securities, we may incur particular risks, including:

- Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes before we receive such distributions. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments; and
- Generally, preferred security holders have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

***Our equity investments may decline in value.***

The equity securities in which we invest may not appreciate or may decline in value. We may thus not be able to realize gains from our equity securities, and any gains that we do realize on the disposition of any equity securities may not be sufficient to offset any other losses we experience. As a result, the equity securities in which we invest may decline in value, which may negatively impact our ability to pay distributions and cause you to lose all or part of your investment.

***We may expose ourselves to risks if we engage in hedging transactions.***

We may enter into hedging transactions, which could expose us to risks associated with such transactions. We may utilize instruments such as forward contracts and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions and amounts due under our debt arrangements from changes in market interest rates. Use of these hedging instruments may include counterparty credit risk. Utilizing such hedging instruments does not eliminate the possibility of fluctuations in the values of such positions and amounts due under our debt arrangements or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions will depend on our ability to correctly predict movements and interest rates. Therefore, while we may enter into such transactions to seek to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not

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engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings or debt arrangements being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. See also “—Changes in interest rates may affect our cost of capital and net investment income.”

### ***Economic recessions or downturns could impair our portfolio companies and harm our operating results.***

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets may increase and the value of our portfolio may decrease during these periods as we are required to record the values of our investments. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

### ***Cyclical nature of the energy sector may adversely affect some of our portfolio companies.***

Industries within the energy sector are cyclical with fluctuations in commodity prices and demand for, and production of commodities driven by a variety of factors. The highly cyclical nature of the industries within the energy sector may lead to volatile changes in commodity prices, which may adversely affect the earnings of energy companies in which we may invest and the performance and valuation of our portfolio.

### ***The lack of liquidity in our investments may adversely affect our business.***

We make investments in private companies. A portion of these investments may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or the Advisor has or could be deemed to have material non-public information regarding such business entity.

### ***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

Our portfolio companies usually will have, or may be permitted to incur, other debt that ranks equally with, or senior to, debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligations to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. In addition, we may not be in a position to control any portfolio company by investing in its debt securities. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree, and the management of such company, as representatives of the holders of its common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors.

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***Because we generally do not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.***

We generally do not hold controlling equity positions in our portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or stockholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

***Concentration of our assets in an issuer, industry or sector may present more risks than if we were more broadly diversified over numerous issuers, industries and sectors of the economy.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company.

In addition, we may, from time to time, invest a substantial portion of our assets in the securities of issuers in any single industry or sector of the economy or in only a few issuers. We cannot predict the industries or sectors in which our investment strategy may cause us to concentrate and cannot predict the level of our diversification among issuers to ensure that we satisfy diversification requirements for qualification as a RIC for U.S. federal income tax purposes. A downturn in an industry or sector in which we are concentrated would have a larger impact on us than on a company that does not concentrate in that particular industry or sector. Furthermore, the Advisor has not made and does not intend to make any determination as to the allocation of assets among different classes of securities. At any point in time we may be highly concentrated in a single type of asset, such as junior unsecured loans or distressed debt. Consequently, events which affect a particular asset class disproportionately could have an equally disproportionate effect on us.

***Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.***

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments in order to: (i) increase or maintain in whole or in part our equity ownership percentage; (ii) exercise warrants, options or convertible securities that were acquired in the original or any subsequent financing; or (iii) attempt to preserve or enhance the value of our investments. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We will have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to maintain or increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, either because we prefer other opportunities or because we are subject to BDC requirements that would prevent such follow-on investments or the desire to maintain our RIC status.

***Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social

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instability, expropriation, imposition of foreign taxes (potentially at confiscatory levels), less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments are denominated in U.S. dollars, our investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency may change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

### ***Our investments in the healthcare sector face considerable uncertainties including substantial regulatory challenges.***

Our investments in the healthcare sector are subject to substantial risks. The laws and rules governing the business of healthcare companies and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Existing or future laws and rules could force our portfolio companies engaged in healthcare to change how they do business, restrict revenue, increase costs, change reserve levels, change business practices and increase liability in federal and state courts. Healthcare companies often must obtain and maintain regulatory approvals to market many of their products, change prices for certain regulated products and to consummate some of their acquisitions and divestitures. Delays in obtaining or failure to obtain or maintain these approvals could reduce revenue or increase costs. Policy changes on the local, state and federal level, such as the expansion of the government's role in the health care arena and alternative assessments and tax increases specific to the healthcare industry or healthcare products as part of federal health care reform initiatives, could fundamentally change the dynamics of the healthcare industry.

### ***The effect of global climate change may impact the operations of our portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

## **Risks Related to Our Operations as a BDC**

### ***Our ability to enter into transactions with our affiliates is restricted.***

We are prohibited under the 1940 Act from knowingly participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security (other than our securities) from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, of the SEC. We are prohibited from buying or selling any security from or to any person who owns

more than 25% of our voting securities or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC through an exemptive order (other than in certain limited situations pursuant to current regulatory guidance). The analysis of whether a particular transaction constitutes a joint transaction requires a review of the relevant facts and circumstances then existing. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates.

***Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.***

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as "senior securities," and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such issuance or incurrence. Our ability to make distributions or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

- *Senior Securities.* As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities they would rank "senior" to common stock in our capital structure, preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stockholders. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in the best interests of our common stockholders.
- *Additional Common Stock.* Our Board of Directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value, or issue securities convertible into common stock, without first obtaining the required approvals from our stockholders and our independent directors. We may also make rights offerings to our stockholders. If we raise additional capital by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.
- *Securitization.* In addition to issuing securities to raise capital as described above, we anticipate that in the future we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect would be willing to accept a substantially lower interest rate than the loans earn. We would retain all or a portion of the equity in the securitized pool of loans. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.



***Stockholders will likely incur dilution if we sell or otherwise issue shares of our common stock or securities to subscribe for or convertible into shares of our common stock at prices below the then current net asset value per share of our common stock.***

We obtained approval at our 2014 Special Meeting of Stockholders to allow us the flexibility, with the approval of our Board of Directors, to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share during the twelve month period following stockholders approval at the 2014 Special Meeting, subject to the policy of our Board of Directors that the Company shall not sell or otherwise issue more than 25% of the Company's then outstanding shares of common stock (immediately prior to such sale or issuance) at a price below its then current net asset value per share. Since we obtained this approval from stockholders, we may issue shares of our common stock at a price below its then current net asset value per share, subject to the foregoing conditions and the determination by our Board of Directors that such issuance and sale is in our and our stockholders' best interests.

In addition, we may also issue shares in certain limited circumstances under our dividend reinvestment plan and under interpretive advice issued by the Internal Revenue Service. Any sale or other issuance of shares of our common stock at a price below net asset value per share would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted. We caution you that such effects may be material, and we undertake to describe material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

***Changes in the laws or regulations governing our business or the businesses of our portfolio companies and any failure by us or our portfolio companies to comply with these laws or regulations could negatively affect the profitability of our operations or of our portfolio companies.***

We are subject to changing rules and regulations of federal and state governments, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and The NASDAQ Global Select Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations. In particular, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, financial condition and results of operations.

***Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.***

The 1940 Act imposes numerous constraints on the operations of BDCs. Any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a BDC. If we decide to withdraw our election, or if we otherwise fail to

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qualify, or maintain our qualification, as a BDC, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business.

***If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.***

As a BDC, we may not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could be found to be in violation of the 1940 Act provisions applicable to BDCs, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

***Loss of status as a RIC would reduce our net asset value and distributable income.***

We currently qualify as a RIC under the Code and intend to continue to qualify each year as a RIC. As a RIC we do not have to pay federal income taxes on our income (including realized gains) that is distributed to our stockholders, provided that we satisfy certain distribution requirements. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. If we fail to qualify for RIC status in any year, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value. In addition, if we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, we would have to establish appropriate reserves for taxes that we would have to pay on behalf of stockholders. It is possible that establishing reserves for taxes could have a material adverse effect on the value of our common stock. See “Material U.S. Federal Tax Matters.”

***We will be subject to corporate-level income tax if we are unable to maintain our qualification as a RIC under Subchapter M of the Code or do not satisfy the annual distribution requirement.***

To maintain RIC status and be relieved of federal taxes on income and gains distributed to our stockholders, we must meet the following annual distribution, income source and asset diversification requirements.

- The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act and we may be subject to certain financial covenants under our debt arrangements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.
- The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs, and other acceptable securities; and no more than 25% of the value of our assets can be

invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain “qualified publicly traded partnerships.” Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to qualify for or maintain RIC status for any reason and are subject to corporate-level income tax, the resulting corporate-level taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. The recently enacted “Regulated Investment Company Modernization Act of 2010,” which is effective for 2011 and later tax years, provides some relief from RIC disqualification due to failures of the income source and asset diversification requirements, although there may be additional taxes due in such cases. We cannot assure you that we would qualify for any such relief should we fail the income source or asset diversification requirements.

### **Risks Relating to Our Common Stock**

***Our shares of common stock have traded at a discount from net asset value and may do so again in the future, which could limit our ability to raise additional equity capital.***

Shares of closed-end investment companies, including business development companies, may trade at a market discount from net asset value. This characteristic of closed-end investment companies and business development companies is separate and distinct from the risk that our net asset value per share may decline. In the past, the stocks of BDCs as an industry, including shares of our common stock, have traded below net asset value and at historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2014 Special Meeting of Stockholders, subject to certain conditions and Board of Directors determinations, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval.

***Investing in our common stock may involve an above average degree of risk.***

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies involve higher levels of risk, and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

***The price of our common stock may fluctuate significantly.***

As with any company, the price of our common stock will fluctuate with market conditions and other factors. The market price and liquidity of the market for our common stock may from time to time be affected by a number of factors, which include, but are not limited to, the following:

- volatility in the market price and trading volume of common stocks of BDCs or other financial services companies, which are not necessarily related to the operating performance of these companies;
- investors’ general perception of our company, the economy and general market conditions;
- our quarterly results of operations;
- our origination activity, including the pace of, and competition for, new investment opportunities;

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- the financial performance of the specific industries in which we invest on a recurring basis, including without limitation, our investments in the business services and healthcare industries;
- announcements of strategic developments, acquisitions and other material events by us or our competitors;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;
- loss of RIC status;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of key personnel from the Advisor;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our common stock or BDCs generally;
- general economic trends and other external factors, including price and volume fluctuations in the overall stock market; and
- loss of a major funding source.

***Our shares may trade at discounts from net asset value or at premiums that are unsustainable over the long term.***

Shares of BDCs may trade at a market price that is less than the net asset value that is attributable to those shares. Our shares have traded above and below our net asset value. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

***Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.***

The shares of our common stock beneficially owned by our principal stockholders are generally available for resale, subject to the provisions of Rule 144 promulgated under the Securities Act. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

***Our capital-raising activities may have an adverse effect on the market price of our common stock.***

When we issue securities or incur debt, we generally obtain cash or cash equivalents. Any increase in our holdings of cash or cash equivalents could adversely affect the prevailing market prices for our common stock, especially if we are unable to timely deploy the capital in suitable investments. The adverse impact on the prevailing market prices for our common stock could be greater if we issue debt securities or other securities requiring the payment of interest and are unable to timely deploy the capital in suitable investments.

***There is a risk that investors in our equity securities may not receive distributions or that our distributions may not grow over time.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. There can be no assurance that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we declare a distribution

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and if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to sell some of our investments in order to make cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution.

***If we issue preferred stock, the net asset value and market value of our common stock may become more volatile.***

We cannot assure you that the issuance of preferred stock would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of our common stock than if we had not issued preferred stock. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This greater net asset value decrease would also tend to cause a greater decline in the market price of our common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing our ratings on the preferred stock or, in an extreme case, our current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher incentive fees if our total return exceeds the dividend rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

***We may in the future determine to issue preferred stock, which could adversely affect the market value of our common stock.***

The issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. In addition, the dividends on any preferred stock we issue must be cumulative. Payment of dividends and repayment of the liquidation preference of preferred stock must take preference over any dividends or other payments to our common stockholders, and holders of preferred stock are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference (other than convertible preferred stock that converts into common stock). In addition, under the 1940 Act, preferred stock constitutes a "senior security" for purposes of the 200% asset coverage test.

***Holders of any preferred stock we might issue would have the right to elect members of our Board of Directors and class voting rights on certain matters.***

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of our Board of Directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for federal income tax purposes. While we would intend to redeem

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our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

*Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.*

The Delaware General Corporation Law, our amended certificate of incorporation and our amended and restated bylaws contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our amended certificate of incorporation and amended and restated bylaws dividing our board of directors in three classes serving staggered three-year terms, requiring the affirmative vote of the holders of 75% of the then outstanding shares of our capital stock entitled to vote to remove a director for cause, and, subject to the rights of any holders of preferred stock, filling any vacancy on our Board of Directors only by a vote of a majority of the directors then in office. The classification of our Board of Directors and the limitations on removal of directors and filling of vacancies could have the effect of making it more difficult for a third party to acquire us, or of discouraging a third party from acquiring us. Our certificate of incorporation and bylaws also provide that special meetings of the stockholders may only be called by our Board of Directors, Chairman, Chief Executive Officer or Secretary. These provisions, as well as other provisions of our amended certificate of incorporation and our amended and restated bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We do not own any real estate or other physical properties materially important to our operation. Our administrative and principal executive offices are located at 40 East 52<sup>nd</sup> Street, New York, NY 10022. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

### **Item 3. Legal Proceedings**

From time to time, we and the Advisor may be a party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. While we cannot predict the outcome of these legal proceedings with certainty, we do not expect that these proceedings will have a material effect on our consolidated financial statements.

### **Item 4. Mine Safety Disclosures**

Not applicable

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Price range of common stock**

Our common stock is quoted on The NASDAQ Global Select Market under the symbol "BKCC". The following table lists the high and low closing sales price for our common stock, the closing sales price as a percentage of net asset value per share ("NAV"), and quarterly distributions per share for the years ended December 31, 2014 and 2013.

	NAV(1)	Closing Sales Price			Premium/ Discount of High Sales Price to NAV(2)	Premium/ Discount of Low Sales Price to NAV(2)	Quarter End Price to NAV(3)	Declared Distributions
		High	Low	Quarter End Price				
<b>Year Ended December 31, 2014</b>								
First Quarter	\$ 9.59	\$ 9.64	\$9.11	\$ 9.17	1%	(5)%	(4)%	\$ 0.26
Second Quarter	\$ 9.79	\$ 9.29	\$8.39	\$ 9.11	(5)%	(14)%	(7)%	\$ 0.21
Third Quarter	\$ 9.97	\$ 9.35	\$8.54	\$ 8.54	(6)%	(14)%	(14)%	\$ 0.21
Fourth Quarter	\$10.49	\$ 8.99	\$8.00	\$ 8.20	(14)%	(24)%	(22)%	\$ 0.21
<b>Year Ended December 31, 2013</b>								
First Quarter	\$ 9.47	\$10.69	\$9.87	\$ 10.00	13%	4%	6%	\$ 0.26
Second Quarter	\$ 9.37	\$10.21	\$9.15	\$ 9.36	9%	(2)%	0%	\$ 0.26
Third Quarter	\$ 9.38	\$10.30	\$9.48	\$ 9.48	10%	1%	1%	\$ 0.26
Fourth Quarter	\$ 9.54	\$ 9.89	\$9.17	\$ 9.33	4%	(4)%	(2)%	\$ 0.26

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of relevant quarter.
- (2) The High/Low Closing Sales Price is calculated as of the close of trading on the NASDAQ on a given day in the applicable quarter and the premium/discount of the High/Low Sales Price to NAV is calculated as a percentage of NAV.
- (3) Calculated as quarter end price divided by NAV.

**Holders**

At March 5, 2015, there were approximately 292 holders of record of our common stock. Such number of stockholders includes institutional or omnibus accounts that hold common stock for multiple underlying investors.

**Distributions**

Our quarterly distributions, if any, are determined by our Board of Directors. Distributions are declared considering our estimate of annual taxable income available for distribution to stockholders and the amount of taxable income carried over from the prior year for distribution in the current year. We cannot assure stockholders that they will receive any distributions or distributions at a particular level. Distributions declared by the Company since July 25, 2005 (inception of operations) have been as follows:

<b>Distribution Amount Per Share Outstanding</b>	<b>Record Date</b>	<b>Payment Date</b>
\$0.20	December 31, 2005	January 31, 2006
\$0.20	March 15, 2006	March 31, 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	March 31, 2008
\$0.43	June 16, 2008	June 30, 2008
\$0.43	September 15, 2008	September 30, 2008
\$0.43	December 15, 2008	December 31, 2008
\$0.16	March 20, 2009	April 3, 2009
\$0.16	June 19, 2009	July 2, 2009
\$0.16	September 18, 2009	October 2, 2009
\$0.32	December 21, 2009	January 4, 2010
\$0.32	March 22, 2010	April 5, 2010
\$0.32	May 17, 2010	July 2, 2010
\$0.32	September 17, 2010	October 1, 2010
\$0.32	December 20, 2010	January 3, 2011
\$0.32	March 18, 2011	April 1, 2011
\$0.26	June 17, 2011	July 1, 2011
\$0.26	September 19, 2011	October 3, 2011
\$0.26	December 21, 2011	January 4, 2012
\$0.26	March 20, 2012	April 3, 2012
\$0.26	June 19, 2012	July 3, 2012
\$0.26	September 19, 2012	October 3, 2012
\$0.26	December 20, 2012	January 3, 2013
\$0.26	March 19, 2013	April 2, 2013
\$0.26	June 18, 2013	July 2, 2013
\$0.26	September 19, 2013	October 3, 2013
\$0.26	December 20, 2013	January 3, 2014
\$0.26	March 20, 2014	April 3, 2014
\$0.21	June 18, 2014	July 2, 2014
\$0.21	September 19, 2014	October 3, 2014
\$0.21	December 24, 2014	January 7, 2015
\$0.21	March 20, 2015	April 3, 2015



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

We have elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain favorable RIC tax treatment, we must distribute annually to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. Under the Regulated Investment Company Modernization Act of 2010, capital losses incurred by the Company after December 31, 2010 will not be subject to expiration. In addition, such losses must be utilized prior to the losses incurred in the years preceding enactment. In order to avoid certain excise taxes imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of:

- 98% of our ordinary income for the calendar year;
- 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31st; and
- any ordinary income and net capital gains for preceding years that were not distributed during such years.

We may, at our discretion, carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. If we choose to do so, all other things being equal, this would increase expenses and reduce the amounts available to be distributed to our stockholders. We will accrue excise tax on estimated taxable income as required. In addition, although we currently intend to distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. There was no provision for federal excise taxes recorded for the years ended December 31, 2014, 2013 and 2012.

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, stockholders’ cash distributions 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 distributions. With respect to our distributions paid to stockholders during the years ended December 31, 2014, 2013 and 2012, distributions reinvested pursuant to our dividend reinvestment plan totaled \$4,143,503, \$5,288,757 and \$5,591,912, respectively.

Under the terms of an amendment to our dividend reinvestment plan adopted on March 4, 2009, distributions may be made in newly issued or treasury shares of our common stock at a price equal to 95% of the market price on the payment date. This feature of the plan means that, under certain circumstances, we may issue shares of our common stock at a price below net asset value per share, which could cause our stockholders to experience dilution.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. Also, we may be limited in our ability to make distributions due to the asset coverage test applicable to us as a BDC under the 1940 Act and due to provisions in our existing and future debt arrangements. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of favorable RIC tax treatment. In addition, in accordance with GAAP and tax regulations, we include in income certain amounts that we have not yet received in cash, such as PIK interest, which represents contractual interest added to the loan balance that becomes due at the end of the loan term, or the accrual of original issue or market discount. Since we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our investment company taxable income to obtain tax benefits as a RIC and may be subject to an excise tax.

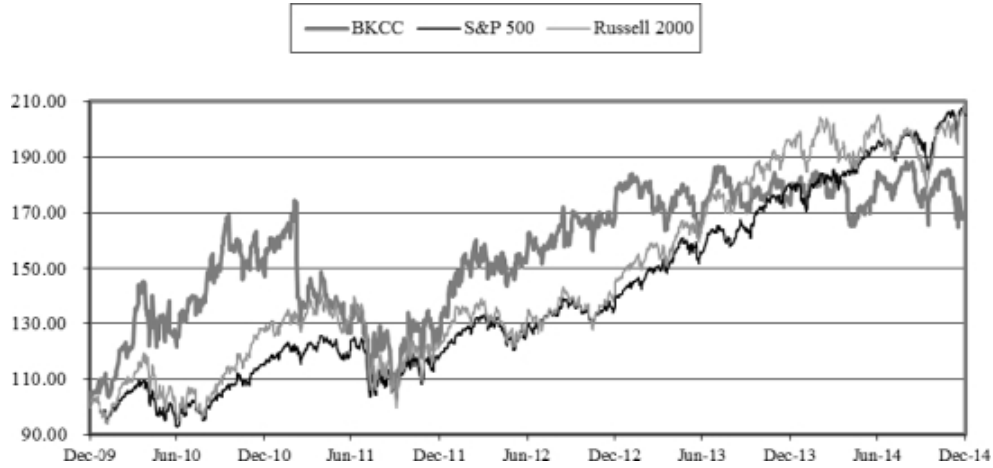
In order to satisfy the annual distribution requirement applicable to RICs, we have the ability to declare a large portion of a distribution in shares of our common stock instead of in cash. As long as a portion of such

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distribution is paid in cash (which portion can be as low as 10% for our taxable years ending prior to 2012) and certain requirements are met, the entire distribution would be treated as a dividend for U.S. federal income tax purposes.

**Stock performance graph**

The following graph compares the return on our common stock with that of the Standard & Poor’s 500 Stock Index and the Russell 2000 Index for the period December 31, 2009 through December 31, 2014. The graph assumes that, on December 31, 2009, a person invested \$100 in each of our common stock (“BKCC” in the graph), the S&P 500 Index (“S&P 500”), and the Russell 2000 Index (“Russell 2000”). The graph measures total shareholder return, which takes into account both changes in stock price and distributions. It assumes that distributions paid are invested in like securities.



The graph and other information furnished under this part II Item 5 of this Form 10-K shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, or the Exchange Act. The stock price performance included in the above graph is not necessarily indicative of future stock performance.

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**Item 6. Selected Financial Data**

The unaudited Consolidated Statement of Operations Data, Consolidated Per Share Data and Consolidated Balance Sheet Data for each of the five years in the period ended December 31, 2014 are derived from our consolidated financial statements which have been audited by Deloitte & Touche LLP, our independent registered public accounting firm. This selected financial data should be read in conjunction with our consolidated financial statements and related notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report.

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
(Dollars in thousands, except per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Total Investment Income	\$ 134,418	\$ 131,626	\$ 147,291	\$ 131,503	\$ 105,871
Total Expenses	84,046	83,988	73,629	58,624	46,020
Net Investment Income	50,372	47,638	73,662	72,879	59,851
Net Realized and Unrealized Gain (Loss)	86,868	45,351	(16,310)	4,042	11,699
Net Increase (Decrease) in Net Assets Resulting from Operations	137,240	92,989	57,351	76,921	71,550
<b>Consolidated Per Share Data:</b>					
Net Asset Value Per Common Share at Year End	\$ 10.49	\$ 9.54	\$ 9.31	\$ 9.58	\$ 9.62
Market Price at Year End	8.20	9.33	10.06	8.16	11.06
Net Investment Income	0.68	0.64	1.00	1.00	0.96
Net Realized and Unrealized Gain (Loss)	1.16	0.61	(0.22)	0.05	0.18
Net Increase (Decrease) in Net Assets Resulting from Operations	1.84	1.25	0.78	1.05	1.14
Distributions Declared	0.89	1.04	1.04	1.10	1.28
<b>Consolidated Balance Sheet Data at Year End:</b>					
Total Assets	\$ 1,302,056	\$ 1,281,647	\$ 1,090,018	\$ 1,091,175	\$ 915,608
Borrowings Outstanding	448,228	477,981	346,850	343,000	170,000
Total Net Assets	781,959	709,704	687,380	701,009	698,480
<b>Other Data:</b>					
Total Return(1)	(2.18)%	3.6%	38.0%	(16.0)%	48.4%
Number of Portfolio Companies at Year End	47	51	47	54	50
Value of Investments at Year End	\$ 1,257,717	\$ 1,217,972	\$ 1,061,598	\$ 1,048,952	\$ 880,086
Yield on Investments at Year End(2)	11.6%	12.0%	12.2%	11.9%	10.9%

*Figures may not total due to rounding*

- (1) For the years ended December 31, 2014, 2013, 2012, 2011 and 2010, total return is based on the change in market price during the respective years. Total return calculations take into account distributions, if any, reinvested in accordance with the Company’s dividend reinvestment plan and do not reflect brokerage commissions. Total return is not annualized.
- (2) Yield on investments at year end represents the weighted average yield on the debt and income producing equity securities in our portfolio at their current cost basis. Yields are computed using interest rates and dividend yields at year end and include amortization of loan origination and commitment fees, original issue discount and market premium or discount. Yields exclude common equity investments, preferred equity investments with no stated dividend rate, short-term investments, and cash and cash equivalents.

**Item 7. 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 Selected Financial Data and our consolidated financial statements and notes thereto appearing elsewhere in this Annual Report.*

**Forward-looking statements**

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

In addition to factors previously disclosed in our SEC reports and those identified elsewhere in this report, including the “Risk Factors” section, 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, including our ability to obtain continued financing on favorable terms;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of increased competition;
- the ability of the Advisor to locate suitable investments for us and to monitor and administer our investments;
- potential conflicts of interest in the allocation of opportunities between us and other investment funds managed by the Advisor or its affiliates;
- the ability of the Advisor to attract and retain highly talented professionals;
- fluctuations in foreign currency exchange rates; and
- the impact of changes to tax legislation and, generally, our tax position.

**Overview**

We were incorporated in Delaware on April 13, 2005, commenced operations with private funding on July 25, 2005 and completed our initial public offering on July 2, 2007. Our investment objective is to generate

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both current income and capital appreciation through our debt and equity investments. We invest primarily in middle-market companies and target investments throughout the capital structure that we believe provide an attractive risk-adjusted return. Although most of our investments are in senior and junior secured, unsecured and subordinated loans to U.S. private and certain public middle-market companies, we invest throughout the capital structure, which may include common and preferred equity, options and warrants, credit derivatives, high-yield bonds, distressed debt and other structured securities.

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 or thinly traded public U.S. companies, cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less.

### ***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 generally do 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 most private companies, companies whose securities are not listed on a national securities exchange, and certain public companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million. 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.

### ***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 typically bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly or semi-annually. 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, capital structuring or due diligence fees, fees for providing significant managerial assistance.

### ***Expenses***

Our primary operating expenses include the payment of a base management fee and, depending on our operating results, an incentive management fee, interest and credit facility fees, expenses reimbursable under the investment management agreement (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

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Advisor 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, including those relating to:

- our organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firms);
- expenses incurred by the Advisor payable to third parties in monitoring our investments and performing due diligence on prospective portfolio companies;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of future offerings of common shares and other securities, if any;
- the base management fee and any incentive management fee;
- dividends and distributions on our preferred shares, if any, and common shares;
- administration fees payable under the administration agreement;
- fees payable to third parties relating to, or associated with, making investments;
- transfer agent, trustee, registrar, paying agent and custodial fees;
- registration fees;
- listing fees;
- taxes;
- independent director fees and expenses;
- costs of preparing and filing reports or other documents with the SEC;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- our fidelity bond;
- a portion of our directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- indemnification payments;
- direct costs and expenses of administration, including audit and legal costs; and
- all other expenses reasonably incurred by us or the Administrator, such as the allocable portion of overhead under the administration agreement, including rent and other allocable portions of the cost of certain of our officers and their respective staffs.

Additionally, the Management Agreement provides that the Advisor or its affiliates may be entitled to the Incentive Fee under certain circumstances. The determination of the Incentive Fee will result in the Advisor or its affiliates receiving no Incentive Fee payments if returns to our stockholders 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 our net asset value and does not take into account changes in the market price of our common stock. The determination of the Incentive Fee is subject to any applicable limitations under the 1940 Act and the Advisers Act.

### **Critical accounting policies**

See Note 2 to the consolidated financial statements for a description of significant accounting policies and of recently issued accounting pronouncements.

## Financial and operating highlights

At December 31, 2014:

Investment Portfolio: \$1,268.0 million

Net Assets: \$782.0 million

Indebtedness (borrowings under Credit Facility, Convertible Notes, Term Loan and Senior Secured Notes): \$448.2 million

Net Asset Value per share: \$10.49

Net Asset Value per share (excluding all incentive management fees): \$10.99

Portfolio Activity for the Year Ended December 31, 2014:

Cost of investments during period, including PIK: \$531.7 million

Sales, repayments and other exits during period: \$581.5 million

Number of portfolio companies at end of period: 47

Operating Results for the Year Ended December 31, 2014:

Net investment income per share: \$0.68

Distributions declared per share: \$0.89

Earnings per share: \$1.84

Net investment income: \$50.4 million

Net realized and unrealized gains: \$86.9 million

Net increase in net assets from operations: \$137.2 million

Net investment income per share, as adjusted<sup>1</sup>: \$0.91

Earnings per share, as adjusted<sup>1</sup>: \$2.08

Net investment income, as adjusted<sup>1</sup>: \$67.9 million

***As Adjusted<sup>1</sup>:** Amounts are adjusted to remove the incentive management fee expense based on Gains, as required by GAAP, and to include only the incremental incentive management fee expense based on Income. The incremental incentive management fee is based on each trailing four-fiscal quarter period, applied to the current quarter's incremental earnings, and without any reduction for incentive management fees paid during the prior three quarters. Amounts reflect the Company's ongoing operating results and reflect the Company's financial performance over time.*

## Portfolio and investment activity

During the year ended December 31, 2014, we invested approximately \$531.7 million of gross assets. The new investments consisted primarily of senior loans secured by first liens (\$214.2 million, or 40.3% of the total) or second liens (\$149.2 million, or 28.1%), senior secured notes (\$20.8 million, or 3.9%) and unsecured or subordinated debt securities and equity securities (\$147.5 million or 27.7%). Additionally, we received proceeds from sales, repayments and other exits of investment principal of approximately \$581.5 million during the year ended December 31, 2014.

At December 31, 2014, our portfolio of \$1,268.0 million (at fair value) consisted 47 portfolio companies was invested 52% in senior secured loans, 21% in equity investments, 18% in unsecured or subordinated debt securities, 8% in senior secured notes, and 1% in cash and cash equivalents. Our average investment by portfolio company at amortized cost, excluding investments below \$5.0 million, was approximately \$29.4 million at December 31, 2014. Our largest portfolio company investment by value was approximately \$71.0 million and our five largest portfolio company investments by value comprised approximately 25% of our portfolio at December 31, 2014. At December 31, 2013, our portfolio of \$1,236.4 million (at fair value) consisted 51 portfolio companies was invested 43% in senior secured loans, 22% in equity investments, 18% in senior secured notes, 16% in unsecured or subordinated debt securities and 1% in cash and cash equivalents. Our average investment by portfolio company at amortized cost, excluding investments below \$5.0 million, was

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approximately \$26.0 million at December 31, 2013. Our largest portfolio company investment by value was approximately \$68.6 million and our five largest portfolio company investments by value comprised approximately 22% of our portfolio at December 31, 2013.

The weighted average yield of the debt and income producing equity securities in our portfolio at fair value was 11.7% at December 31, 2014 and 12.1% at December 31, 2013. The weighted average yields on our senior secured loans and other debt securities at fair value were 11.3% and 12.9%, respectively, at December 31, 2014, versus 11.4% and 13.1%, at December 31, 2013. The weighted average yield of the debt and income producing equity securities in our portfolio at their current cost basis was 11.6% at December 31, 2014 and 12.0% at December 31, 2013. The weighted average yields on our senior secured loans and other debt securities at their current cost basis were 11.2% and 12.5%, respectively, at December 31, 2014, versus 11.4% and 13.0%, respectively, at December 31, 2013.

At December 31, 2014, 68% of our debt investments bore interest based on floating rates, such as LIBOR, the Federal Funds Rate or the Prime Rate, and 32% bore interest at fixed rates. The percentage of our total debt investments that bore floating rate interest subject to an interest rate floor was 62% at December 31, 2014. At December 31, 2013, 48% of our debt investments bore interest based on floating rates, such as LIBOR, the Federal Funds Rate or the Prime Rate, and 52% bore interest at fixed rates. The percentage of our total debt investments that bore floating rate interest subject to an interest rate floor was 45% at December 31, 2013.

## **Results of operations**

*Results comparisons are for the years ended December 31, 2014, 2013 and 2012.*

### ***Investment income***

Investment income totaled \$134,417,599, \$131,625,833 and \$147,290,596, respectively, for the years ended December 31, 2014, 2013 and 2012, of which \$77,233,860, \$76,753,443 and \$91,319,290 were attributable to interest and fees on senior secured loans, \$53,299,895, \$51,583,554 and \$52,725,965 to interest and fees earned on other debt securities, \$2,756,466, \$2,663,409 and \$3,236,501 to dividends from equity securities, \$6,752, \$8,586 and \$8,840 to interest earned on short-term investments and cash equivalents, and \$1,120,626, \$616,841 and zero to other income, respectively. The increase in investment income compared to the prior year reflects an increase in interest income due to higher average investments during the period.

### ***Expenses***

Total expenses for the years ended December 31, 2014, 2013 and 2012 were \$84,045,893, \$83,987,758 and \$73,629,064, respectively, which consisted of \$27,506,031, \$31,148,437 and \$22,491,789 in incentive management fees, \$23,641,231, \$21,629,665 and \$22,504,433 in base management fees, \$22,473,774, \$20,913,520 and \$19,606,951 interest and credit facility fees related to our debt, \$2,220,665, \$2,213,638 and \$1,229,009 in professional fees, \$2,168,611, \$2,066,737 and \$1,991,416 in investment advisor expenses, \$2,113,201, \$1,985,234 and \$2,524,915 in amortization of debt issuance costs, \$516,717, \$775,643 and \$528,559 in administrative services, \$725,500, \$653,807 and \$467,563 in director fees, and \$2,680,163, \$2,601,077 and \$2,284,429 in other expenses, respectively.

Incentive management fees for the years ended December 31, 2014, 2013 and 2012 were \$27,506,031, \$31,148,437 and \$22,491,789, respectively. With respect to incentive management fees based on income, \$9,972,822, \$10,889,088 and \$16,997,054 was earned for the years ended December 31, 2014, 2013 and 2012, respectively. In accordance with GAAP, a hypothetical liquidation is calculated for incentive fees based on gains. It should be noted, however, that a fee so calculated and accrued is not due and payable, if at all, until the end of each measurement period, or every June 30. Amounts accrued for the years ended December 31, 2014, 2013 and 2012 were \$17,533,209, \$20,259,349 and \$5,494,735, respectively.



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

Net investment income was \$50,371,706, \$47,638,075 and \$73,661,532 respectively, for the years ended December 31, 2014, 2013 and 2012. The increase in net investment income compared to the prior year is a result of an increase in fee income earned during the year ended December 31, 2014.

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

Net realized gain of \$97,080,348 for the year ended December 31, 2014 was the result of net gains realized from the disposition of our investments. Net realized gain on investments resulted primarily from the sale of common stock and warrants in Arclin Cayman Holdings Ltd., the sale of common stock of ECI Holdeco, Inc. and the sale of equity interests in Advanstar Global LLC. Net realized loss of \$64,363,418 for the year ended December 31, 2013 was the result of \$64,196,484 in net losses realized from the disposition or restructuring of our investments and \$166,934 in net loss realized on foreign currency transactions. Net realized loss on investments resulted primarily from the restructurings of Bankruptcy Management Solutions, Inc., AGY Holding Corp. and Dial Global Inc. Net realized loss of \$89,118,419 for the year ended December 31, 2012 was the result of \$87,932,990 in net losses realized from the disposition or restructuring of our investments and \$1,185,429 in net loss realized on foreign currency transactions. Net realized loss on investments resulted primarily from the disposition of our debt and equity investments in Big Dumpster Acquisition, Inc. et al, American SportWorks LLC et al, and the restructuring of our equity investment in WBS Group Holdings, LLC. Excluding the realization of the tax provision, nearly the entire net realized loss on investments represents amounts that had been reflected in net unrealized depreciation on investments in prior periods. Foreign currency losses mainly represent net losses on forward currency contracts used to mitigate the impact that changes in foreign exchange rates would have on our investments denominated in foreign currencies.

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

For the year ended December 31, 2014, the change in net unrealized appreciation or depreciation was a decrease in net unrealized appreciation of \$10,212,018. For the years ended December 31, 2013 and 2012, the change in net unrealized appreciation or depreciation was an increase in net unrealized appreciation of \$109,714,146 and \$72,808,120, respectively. The decrease in net unrealized appreciation for the year ended December 31, 2014 was comprised of a decrease in net unrealized appreciation on investments of \$9,530,823 and a net foreign currency translation loss of \$681,195. The change was mainly a result of reversals of previously recorded appreciation due to the sale of investments realized during the period. The increase in net unrealized appreciation for the year ended December 31, 2013 was comprised of an increase in net unrealized appreciation on investments of \$110,244,945 and a net foreign currency translation loss of \$530,799. The change was mainly a result of increases in the valuation of the investment portfolio as well as the reversal of previously reported accumulated unrealized depreciation realized during the period. The increase in net unrealized appreciation for the year ended December 31, 2012 was comprised of an increase in net unrealized appreciation on investments of \$71,335,341 and a net foreign currency translation gain of \$1,472,779. The change was mainly a result of the reversal of previously reported accumulated unrealized depreciation realized during the period.

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

The net increase in net assets resulting from operations was \$137,240,036, \$92,988,803 and \$57,351,233 for the years ended December 31, 2014, 2013 and 2012, respectively. The change primarily reflects the increase in net realized and unrealized gains and an increase in net investment income, for the year ended December 31, 2014.

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

During the year ended December 31, 2014, we generated operating cash flows primarily from interest earned and fees received on senior secured loans and other debt securities, as well as from sales of selected portfolio company investments or repayments of principal.

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Net cash provided by operating activities for the year ended December 31, 2014 was \$90,280,080. Our primary source of cash from operating activities during the period consisted of a net increase in net assets from operations of \$137,240,036 and net proceeds from repayments (net of purchases, including PIK of \$4,765,115) of \$49,843,182.

Net cash used in financing activities for the year ended December 31, 2014 was \$98,428,690. Our primary use of cash for financing activities was \$29,753,806 of repayments net of borrowings under the Credit Facility and distributions of \$65,867,576.

### ***Contractual obligations***

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings at December 31, 2014 is as follows:

	<b>Payments Due By Period (dollars in millions)</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>After 5 years</b>
Credit Facility(1)	\$144.0	\$ —	\$ —	\$144.0	\$ —
Term Loan	15.0	—	—	15.0	—
Senior Secured Notes	175.0	—	158.0	17.0	—
Convertible Notes	114.2	—	—	114.2	—
Interest and Credit Facility Fees Payable	8.2	8.2	—	—	—

(1) At December 31, 2014, \$261.0 million remained unused under our Credit Facility.

### ***Off-balance sheet financing***

In the normal course of business, the Company may enter into guarantees on behalf of portfolio companies. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. There were no such guarantees outstanding at December 31, 2014, 2013 or 2012.

**Distributions**

Our quarterly distributions, if any, are determined by our Board of Directors. Distributions are declared considering our estimate of annual taxable income available for distribution to stockholders and the amount of taxable income carried over from the prior year for distribution in the current year. We cannot assure stockholders that they will receive any distributions or distributions at a particular level. Distributions declared by the Company since July 25, 2005 (inception of operations) have been as follows:

<u>Distribution Amount Per Share Outstanding</u>	<u>Record Date</u>	<u>Payment Date</u>
\$0.20	December 31, 2005	January 31, 2006
\$0.20	March 15, 2006	March 31, 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	March 31, 2008
\$0.43	June 16, 2008	June 30, 2008
\$0.43	September 15, 2008	September 30, 2008
\$0.43	December 15, 2008	December 31, 2008
\$0.16	March 20, 2009	April 3, 2009
\$0.16	June 19, 2009	July 2, 2009
\$0.16	September 18, 2009	October 2, 2009
\$0.32	December 21, 2009	January 4, 2010
\$0.32	March 22, 2010	April 5, 2010
\$0.32	May 17, 2010	July 2, 2010
\$0.32	September 17, 2010	October 1, 2010
\$0.32	December 20, 2010	January 3, 2011
\$0.32	March 18, 2011	April 1, 2011
\$0.26	June 17, 2011	July 1, 2011
\$0.26	September 19, 2011	October 3, 2011
\$0.26	December 21, 2011	January 4, 2012
\$0.26	March 20, 2012	April 3, 2012
\$0.26	June 19, 2012	July 3, 2012
\$0.26	September 19, 2012	October 3, 2012
\$0.26	December 20, 2012	January 3, 2013
\$0.26	March 19, 2013	April 2, 2013
\$0.26	June 18, 2013	July 2, 2013
\$0.26	September 19, 2013	October 3, 2013
\$0.26	December 20, 2013	January 3, 2014
\$0.26	March 20, 2014	April 3, 2014
\$0.21	June 18, 2014	July 2, 2014
\$0.21	September 19, 2014	October 3, 2014
\$0.21	December 24, 2014	January 7, 2015
\$0.21	March 20, 2015	April 3, 2015

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

We have elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain favorable RIC tax treatment, we must distribute annually to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. Under the Regulated Investment Company Modernization Act of 2010, capital losses incurred by the Company after December 31, 2010 will not be subject to expiration. In addition, such losses must be utilized prior to the losses incurred in the years preceding enactment. In order to avoid certain excise taxes imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of:

- 98% of our ordinary income for the calendar year;
- 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31st; and
- any ordinary income and net capital gains for preceding years that were not distributed during such years.

We may, at our discretion, carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. If we choose to do so, all other things being equal, this would increase expenses and reduce the amounts available to be distributed to our stockholders. We accrue excise tax on estimated taxable income as required. In addition, although we currently intend to distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. There was no provision for federal excise taxes recorded for the years ended December 31, 2014, 2013 and 2012.

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, stockholders’ cash distributions 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 distributions. With respect to our distributions paid to stockholders during the years ended December 31, 2014, 2013 and 2012, distributions reinvested pursuant to our dividend reinvestment plan totaled \$4,143,503, \$5,288,757 and \$5,591,912, respectively.

Under the terms of an amendment to our dividend reinvestment plan adopted on March 4, 2009, distributions may be made in newly issued or treasury shares of our common stock at a price equal to 95% of the market price on the payment date. This feature of the plan means that, under certain circumstances, we may issue shares of our common stock at a price below net asset value per share, which could cause our stockholders to experience dilution.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. Also, we may be limited in our ability to make distributions due to the asset coverage test applicable to us as a BDC under the 1940 Act and due to provisions in our existing and future debt arrangements. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of favorable RIC tax treatment. In addition, in accordance with U.S. generally accepted accounting principles and tax regulations, we include in income certain amounts that we have not yet received in cash, such as PIK interest or the accrual of original issue or market discount. Since we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our investment company taxable income to obtain tax benefits as a RIC and may be subject to an excise tax. In order to satisfy the annual distribution requirement applicable to RICs, we have the ability to declare a large portion of a dividend in shares of our common stock instead of in cash. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for our taxable years ending prior to 2012) and certain requirements are met, the entire distribution would be treated as a dividend for U.S. federal income tax purposes.

## Recent developments

On November 5, 2014, BlackRock Advisors, a wholly owned indirect subsidiary of BlackRock, and BlackRock Kelso Capital Advisors, entered into a definitive agreement wherein BlackRock Advisors will acquire certain assets of BKCA. On February 18, 2015, the stockholders approved a new investment advisory agreement between the BDC and BlackRock Advisors, including a new management and incentive fee structure. The fee structure will be effective on the second anniversary of the Transaction date. Based on the terms of the definitive agreement, BlackRock Advisors will enter into an investment management agreement with the Company and serve as BKCC's investment manager following the completion of the Transaction.

BlackRock has substantial investment and portfolio management experience, which we believe will be beneficial to the Company and our stockholders. As part of the BlackRock platform, we will continue to seek to enhance the risk-return profile of the Company, strengthen its distribution paying capacity and optimize the valuation for our shareholders.

Upon completion of the Transaction, James R. Maher and Michael B. Lazar will be stepping down from their roles with the Company. Mr. Maher, the Company's Chairman and Chief Executive Officer, will remain on the Board of Directors and will become a senior advisor to BlackRock to assist in the transition of the business. Mr. Lazar, Chief Operating Officer of the Company has also agreed to serve as an advisor to BlackRock in transitioning the business, including portfolio responsibility and business operations. Mr. Lazar will step down from the Board at closing. Steven Sterling, Managing Director and head of BlackRock's Global Capital Markets group, will assume the role of CEO of the Company at closing, subject to Board approval.

In addition, as disclosed in the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on December 23, 2014 the Company proposed the following amendments to the Existing Agreement. The amendment will: (a) reduce the base management fee from 2.00% of the Company's total assets to 1.75% of the Company's total assets, excluding cash, and (b) change the structure of the Incentive Fee in a manner will (i) reduce the "hurdle rate" required for the Existing Advisor to earn, and be paid, the Incentive Fee, (ii) adjust the related "catch-up" provision, (iii) adjust the period over which the Incentive Fee on income is based, (iv) eliminate the off-set of any net unrealized capital depreciation during such period in respect of the Incentive Fee based on income and (v) introduce a deferral feature on the income portion of the Incentive Fee during periods when our total return does not equal or exceed the hurdle rate. The only change in the Incentive Fee on capital gains is the removal of the hurdle and associated catch-up provision with respect to such portion of the Incentive Fee. Please reference the complete Proxy Statement filed with the Securities and Exchange Commission on December 23, 2014 for further information on the fee structure.

Completion of the Transaction is expected to occur in the first quarter of 2015 and remains subject to customary closing conditions.

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

## Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We are subject to financial market risks, including changes in interest rates. At December 31, 2014, 68% of our debt investments bore interest based on floating rates, such as LIBOR, 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. At December 31, 2014, the percentage of our total debt investments that bore floating rate interest subject to an interest rate floor was 62%. Floating rate investments subject to a floor generally reset by reference to the current market index after one to six months only if the index exceeds the floor.

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While hedging activities may mitigate our exposure to adverse changes in interest rates, they also may limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. There can be no assurance that we will be able to effectively hedge our interest rate risk. During the years ended December 31, 2014, 2013 and 2012, we did not engage in any interest rate hedging activity.

### **Item 8. Consolidated Financial Statements and Supplementary Data**

See the Index to Consolidated Financial Statements on page F-1.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

(a) **Evaluation of Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of December 31, 2014, to provide assurance that information that is required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures, include without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) **Management's Report on Internal Control Over Financial Reporting.** The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under the framework in *Internal Control—Integrated Framework (2013)*, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014. The Company's internal control over financial reporting as of December 31, 2014 has been audited by our independent registered public accounting firm, Deloitte & Touche LLP, as stated in its report titled "Report of Independent Registered Public Accounting Firm" on the following page.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) **Attestation Report of the Registered Public Accounting Firm.** Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company's internal control over financial reporting, which is set forth on the following page.

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(d) **Changes in Internal Control Over Financial Reporting.** There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
BlackRock Kelso Capital Corporation:

We have audited the internal control over financial reporting of BlackRock Kelso Capital Corporation and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities, including the consolidated schedule of investments, as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, cash flows and financial highlights for the year then ended of the Company and our report dated March 5, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

New York, New York  
March 5, 2015



**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is contained in the Registrant's definitive Proxy Statement for its 2015 Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item is contained in the Registrant's definitive Proxy Statement for its 2015 Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters**

The information required by this item is contained in the Registrant's definitive Proxy Statement for its 2015 Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is contained in the Registrant's definitive Proxy Statement for its 2015 Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is contained in the Registrant's definitive Proxy Statement for its 2015 Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 and is incorporated herein by reference.

**PART IV****Item 15. Exhibits and Consolidated Financial Statement Schedules**

The following documents are filed as part of this Annual Report:

- (1) Consolidated Financial Statements—See the Index to Consolidated Financial Statements on page F-1.
- (2) Consolidated Financial Statement Schedules—None. We have omitted financial statements schedules because they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes to the consolidated financial statements.
- (3) Exhibits—Please note that the agreements included as exhibits to this Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about BlackRock Kelso Capital Corporation or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

<b>Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of the Registrant (1)
3.2	Certificate of Amendment to the Certificate of Incorporation of the Registrant (2)
3.3	Amended and Restated By-laws of the Registrant (3)
4.1	Form of Stock Certificate of the Registrant (4)
10.1	Investment Management Agreement between the Registrant and BlackRock Kelso Capital Advisors LLC (4)
10.2	Administration Agreement between the Registrant and BlackRock Financial Management, Inc. (5)
10.3	Amended and Restated Dividend Reinvestment Plan (6)
10.4	Custodian Services Agreement between PFPC Trust Company and the Registrant (5)
10.5	Foreign Custody Manager Agreement among Citibank, N.A., PFPC Trust Company and the Registrant (4)
10.6	Transfer Agency Services Agreement between PNC Global Investment Servicing Inc. and the Registrant (5)
10.7	Sub-Administration and Accounting Services Agreement by and among the Registrant, PNC Global Investment Servicing Inc. and BlackRock Financial Management, Inc. (5)
10.8	Waiver Reliance Letter between the Registrant and BlackRock Kelso Capital Advisors LLC (5)
10.9	Amended and Restated Senior Secured Revolving Credit Agreement, dated as of March 13, 2013 as amended and restated as of March 27, 2014 among the Registrant, the lenders party thereto and Citibank, N.A. as Administrative Agent (8)
10.10	Note Purchase Agreement, dated as of January 18, 2011, among the Registrant and the purchasers party thereto (9)
10.11	Indenture dated February 19, 2013 relating to the 5.50% Convertible Senior Notes due 2018 (7)
10.12	Form of Global Note 5.50% Convertible Senior Note due 2018 (included as part of exhibit 4.2) (7)
11	Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
14.1	Code of Ethics of the Registrant (10)

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<u>Number</u>	<u>Description</u>
14.2	Code of Ethics and Business Conduct of the Registrant (11)
14.3	Code of Ethics of the Advisor (5)
21.1*	Subsidiaries of the Registrant
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U. S. C. 1350)

\* Filed herewith.

- (1) Previously filed with the Registrant's Registration Statement on Form 10 (Commission File No. 000-51327), as amended, originally filed on May 24, 2005.
- (2) Filed with the Registrant's Form 8-K dated as of June 7, 2010.
- (3) Filed with the Registrant's Form 8-K dated as of November 9, 2009.
- (4) Previously filed with the Registrant's Registration Statement on Form N-2 (Commission File No. 333-141090), as amended, originally filed on March 6, 2007.
- (5) Previously filed with the Registrant's pre-effective Amendment No. 2 to the Registration Statement on Form N-2 (Commission File No. 333-141090), filed on June 14, 2007.
- (6) Previously filed with the Registrant's Form 8-K dated as of March 4, 2009.
- (7) Previously filed with the Registrant's Form 8-K dated as of February 19, 2013.
- (8) Previously filed with the Registrant's Form 8-K dated as of March 27, 2014.
- (9) Previously filed with the Registrant's Form 8-K dated as of January 18, 2011.
- (10) Previously filed with the Registrant's Form 10-K for the year ended December 31, 2009.
- (11) Previously filed with the Registrant's Form 10-K for the year ended December 31, 2008.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
BlackRock Kelso Capital Corporation:

We have audited the accompanying consolidated statements of assets and liabilities of BlackRock Kelso Capital Corporation and subsidiaries (the “Company”), including the consolidated schedules of investments, as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2014 and the consolidated financial highlights for each of the five years in the period then ended. These consolidated financial statements and consolidated financial highlights are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments as of December 31, 2014 and 2013, by correspondence with the custodian, loan agents or borrowers; where replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and consolidated financial highlights referred to above present fairly, in all material respects, the financial position of BlackRock Kelso Capital Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for each of the three years in the period ended December 31, 2014 and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP  
New York, New York  
March 5, 2015

**BlackRock Kelso Capital Corporation**  
**Consolidated Statements of Assets and Liabilities**

	December 31, 2014	December 31, 2013
<b>Assets</b>		
Investments at fair value:		
Non-controlled, non-affiliated investments (cost of \$813,962,545 and \$854,947,802)	\$ 832,237,704	\$ 881,305,181
Non-controlled, affiliated investments (cost of \$91,936,084 and \$75,514,208)	211,155,607	134,096,291
Controlled investments (cost of \$228,402,329 and \$154,038,211)	214,323,427	202,570,992
Total investments at fair value (cost of \$1,134,300,958 and \$1,084,500,221)	1,257,716,738	1,217,972,464
Cash and cash equivalents	10,326,174	18,474,784
Receivable for investments sold	10,360,202	22,756,286
Interest receivable	13,419,032	11,033,061
Prepaid expenses and other assets	10,233,677	11,410,320
Total Assets	<u>\$ 1,302,055,823</u>	<u>\$ 1,281,646,915</u>
<b>Liabilities</b>		
Payable for investments purchased	\$ —	\$ 21,000,000
Debt	448,227,689	477,981,494
Interest payable	7,918,429	7,896,016
Distributions payable	15,655,007	19,344,682
Base management fees payable	5,749,219	5,803,497
Incentive management fees payable	37,507,592	34,725,204
Accrued administrative services	241,500	270,000
Other accrued expenses and payables	4,797,219	4,921,681
Total Liabilities	<u>520,096,655</u>	<u>571,942,574</u>
<b>Net Assets</b>		
Common stock, par value \$.001 per share, 200,000,000 common shares authorized, 76,306,237 and 75,827,692 issued and 74,547,622 and 74,402,185 outstanding	76,306	75,828
Paid-in capital in excess of par	879,959,915	894,649,992
Distributions in excess of taxable net investment income	(15,675,925)	(19,373,748)
Accumulated net realized loss	(190,427,433)	(286,693,363)
Net unrealized appreciation (depreciation)	120,310,290	130,522,308
Treasury stock at cost, 1,758,615 and 1,425,507 shares held	(12,283,985)	(9,476,676)
Total Net Assets	<u>781,959,168</u>	<u>709,704,341</u>
Total Liabilities and Net Assets	<u>\$ 1,302,055,823</u>	<u>\$ 1,281,646,915</u>
Net Asset Value Per Share	<u>\$ 10.49</u>	<u>\$ 9.54</u>

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Statements of Operations**

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
<b>Investment Income:</b>			
Interest income:			
Non-controlled, non-affiliated investments	\$ 92,181,667	\$ 96,289,228	\$ 108,797,089
Non-controlled, affiliated investments	5,089,397	7,030,676	4,965,190
Controlled investments	13,293,622	10,619,305	9,567,654
Total interest income	<u>110,564,686</u>	<u>113,939,209</u>	<u>123,329,933</u>
Fee income:			
Non-controlled, non-affiliated investments	17,877,746	12,284,535	19,794,762
Non-controlled, affiliated investments	—	—	735,708
Controlled investments	3,218,701	2,738,680	193,692
Total fee income	<u>21,096,447</u>	<u>15,023,215</u>	<u>20,724,162</u>
Dividend income:			
Non-controlled, non-affiliated investments	224,814	1,662,145	736,501
Non-controlled, affiliated investments	2,229,738	1,001,264	2,500,000
Controlled investments	301,914	—	—
Total dividend income	<u>2,756,466</u>	<u>2,663,409</u>	<u>3,236,501</u>
Total investment income	<u>134,417,599</u>	<u>131,625,833</u>	<u>147,290,596</u>
<b>Expenses:</b>			
Incentive management fees	27,506,031	31,148,437	22,491,789
Base management fees	23,641,231	21,629,665	22,504,433
Interest and credit facility fees	22,473,774	20,913,520	19,606,951
Professional fees	2,220,665	2,213,638	1,229,009
Investment advisor expenses	2,168,611	2,066,737	1,991,416
Amortization of debt issuance costs	2,113,201	1,985,234	2,524,915
Director fees	725,500	653,807	467,563
Administrative services	516,717	775,643	528,559
Other	2,680,163	2,601,077	2,284,429
Total expenses	<u>84,045,893</u>	<u>83,987,758</u>	<u>73,629,064</u>
<b>Net Investment Income</b>	<u>50,371,706</u>	<u>47,638,075</u>	<u>73,661,532</u>
<b>Realized and Unrealized Gain (Loss):</b>			
Net realized gain (loss):			
Non-controlled, non-affiliated investments	34,440,557	(32,307,657)	(75,336,460)
Non-controlled, affiliated investments	14,509,924	21	2,223,371
Controlled investments	48,129,867	(31,888,848)	(14,819,901)
Foreign currency	—	(166,934)	(1,185,429)
Net realized gain (loss)	<u>97,080,348</u>	<u>(64,363,418)</u>	<u>(89,118,419)</u>
Net change in unrealized appreciation or depreciation on:			
Non-controlled, non-affiliated investments	(7,556,580)	35,861,087	72,727,614
Non-controlled, affiliated investments	60,637,440	41,815,585	9,580,694
Controlled investments	(62,611,683)	32,568,273	(10,972,967)
Foreign currency translation	(681,195)	(530,799)	1,472,779
Net change in unrealized appreciation (depreciation)	<u>(10,212,018)</u>	<u>109,714,146</u>	<u>72,808,120</u>
Net realized and unrealized gain (loss)	<u>86,868,330</u>	<u>45,350,728</u>	<u>(16,310,299)</u>
<b>Net Increase in Net Assets Resulting from Operations</b>	<u>\$ 137,240,036</u>	<u>\$ 92,988,803</u>	<u>\$ 57,351,233</u>
Net Investment Income Per Share—basic	<u>\$ 0.68</u>	<u>\$ 0.64</u>	<u>\$ 1.00</u>
Earnings Per Share—basic	<u>\$ 1.84</u>	<u>\$ 1.25</u>	<u>\$ 0.78</u>
Average Shares Outstanding—basic	<u>74,539,159</u>	<u>74,174,560</u>	<u>73,623,983</u>
Net Investment Income Per Share—diluted	<u>\$ 0.67</u>	<u>\$ 0.64</u>	<u>\$ 1.00</u>
Earnings Per Share—diluted	<u>\$ 1.70</u>	<u>\$ 1.19</u>	<u>\$ 0.78</u>
Average Shares Outstanding—diluted	<u>84,435,886</u>	<u>82,715,571</u>	<u>73,623,983</u>
Distributions Declared Per Share	<u>\$ 0.89</u>	<u>\$ 1.04</u>	<u>\$ 1.04</u>

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Statements of Changes in Net Assets**

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Net Increase in Net Assets Resulting from Operations:</b>			
Net investment income	\$ 50,371,706	\$ 47,638,075	\$ 73,661,532
Net realized gain (loss)	97,080,348	(64,363,418)	(89,118,419)
Net change in unrealized appreciation (depreciation)	(10,212,018)	109,714,146	72,808,120
Net increase in net assets resulting from operations	<u>137,240,036</u>	<u>92,988,803</u>	<u>57,351,233</u>
<b>Distributions to Stockholders from:</b>			
Net investment income	(47,252,222)	(44,542,806)	(5,434,267)
Tax return of capital	(19,069,182)	(32,599,852)	(71,138,035)
Total distributions	<u>(66,321,404)</u>	<u>(77,142,658)</u>	<u>(76,572,302)</u>
<b>Capital Share Transactions:</b>			
Equity component of convertible debt	—	1,189,747	—
Reinvestment of distributions	4,143,503	5,288,757	5,591,912
Purchases of treasury stock	(2,807,308)	—	—
Net increase in net assets resulting from capital share transactions	<u>1,336,195</u>	<u>6,478,504</u>	<u>5,591,912</u>
<b>Total Increase (Decrease) in Net Assets</b>	<u>72,254,827</u>	<u>22,324,649</u>	<u>(13,629,157)</u>
Net assets at beginning of year	709,704,341	687,379,692	701,008,849
Net assets at end of year	<u>\$ 781,959,168</u>	<u>\$ 709,704,341</u>	<u>\$ 687,379,692</u>
<b>Capital Share Activity:</b>			
Shares issued from reinvestment of distributions	478,545	569,804	621,797
Purchases of treasury stock	(333,108)	—	—
Net increase in shares outstanding	<u>145,437</u>	<u>569,804</u>	<u>621,797</u>

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



**BlackRock Kelso Capital Corporation**  
**Consolidated Statements of Cash Flows**

	December 31, 2014	December 31, 2013	December 31, 2012
<b>Operating Activities:</b>			
Net increase in net assets resulting from operations	\$ 137,240,036	\$ 92,988,803	\$ 57,351,233
<i>Adjustments to reconcile net increase in net assets resulting from operations:</i>			
PIK interest and dividends	(4,765,115)	(10,206,849)	(5,584,869)
Net amortization on investments	(3,244,765)	(13,975,663)	(16,258,453)
Amortization of debt issuance costs	2,113,201	1,985,234	2,524,915
Net change in unrealized on investments	9,530,823	(110,244,945)	(71,335,341)
Net change in unrealized on foreign currency translation	681,195	530,799	(1,472,779)
Net realized (gain) loss on investments	(97,080,348)	57,666,741	87,932,990
Net realized (gain) loss on foreign currency	—	166,934	1,185,429
<i>Changes in operating assets:</i>			
Purchase of investments	(526,928,302)	(523,528,274)	(311,512,999)
Purchase of foreign currency contracts—net	—	(59,002)	(1,188,704)
Proceeds from disposition of investments	581,536,599	442,623,803	314,755,655
Change in receivable for investments sold	12,396,084	(22,251,290)	2,229,709
Change in interest receivable	(2,385,971)	3,015,187	2,426,623
Change in dividends receivable	—	—	(317,146)
Change in prepaid expenses and other assets	(936,558)	(2,401,121)	(159,925)
<i>Changes in operating liabilities:</i>			
Change in payable for investments purchased	(21,000,000)	20,559,757	18,646
Change in interest payable	22,413	2,618,884	(315,052)
Change in management fees payable	(54,278)	176,604	333,138
Change in incentive management fees payable	2,782,388	14,447,274	8,399,771
Change in accrued administrative services	(28,500)	(7,000)	132,375
Change in other accrued expenses and payables	401,178	1,250,069	(827,904)
Net cash provided by (used in) operating activities	<u>90,280,080</u>	<u>(44,644,055)</u>	<u>68,317,312</u>
<b>Financing Activities:</b>			
Distributions paid in cash	(65,867,576)	(71,705,637)	(70,824,560)
Proceeds from debt	628,246,194	503,902,891	311,400,000
Repayments of debt	(658,000,000)	(371,581,650)	(307,550,000)
Deferred debt issuance costs	—	(6,618,906)	—
Purchase of treasury stock	(2,807,308)	—	—
Net cash provided by (used in) financing activities	<u>(98,428,690)</u>	<u>53,996,698</u>	<u>(66,974,560)</u>
Effect of exchange rate changes on cash	—	—	396
<b>Net increase (decrease) in cash</b>	<b>(8,148,610)</b>	<b>9,352,643</b>	<b>1,343,148</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>18,474,784</b>	<b>9,122,141</b>	<b>7,778,993</b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 10,326,174</u></b>	<b><u>\$ 18,474,784</u></b>	<b><u>\$ 9,122,141</u></b>
<b>Supplemental disclosure of cash flow information and non-cash financing activities:</b>			
Cash paid during period for:			
Interest	\$ 21,108,094	\$ 16,968,352	\$ 18,995,668
Taxes	\$ 228,506	\$ 472,233	\$ 1,866,468
Distributions reinvested	\$ 4,143,503	\$ 5,288,757	\$ 5,591,912

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments**  
**December 31, 2014**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
<b>Senior Secured Notes—13.0%</b>						
Advanced Lighting Technologies, Inc., First Lien(j)	<i>Lighting</i>	10.50%	6/1/19	\$ 20,000,000	\$ 19,661,100	\$ 16,000,000
AGY Holding Corp., Second Lien(e)(j)	<i>Glass Yarns/Fibers</i>	11.00%	12/15/16	21,762,500	20,262,404	20,021,500
American Piping Products, Inc., Second Lien(j)	<i>Distribution</i>	12.88%	11/15/17	10,000,000	9,878,458	10,200,000
BPA Laboratories Inc., First Lien(j)	<i>Healthcare Services</i>	12.25%	4/1/17	35,078,000	34,506,945	35,078,000
New Gulf Resources, LLC, First Lien(j)	<i>Energy</i>	11.75%	5/15/19	21,000,000	20,830,917	20,160,000
<b>Total Senior Secured Notes</b>					<u>105,139,824</u>	<u>101,459,500</u>
<b>Unsecured Debt—22.3%</b>						
Gordon Brothers Finance Company(g)(o)(q)	<i>Specialty Finance</i>	12.00%	10/31/21	71,032,057	71,032,057	71,032,057
Higginbotham Insurance Holdings, Inc.(o)	<i>Insurance</i>	9.75%	6/11/19	36,750,000	36,750,000	36,750,000
QHB Holdings LLC(p)	<i>Materials</i>	16.00%	12/17/19	20,000,000	20,000,000	20,000,000
Red Apple Stores Inc.(g)(h)(k)(p)	<i>Discount Stores</i>	18.00%	7/11/17	6,546,107	6,451,954	3,273,054
SVP Worldwide Ltd.(h)(k)(p)	<i>Consumer Products</i>	14.00%	6/27/18	44,619,592	44,619,592	43,504,102
<b>Total Unsecured Debt</b>					<u>178,853,603</u>	<u>174,559,213</u>
<b>Subordinated Debt—6.4%</b>						
Advantage Insurance Holdings Ltd.(e)(h)(j)(k)	<i>Insurance</i>	12.00%	9/30/15	3,000,000	3,000,000	3,000,000
Automobile Protection Corporation—APCO(o)	<i>Insurance</i>	9.76%	6/17/19	25,000,000	25,000,000	25,000,000
New Gulf Resources, LLC(j)(p)	<i>Energy</i>	12.00%	11/15/19	4,248,000	3,766,802	2,124,000
The Pay-O-Matic Corp.(p)	<i>Financial Services</i>	14.00%	9/30/16	20,400,000	20,400,000	20,400,000
<b>Total Subordinated Debt</b>					<u>52,166,802</u>	<u>50,524,000</u>

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2014**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
<b>Senior Secured Loans—85.1%(f)</b>						
Accriva Diagnostics, Inc., First Lien	<i>Healthcare</i>	12.25%	1/17/19	\$ 21,000,000	\$ 21,000,000	\$ 21,000,000
AGY Holding Corp., Second Lien(e)	<i>Glass</i>					
	<i>Yarns/Fibers</i>	12.00%	9/15/16	19,763,384	19,763,384	19,763,384
AL Solutions, Inc., Term Loan B, Second Lien(p)	<i>Metals</i>	5.00%	12/31/19	74,702	—	—
Bankruptcy Management Solutions, Inc., Term Loan A, First Lien(g)(o)	<i>Financial Services</i>	4.50%	6/27/17	1,933,852	1,864,788	1,875,837
Bankruptcy Management Solutions, Inc., Term Loan B, First Lien(g)(o)	<i>Financial Services</i>	7.00%	6/27/18	11,857,195	10,297,730	10,197,193
GSE Environmental, Inc., First Lien(o)	<i>Manufacturing</i>	11.00%	8/11/21	42,352,941	42,352,941	42,352,941
Hunter Defense Technologies, Inc., Second Lien(o)	<i>Defense</i>	11.00%	2/5/20	45,000,000	45,000,000	45,000,000
JLL Pioneer Inc., Second Lien(o)	<i>Building Products</i>	9.50%	12/31/20	20,000,000	20,000,000	20,000,000
K2 Pure Solutions Nocal, L.P. First Lien(o)	<i>Chemicals</i>	10.00%	8/19/19	19,750,000	19,446,168	19,750,000
Learfield Communications, Inc., Second Lien(o)	<i>Media and Entertainment</i>	8.75%	10/9/21	3,000,000	2,977,889	2,977,889
MD America Energy, LLC, First Lien(o)	<i>Energy</i>	9.50%	8/4/19	20,000,000	19,078,302	19,600,000
MediMedia USA, Inc., First Lien(o)	<i>Information Services</i>	8.00%	11/20/18	14,825,358	14,616,580	14,825,358
MediMedia USA, Inc., Second Lien(o)	<i>Information Services</i>	12.25%	11/20/19	60,000,000	58,643,192	58,200,000
Novolex Holdings, Inc., Second Lien(o)	<i>Manufacturing</i>	9.75%	6/5/22	5,000,000	4,875,369	4,875,369
Oxford Mining Company, LLC, First Lien(o)(p)	<i>Energy</i>	12.25%	12/31/18	14,830,508	14,830,508	14,830,508
Pre-Paid Legal Services, Inc., Second Lien(o)	<i>Legal Services</i>	9.75%	7/1/20	25,000,000	24,704,338	25,000,000
Quality Home Brands Holdings LLC, Second Lien(o)	<i>Materials</i>	11.75%	6/17/19	40,000,000	40,000,000	40,000,000
Red Apple Stores Inc., Second Lien(g)(h)(k)	<i>Discount Stores</i>	16.00%	1/11/17	21,800,000	21,800,000	21,800,000
Road Infrastructure Investment, LLC, Second Lien(o)	<i>Manufacturing</i>	7.75%	9/30/21	9,000,000	8,266,249	8,266,249
Royal Adhesives and Sealants, LLC, Second Lien(o)	<i>Chemicals</i>	9.75%	1/31/19	6,000,000	5,911,071	6,047,498
Shoreline Energy LLC, Second Lien(o)	<i>Energy</i>	10.25%	3/30/19	28,750,000	28,082,037	27,168,749
SOURCEHOV, LLC, First Lien(o)	<i>Business Services</i>	7.75%	10/31/19	5,000,000	4,854,264	4,854,264
SOURCEHOV, LLC, Second Lien(o)	<i>Business Services</i>	11.50%	4/30/20	5,000,000	4,802,376	4,802,376
Sur La Table, Inc., First Lien	<i>Consumer Products</i>	12.00%	7/28/17	50,000,000	50,000,000	50,500,000

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2014**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
U.S. Well Services, LLC, First Lien(o)	<i>Energy</i>	12.00%	5/2/19	\$ 43,395,839	\$ 43,395,839	\$ 43,395,839
United Subcontractors, Inc., First Lien(e)(o)(p)	<i>Building and Construction</i>	4.26%	6/30/15	6,349,276	6,295,586	6,349,276
Vertellus Specialties Inc., First Lien(o)	<i>Specialty Chemicals</i>	10.50%	10/31/19	54,862,500	54,862,500	54,862,500
Water Pik, Inc., Second Lien(o)	<i>Consumer Products</i>	9.75%	1/8/21	22,868,421	22,195,683	22,868,421
WBS Group LLC, First Lien(g)(o)	<i>Software</i>	9.50%	6/30/15	27,284,255	27,284,255	27,284,255
WBS Group LLC, Second Lien(g)(o)	<i>Software</i>	10.50%	12/31/15	24,999,000	24,833,200	20,249,190
Westward Dough Operating Company, LLC, First Lien(g)	<i>Restaurants</i>	9.00%	3/2/17	6,590,896	6,590,896	6,590,896
<b>Total Senior Secured Loans</b>					<u>668,625,145</u>	<u>665,287,992</u>
<b>Preferred Stock—5.2%</b>						
Advantage Insurance Holdings Ltd.(e)(h)(j)(k)	<i>Insurance</i>	8.00%		750,000	8,215,588	8,379,450
KAGY Holding Company, Inc. (AGY Holding Corp.)(e)	<i>Glass</i>					
Gordon Brothers Finance Company(g)(q)	<i>Yarns/Fibers</i>	20.00%		22,960	5,954,917	3,266,124
Progress Financial Corporation, Series F-1(d)	<i>Specialty Finance</i>	13.50%		12,986	12,985,556	12,985,556
Progress Financial Corporation, Series G(d)	<i>Financial Services</i>			963,710	740,313	2,842,945
USI Senior Holdings, Inc. (United Subcontractors)(d)(e)	<i>Building and Construction</i>			1,758,256	2,013,112	5,186,855
				260,798	5,374,317	7,823,940
<b>Total Preferred Stock</b>					<u>35,283,803</u>	<u>40,484,870</u>
<b>Common Stock—13.7%(d)</b>						
Bankruptcy Management Solutions, Inc.(g)	<i>Financial Services</i>			368,790	16,654,505	23,997,165
DynaVox Inc.(l)	<i>Augmentative Communication Products</i>			272,369	758,069	13,618
Gordon Brothers Finance Company(g)(q)	<i>Specialty Finance</i>			10,598	10,598,300	10,598,300
M & M Tradition Holdings Corp.(e)	<i>Sheet Metal Fabrication</i>			500,000	5,000,000	13,500,000
Red Apple Stores Inc.(g)(h)(i)(k)	<i>Discount Stores</i>			8,756,859	7,561,626	—
Tygem Holdings, Inc., Class A	<i>Metals</i>			30,000	—	—

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2014**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
USI Senior Holdings, Inc. (United Subcontractors)(e)	<i>Building and Construction</i>			260,798	\$ 9,019,888	\$ 58,869,933
<b>Total Common Stock</b>					<u>49,592,388</u>	<u>106,979,016</u>
<b>Limited Partnership/Limited Liability Company Interests—12.6%</b>						
ECl Cayman Holdings, LP(d)(h)(j)(k)	<i>Electronics</i>			3,184	3,183,840	3,916,766
Higginbotham Investment Holdings, LLC(d)	<i>Insurance</i>			1,163	726,745	1,932,559
Marquette Transportation Company Holdings, LLC(d)(m)	<i>Transportation</i>			25,000	5,000,000	8,841,000
Marsico Holdings, LLC(d)(j)	<i>Financial Services</i>			91,445	1,848,077	5,487
Penton Business Media Holdings, LLC(d)(e)	<i>Information Services</i>			226	9,050,000	70,182,000
PG Holdco, LLC	<i>Healthcare Services</i>	15.00%		333	495,388	495,388
PG Holdco, LLC, Class A(d)	<i>Healthcare Services</i>			16,667	166,667	613,806
Sentry Security Systems Holdings, LLC(d)	<i>Security Services</i>			147,271	147,271	20,618
Sentry Security Systems Holdings, LLC	<i>Security Services</i>	8.00%		602,729	1,106,660	1,106,660
U.S. Well Services, LLC(j)(r)	<i>Energy</i>	8.00%		8,000	8,078,222	9,244,444
WBS Group LLC(d)(g)(n)	<i>Software</i>			100	1,000	—
Westward Dough Holdings, LLC, Class A(d)(g)	<i>Restaurants</i>			350,000	9,260,324	2,233,000
<b>Total Limited Partnership/Limited Liability Company Interests</b>					<u>39,064,194</u>	<u>98,591,728</u>
<b>Equity Warrants/Options—2.5%(d)</b>						
Bankruptcy Management Solutions, Inc., Tranche A(g)	<i>Financial Services</i>		expire 6/27/18	28,464	375,040	711,315
Bankruptcy Management Solutions, Inc., Tranche B(g)	<i>Financial Services</i>		expire 6/27/19	30,654	342,295	638,523
Bankruptcy Management Solutions, Inc., Tranche C(g)	<i>Financial Services</i>		expire 6/27/20	45,981	468,803	857,086
Facet Investment, Inc.	<i>Medical Devices</i>		expire 1/18/21	1,978	250,000	—

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2014**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
Marsico Parent Superholdco, LLC(j)	<i>Financial Services</i>		expire 12/14/19	455	\$ 444,450	\$ —
New Gulf Resources, LLC(j)	<i>Energy</i>		expire 5/9/24	4,000	506,505	—
Progress Financial Corporation	<i>Financial Services</i>			6,959,220	3,183,106	17,054,745
Twin River Worldwide Holdings, Inc., Contingent Value Rights	<i>Gaming</i>		expire 11/5/17	1,000	5,000	568,750
<b>Total Equity Warrants/Options</b>					<u>5,575,199</u>	<u>19,830,419</u>
<b>TOTAL INVESTMENTS—160.8%</b>					<u>1,134,300,958</u>	<u>1,257,716,738</u>
<b>OTHER ASSETS &amp; LIABILITIES (NET)—(60.8)%</b>						<u>(475,757,570)</u>
<b>NET ASSETS—100.0%</b>						<u>\$ 781,959,168</u>

- (a) Unaudited
- (b) Represents amortized cost for fixed income securities and cost for preferred and common stock, limited partnership/limited liability company interests and equity warrants/options.
- (c) Fair value is determined by or under the direction of the Company's Board of Directors. See Note 2 for further details.
- (d) Non-income producing securities at December 31, 2014.
- (e) Transaction and other information for "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.
- (f) Approximately 82% of the senior secured loans of the Company's portfolio companies bear interest at a floating rate that may be determined by reference to the London Interbank Offered Rate (LIBOR) or other base rate (commonly the Federal Funds Rate or the Prime Rate), at the borrower's option. In addition, approximately 81% of such senior secured loans have floors of 0.50% to 1.50%. 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 at December 31, 2014 of all contracts within the specified loan facility.

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

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Non-controlled, Affiliated Investments	Fair Value at December 31, 2013	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at December 31, 2014	For the Year Ended December 31, 2014				
						Net Realized Gain (Loss)	Interest Income	Fee Income	Dividend Income	
Advantage Insurance Holdings Ltd.:										
Subordinated Debt	\$ —	\$ 7,395,373	\$ (4,395,373)	\$ —	\$ 3,000,000	\$ —	\$ 264,518	\$ —	\$ —	\$ —
Preferred Stock	5,100,822	3,114,766	—	163,862	8,379,450	—	—	—	—	489,764
AGY Holding Corp.:										
Senior Secured Note	19,151,000	799,894	—	70,606	20,021,500	—	3,193,769	—	—	—
Senior Secured Loan	7,964,650	11,798,734	—	—	19,763,384	—	1,287,111	—	—	—
BKC CLO 2014-1, Ltd.										
Preferred Stock	—	6,972,000	(6,972,000)	—	— †	423,373	—	—	—	—
KAGY Holding Company, Inc. (AGY Holding Corp.)										
Preferred Stock	4,732,950	938,398	—	(2,405,224)	3,226,124	—	—	—	—	938,396
M&M Tradition Holdings Corp.										
Common Stock	9,250,000	—	—	4,250,000	13,500,000	—	—	—	—	—
Penton Business Media Holdings, LLC										
Limited Liability Co. Interest	36,441,130	—	—	33,740,870	70,182,000	—	—	—	—	—
United Subcontractors, Inc.										
Senior Secured Loan	5,015,119	1,361,655	—	(27,498)	6,349,276	—	343,999	—	—	—
USI Senior Holdings, Inc.:										
Common Stock	21,575,553	5,205,607	—	32,088,773	58,869,933	—	—	—	—	—
Preferred Stock	6,262,254	1,561,682	—	4	7,823,940	—	—	—	—	—
VSS-AHC Consolidated Holdings Corp. (Advanstar Global LLC)										
Preferred Stock	5,208,213	801,577	(6,009,790)	—	— †	—	—	—	—	801,578
VSS-AHC Holdings LLC. (Advanstar Global LLC)										
Limited Liability Co. Interest	13,394,600	—	(6,150,647)	(7,243,953)	— †	14,086,551	—	—	—	—
Totals	\$ 134,096,291	\$ 39,949,686	\$ (23,527,810)	\$ 60,637,440	\$ 211,155,607	\$ 14,509,924	\$ 5,089,397	\$ —	\$ —	\$ 2,229,738

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind ("PIK") 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.

† Investment no longer held as of December 31, 2014.

The aggregate fair value of non-controlled, affiliated investments at December 31, 2014 represents 27.0% of the Company's net assets.

- (g) Transaction and other information for "controlled" investments under the Investment Company Act of 1940, whereby the Company owns more than 25% of the portfolio company's outstanding voting securities.
- (h) Non-U.S. company or principal place of business outside the U.S.
- (i) Original purchase denominated in Canadian dollars.
- (j) Security is exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 16.4% of the Company's net assets at December 31, 2014.
- (k) BDCs are required to invest at least 70% of their total assets primarily in securities of private or thinly traded U.S. public companies, cash, cash equivalents, U.S. Government securities and other high quality debt investments that mature in one year or less. The securities referenced represent either fully or partially non-qualified assets for purposes of this requirement.
- (l) During the period DynaVox completed an exchange of the outstanding L.L.C. units into an equivalent number of common shares.
- (m) The Company is the sole stockholder of BKC MTCH Blocker, Inc., a consolidated subsidiary, which is the beneficiary of less than 5% of the voting securities of Marquette Transportation Company Holdings, LLC and thus a non-controlled, non-affiliated investment.
- (n) The Company is the sole stockholder of BKC-WBS, LLC, a consolidated subsidiary, which is the beneficiary of more than 25% of the voting securities of WBS Group LLC and thus a controlled investment.

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

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Controlled Investments	For the Year Ended December 31, 2014								
	Fair Value at December 31, 2013	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at December 31, 2014	Net Realized Gain (Loss)	Interest Income	Fee Income	Dividend Income
<b>Bankruptcy Management Solutions, Inc.:</b>									
Senior Secured Loan, First Lien, A	\$ 1,596,458	\$ 364,652	\$ (45,314)	\$ (39,959)	\$ 1,875,837	\$ —	\$ 113,543	\$ 250,000	\$ —
Senior Secured Loan, First Lien, B	10,458,655	513,273	(304,033)	(470,702)	10,197,193	—	1,368,109	—	—
Common Stock	17,242,928	—	—	6,754,237	23,997,165	—	—	—	—
Warrants	1,193,880	—	—	1,013,044	2,206,924	—	—	—	—
<b>ECI Holdco, Inc.</b>									
Common Stock	68,604,042	302,973	(23,380,670)	(45,526,345)	— †	48,129,867	—	—	—
<b>Gordon Brothers Finance Company:</b>									
Unsecured Debt	—	71,032,057	—	—	71,032,057	—	1,467,996	2,968,701	—
Preferred Stock	—	12,985,556	—	—	12,985,556	—	—	—	301,914
Common Stock	—	10,598,300	—	—	10,598,300	—	—	—	—
<b>Red Apple Stores Inc.:</b>									
Unsecured Debt	5,454,365	997,589	—	(3,178,900)	3,273,054	—	997,589	—	—
Senior Secured Loan	20,000,000	1,800,000	—	—	21,800,000	—	3,285,850	—	—
Common Stock	8,242,821	273,127	954,322	(7,561,626)	—	—	—	—	—
<b>WBS Group LLC:</b>									
Senior Secured Loan, First Lien	27,284,255	—	—	—	27,284,255	—	1,965,603	—	—
Senior Secured Loan, Second Lien	24,999,000	180,930	—	(4,930,740)	20,249,190	—	2,788,250	—	—
Limited Liability Co. Interest	6,056,783	—	—	(6,056,783)	—	—	868,021	—	—
<b>Westward Dough Operating Company, LLC</b>									
Senior Secured Loan	6,656,805	—	—	(65,909)	6,590,896	—	438,661	—	—
<b>Westward Dough Holdings, LLC</b>									
Limited Liability Co. Interest	4,781,000	—	—	(2,548,000)	2,233,000	—	—	—	—
<b>Totals</b>	<b>\$ 202,570,992</b>	<b>\$ 99,048,457</b>	<b>\$ (24,684,339)</b>	<b>\$ (62,611,683)</b>	<b>\$ 214,323,427</b>	<b>\$ 48,129,867</b>	<b>\$ 13,293,622</b>	<b>\$ 3,218,701</b>	<b>\$ 301,914</b>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK 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.

† Investment no longer held at December 31, 2014.

The aggregate fair value of controlled investments at December 31, 2014 represents 27.4% of the Company's net assets.

- (o) Security bears interest at a floating rate that may or may not include an interest rate floor.
- (p) Interest may be paid in cash or PIK, or a combination thereof which is generally at the option of the borrower. PIK earned is included in the cost basis of the security. PIK represented approximately 2.4% of interest income earned for the year ended December 31, 2014. In accordance with the Company's policy, PIK may be recorded on an effective yield basis.
- (q) This investment is deemed significant under the SEC Rule 4-08(g). At December 31, 2014 total assets of Gordon Brothers Finance Company were \$265.2 million and net income for the period ended December 31, 2014 was \$48.0 thousand. Gordon Brothers Finance Company commenced operations on October 31, 2014.
- (r) The Company is the sole stockholder of BKC ASW Blocker, Inc., a consolidated subsidiary, which is the beneficiary of less than 5% of the voting securities of U.S. Well Services, LLC and thus a non-controlled, non-affiliated investment.

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



**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments**  
**December 31, 2013**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
<b>Senior Secured Notes—31.9%</b>						
Advanced Lighting Technologies, Inc., First Lien(i)	<i>Lighting</i>	10.50%	6/1/19	\$ 20,000,000	\$ 19,582,933	\$ 15,000,000
AGY Holding Corp., Second Lien(d)(i)	<i>Glass</i>					
	<i>Yarns/Fibers</i>	11.00%	12/15/16	21,762,500	19,462,510	19,151,000
American Piping Products, Inc., Second Lien(i)	<i>Distribution</i>	12.88%	11/15/17	20,000,000	19,669,891	19,800,000
American Residential Services L.L.C. et al., Second Lien(i)	<i>HVAC/Plumbing Services</i>	12.00%	4/15/15	46,000,000	45,801,024	46,000,000
BPA Laboratories Inc., First Lien(i)	<i>Healthcare Services</i>	12.25%	4/1/17	35,078,000	34,243,609	35,078,000
Sizzling Platter LLC et al., First Lien(i)	<i>Restaurants</i>	12.25%	4/15/16	30,000,000	29,508,767	30,600,000
TriMark USA, LLC., Second Lien(n)(o)	<i>Food Service Equipment</i>	13.00%	6/29/16	52,138,638	52,138,638	52,138,638
U.S. Well Services, LLC, Second Lien(i)	<i>Energy</i>	14.50%	2/15/17	9,000,000	8,917,538	8,917,538
<b>Total Senior Secured Notes</b>					<u>229,324,910</u>	<u>226,685,176</u>
<b>Unsecured Debt—16.7%</b>						
Higginbotham Insurance Holdings, Inc.	<i>Insurance</i>	11.00%	12/14/18	36,750,000	36,750,000	36,750,000
QHB Holdings LLC(o)	<i>Materials</i>	16.00%	12/17/19	20,000,000	20,000,000	20,000,000
Red Apple Stores Inc.(f)(g)(o)(q)	<i>Discount Stores</i>	18.00%	7/11/17	5,454,365	5,454,365	5,454,365
SVP Worldwide Ltd.(g)(o)(q)	<i>Consumer Products</i>	14.00%	6/27/18	44,170,052	44,170,052	44,170,052
Townsquare Media, LLC(o)	<i>Media &amp; Entertainment</i>	10.00%	9/30/19	12,156,667	12,156,667	12,156,667
<b>Total Unsecured Debt</b>					<u>118,531,084</u>	<u>118,531,084</u>
<b>Subordinated Debt—11.1%</b>						
A & A Manufacturing Co., Inc.(o)	<i>Protective Enclosures</i>	14.00%	5/16/16	32,995,314	32,995,314	32,995,314
Automobile Protection Corporation—APCO(n)	<i>Insurance</i>	9.74%	6/17/19	25,000,000	25,000,000	25,000,000
The Pay-O-Matic Corp.(o)	<i>Financial Services</i>	14.00%	9/30/16	20,400,000	20,400,000	20,400,000
<b>Total Subordinated Debt</b>					<u>78,395,314</u>	<u>78,395,314</u>

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2013**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
<b>Senior Secured Loans—74.3%(e)</b>						
Accriva Diagnostics, Inc., First Lien	Healthcare	12.25%	1/17/19	\$ 21,000,000	\$ 21,000,000	\$ 21,000,000
AGY Holding Corp., Second Lien(d)	Glass					
	Yarns/Fibers	12.00%	9/15/16	7,964,650	7,964,650	7,964,650
AL Solutions, Inc., Term Loan B, Second Lien(o)	Metals	5.00%	12/31/19	71,032	—	—
Alpha Media Group Inc., First Lien(o)	Publishing	12.00%	7/15/16	6,280,313	4,338,433	538,000
AmQuip Crane Rental LLC, Second Lien	Construction					
	Equipment	12.00%	12/19/17	41,068,361	41,068,361	39,014,942
Arclin US Holdings Inc., Second Lien(g)(n)(q)	Chemicals	7.75%	1/15/15	3,451,615	3,271,711	3,451,615
Ascend Learning, LLC, Second Lien(n)	Education	11.50%	12/6/17	20,000,000	20,000,000	20,000,000
Attachmate Corporation et al., Second Lien(n)	Software	11.00%	11/22/18	24,191,324	23,849,327	24,191,324
Bankruptcy Management Solutions, Inc., Term Loan A, First Lien(f)(n)	Financial Services					
	Financial Services	4.50%	6/27/17	1,645,833	1,545,450	1,596,458
Bankruptcy Management Solutions, Inc., Term Loan B, First Lien(f)(n)	Financial Services					
	Financial Services	7.00%	6/27/18	12,161,227	10,088,490	10,458,655
Citrus Energy Appalachia, LLC, Second Lien(n)	Energy	9.75%	7/26/18	27,787,500	26,993,013	26,953,875
Isola USA Corp., First Lien(n)	Laminate Products					
	Chemicals	9.25%	11/29/18	5,000,000	4,925,500	5,050,000
K2 Pure Solutions Nocal, L.P. First Lien(n)	Chemicals	10.00%	8/19/19	20,000,000	19,624,645	20,000,000
MediMedia USA, Inc., First Lien(n)	Information Services					
	Information Services	8.00%	11/20/18	9,950,000	9,683,071	9,651,500
MediMedia USA, Inc., Second Lien(n)	Information Services					
	Information Services	12.25%	11/20/19	60,000,000	58,360,932	58,200,000
Omnitracs, Inc., Second Lien(n)	Trucking Fleet Management					
	Systems	8.75%	5/25/21	3,000,000	2,970,195	3,020,625
Pre-Paid Legal Services, Inc., Second Lien(n)	Legal Services					
	Legal Services	9.75%	7/1/20	25,000,000	24,649,793	25,000,000
Quality Home Brands Holdings LLC, Second Lien(n)	Materials	11.75%	6/17/19	40,000,000	40,000,000	40,000,000
Red Apple Stores Inc., Second Lien(f)(g)(q)	Discount Stores					
	Discount Stores	16.00%	1/11/17	20,000,000	20,000,000	20,000,000
Renaissance Learning, Inc., Second Lien(n)	Education Software					
	Education Software	8.75%	5/14/21	3,000,000	2,955,733	3,031,875
Road Infrastructure Investment, LLC, Second Lien(n)	Manufacturing	10.25%	9/30/18	15,000,000	14,831,430	15,000,000
Royal Adhesives and Sealants, LLC, Second Lien(n)	Chemicals	9.75%	1/31/19	6,000,000	5,888,863	6,075,000
Shoreline Energy LLC, Second Lien(n)	Energy	10.25%	3/30/19	30,000,000	29,139,991	30,000,000

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2013**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
Sur La Table, Inc., First Lien	Consumer Products	12.00%	7/28/17	\$ 50,000,000	\$ 50,000,000	\$ 51,000,000
United Subcontractors, Inc., First Lien(d)(n)(o)	Building and Construction	4.25%	6/30/15	5,015,119	4,933,931	5,015,119
Water Pik, Inc., Second Lien(n)	Consumer Products	9.75%	1/8/21	22,500,000	21,552,192	22,050,000
WBS Group LLC, First Lien(f)(n)	Software	9.50%	6/30/15	27,284,255	27,284,255	27,284,255
WBS Group LLC, Second Lien(f)(n)	Software	10.50%	12/31/15	24,999,000	24,652,270	24,999,000
Westward Dough Operating Company, LLC, First Lien(f)	Restaurants	8.00%	3/2/17	6,590,896	6,590,896	6,656,805
<b>Total Senior Secured Loans</b>					<u>528,163,132</u>	<u>527,203,698</u>
<b>Preferred Stock—3.5%</b>						
Advantage Insurance Holdings, Ltd.(d)(g)(i)(q)	Insurance	8.00%		500,000	5,100,822	5,100,822
Alpha Media Group Holdings Inc., Series A-2(p)	Publishing			5,000	—	—
KAGY Holding Company, Inc. (AGY Holding Corp.)(d)	Glass					
	Yarns/Fibers	20.00%		22,960	5,016,519	4,732,950
Progress Financial Corporation, Series F-1(p)	Financial Services			963,710	740,313	1,263,255
Progress Financial Corporation, Series G(p)	Financial Services			1,758,256	2,013,112	2,304,765
USI Senior Holdings, Inc. (United Subcontractors)(d)(p)	Building and Construction					
	Printing/Publishing	15.00%		208,742	3,812,635	6,262,254
VSS-AHC Consolidated Holdings Corp. (Advanstar Global LLC)(d)	Printing/Publishing			4,809	5,208,213	5,208,213
<b>Total Preferred Stock</b>					<u>21,891,614</u>	<u>24,872,259</u>
<b>Common Stock—20.2%(p)</b>						
Alpha Media Group Holdings Inc., Class B	Publishing			12,500	—	—
Arclin Cayman Holdings Ltd.(g)(q)	Chemicals			450,532	9,722,203	18,440,000
Bankruptcy Management Solutions, Inc.(f)	Financial Services			368,124	16,654,505	17,242,928
ECI Holdco, Inc., Class A-1(f)	Electronics			20,540,133	23,077,697	68,604,042
M & M Tradition Holdings Corp.(d)	Sheet Metal Fabrication			500,000	5,000,000	9,250,000
Red Apple Stores Inc.(f)(g)(h)(q)	Discount Stores			8,756,859	8,242,821	8,242,821
Tygem Holdings, Inc., Class A	Metals			30,000	—	—

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2013**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
USI Senior Holdings, Inc. (United Subcontractors)(d)	<i>Building and Construction</i>			208,742	\$ 3,814,281	\$ 21,575,553
<b>Total Common Stock</b>					<u>66,511,507</u>	<u>143,355,344</u>
<b>Limited Partnership/Limited Liability Company Interests—9.6%</b>						
ARS Investment Holdings, LLC(j)(p)	<i>HVAC/ Plumbing Services</i>			128,358	21,658	1,130,000
DynaVox Systems Holdings, LLC(k)(p)	<i>Augmentative Communication Products</i>			272,369	758,069	32,684
Higginbotham Investment Holdings, LLC(p)	<i>Insurance</i>			1,163	1,139,535	1,715,117
Marquette Transportation Company Holdings, LLC(l)(p)	<i>Transportation</i>			25,000	5,000,000	2,912,000
Marsico Holdings, LLC(i)(p)	<i>Financial Services</i>			91,445	1,848,077	18,732
Penton Business Media Holdings, LLC(d)(p)	<i>Information Services</i>			226	9,050,000	36,441,130
PG Holdco, LLC	<i>Healthcare Services</i>	15.00%		333	430,772	430,772
PG Holdco, LLC, Class A(p)	<i>Healthcare Services</i>			16,667	166,667	410,569
Sentry Security Systems Holdings, LLC(p)	<i>Security Services</i>			147,271	147,271	15,943
Sentry Security Systems Holdings, LLC	<i>Security Services</i>	8.00%		602,729	1,024,686	1,024,686
VSS-AHC Holdings LLC (Advanstar Global LLC)(d)(p)	<i>Printing/ Publishing</i>			884,716	6,150,647	13,394,600
WBS Group LLC(f)(m)(p)	<i>Software</i>			—	1,000	6,056,783
Westward Dough Holdings, LLC, Class A(f)(p)	<i>Restaurants</i>			350,000	9,260,324	4,781,000
<b>Total Limited Partnership/Limited Liability Company Interests</b>					<u>34,998,706</u>	<u>68,364,016</u>

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

**BlackRock Kelso Capital Corporation**  
**Consolidated Schedules of Investments—(Continued)**  
**December 31, 2013**

Portfolio Company	Industry(a)	Interest Rate	Maturity	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
<b>Equity Warrants/Options—4.3%(p)</b>						
Arclin Cayman Holdings Ltd., Tranche 1(g)(q)	<i>Chemicals</i>		expire 1/15/14	230,159	\$ 403,815	\$ 6,082,021
Arclin Cayman Holdings Ltd., Tranche 2(g)(q)	<i>Chemicals</i>		expire 1/15/15	230,159	323,052	6,088,754
Arclin Cayman Holdings Ltd., Tranche 3(g)(q)	<i>Chemicals</i>		expire 1/15/14	230,159	484,578	5,391,543
Arclin Cayman Holdings Ltd., Tranche 4(g)(q)	<i>Chemicals</i>		expire 1/15/15	230,159	403,815	5,399,833
Bankruptcy Management Solutions, Inc., Tranche A(f)	<i>Financial Services</i>		expire 6/27/18	28,464	375,040	375,725
Bankruptcy Management Solutions, Inc., Tranche B(f)	<i>Financial Services</i>		expire 6/27/19	30,654	342,295	343,631
Bankruptcy Management Solutions, Inc., Tranche C(f)	<i>Financial Services</i>		expire 6/27/20	45,981	468,803	474,524
Facet Investment, Inc.	<i>Medical Devices</i>		expire 1/18/21	1,978	250,000	80,415
Marsico Parent Superholdco, LLC(i)	<i>Financial Services</i>		expire 12/14/19	455	444,450	—
Progress Financial Corporation	<i>Financial Services</i>		expire various	6,959,220	3,183,106	5,729,127
Twin River Worldwide Holdings, Inc., Contingent Value Rights	<i>Gaming</i>		expire 11/5/17	1,000	5,000	600,000
<b>Total Equity Warrants/Options</b>					<u>6,683,954</u>	<u>30,565,573</u>
<b>TOTAL INVESTMENTS—171.6%</b>					<u>\$1,084,500,221</u>	<u>1,217,972,464</u>
<b>OTHER ASSETS &amp; LIABILITIES (NET)—(71.6)%</b>						<u>(508,268,123)</u>
<b>NET ASSETS—100.0%</b>						<u>\$ 709,704,341</u>

- (a) Unaudited
- (b) Represents amortized cost for fixed income securities and cost for preferred and common stock, limited partnership/limited liability company interests and equity warrants/options.
- (c) Fair value is determined by or under the direction of the Company's Board of Directors. See Note 2 for further details.
- (d) Transaction and other information for "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.
- (e) Approximately 72% of the senior secured loans of the Company's portfolio companies bear interest at a floating rate that may be determined by reference to the London Interbank Offered Rate (LIBOR) or other base rate (commonly the Federal Funds Rate or the Prime Rate), at the borrower's option. In addition, approximately 71% of such senior secured loans have floors of 1.00% to 1.75%. 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 at December 31, 2013 of all contracts within the specified loan facility.

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

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Non-controlled, Affiliated Investments	Fair Value at December 31, 2012	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at December 31, 2013	For the Year Ended December 31, 2013			
						Net Realized Gain (Loss)	Interest Income	Fee Income	Dividend Income
Advantage Insurance Holdings, Ltd. Preferred Stock	\$ —	\$ 5,100,822	\$ —	\$ —	\$ 5,100,822	\$ —	\$ —	\$ —	\$ 100,823
AGY Holding Corp.: Senior Secured Note	—	19,462,510	—	(311,510)	19,151,000 †	—	1,528,400	—	—
Senior Secured Loan	—	7,964,650	—	—	7,964,650 †	—	496,462	—	—
KAGY Holding Company, Inc. (AGY Holding Corp.) Preferred Stock	—	5,016,519	—	(283,569)	4,732,950 †	—	—	—	501,229
M&M Tradition Holdings Corp. Common Stock	6,250,000	—	—	3,000,000	9,250,000	—	—	—	—
Penton Business Media Holdings, LLC Limited Liability Co. Interest	22,111,124	—	—	14,330,006	36,441,130	—	—	—	—
Penton Media, Inc. et al. Senior Secured Loan	20,822,342	3,834,740	(23,687,192)	(969,890)	—	—	4,599,171	—	—
United Subcontractors, Inc. Senior Secured Loan	3,242,631	1,454,257	—	318,231	5,015,119	21	406,643	—	—
USI Senior Holdings, Inc.: Common Stock	3,485,140	88,832	(344)	18,001,925	21,575,553	—	—	—	—
Preferred Stock	4,934,133	87,527	—	1,240,594	6,262,254	—	—	—	—
VSS-AHC Consolidated Holdings Corp. (Advanstar Global LLC) Preferred Stock	—	5,208,213	—	—	5,208,213	—	—	—	399,212
VSS-AHC Holdings LLC. (Advanstar Global LLC) Limited Liability Co. Interest	6,904,802	—	—	6,489,798	13,394,600	—	—	—	—
<b>Totals</b>	<b>\$ 67,750,172</b>	<b>\$48,218,070</b>	<b>\$(23,687,536)</b>	<b>\$41,815,585</b>	<b>\$ 134,096,291</b>	<b>\$ 21</b>	<b>\$7,030,676</b>	<b>\$ —</b>	<b>\$1,001,264</b>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind (“PIK”) 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.

† Investment moved into non-controlled, affiliated category during the period.

The aggregate fair value of non-controlled, affiliated investments at December 31, 2013 represents 18.9% of the Company’s net assets.

- (f) Transaction and other information for “controlled” investments under the Investment Company Act of 1940, whereby the Company owns more than 25% of the portfolio company’s outstanding voting securities.
- (g) Non-U.S. company or principal place of business outside the U.S.
- (h) Original purchase denominated in Canadian dollars.
- (i) Security is exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 27% of the Company’s net assets at December 31, 2013.
- (j) The Company is the sole stockholder of BKC ARS Blocker, Inc., a consolidated subsidiary, which is the beneficiary of less than 5% of the voting securities of American Residential Services L.L.C. and thus a non-controlled, non-affiliated investment.
- (k) The Company is the sole stockholder of BKC DVSH Blocker, Inc., a consolidated subsidiary, which is the beneficiary of less than 5% of the voting securities of DynaVox Systems LLC and thus a non-controlled, non-affiliated investment.
- (l) The Company is the sole stockholder of BKC MTCH Blocker, Inc., a consolidated subsidiary, which is the beneficiary of less than 5% of the voting securities of Marquette Transportation Company Holdings, LLC and thus a non-controlled, non-affiliated investment.
- (m) The Company is the sole stockholder of BKC-WBS, LLC, a consolidated subsidiary, which is the beneficiary of more than 25% of the voting securities of WBS Group LLC and thus a controlled investment.

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

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Controlled Investments	Fair Value at December 31, 2012	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at December 31, 2013	For the Year Ended December 31, 2013		
						Net Realized Gain (Loss)	Interest Income	Fee Income
<b>Bankruptcy Management Solutions, Inc.:</b>								
Senior Secured Loan, First Lien, A	\$ 1,960,000	\$ 2,156,660	\$ (2,354,167)	\$ (166,035)	\$ 1,596,458	\$ 218,374	\$ 129,497	\$ 358,705
Senior Secured Loan, First Lien, B	17,148,766	32,131,115	(35,752,294)	(3,068,932)	10,458,655	2,269,456	2,779,506	100,000
Senior Secured Loan, Second Lien	7,703,412	406,328	(25,556,717)	17,446,977	— †	(24,547,868)	494,976	—
Common Stock	—	16,658,378	(3,873)	588,423	17,242,928	(9,600,072)	—	—
Warrants	—	1,216,827	(30,689)	7,742	1,193,880	(396,273)	—	—
<b>BKC CSP Blocker, Inc.</b>								
Common Stock	—	167,401	(167,401)	—	—	167,401	—	—
<b>ECI Holdco, Inc.</b>								
Common Stock	47,981,132	4,050,000	—	16,572,910	68,604,042	—	—	—
<b>Red Apple Stores, Inc.:</b>								
Unsecured Debt	—	5,454,365	—	—	5,454,365 ††	—	454,544	—
Senior Secured Loan	—	20,000,000	—	—	20,000,000 ††	—	1,546,669	1,250,000
Common Stock	—	8,512,095	(269,274)	—	8,242,821 ††	—	—	—
<b>WBS Group LLC:</b>								
Senior Secured Loan, First Lien	27,284,255	—	—	—	27,284,255	—	2,055,137	1,000,000
Senior Secured Loan, Second Lien	24,999,000	188,354	(140,633)	(47,721)	24,999,000	134	2,635,733	29,975
Limited Liability Co. Interest	6,056,783	—	—	—	6,056,783	—	—	—
<b>Westward Dough Operating Company, LLC</b>								
Senior Secured Loan	6,590,896	—	—	65,909	6,656,805	—	523,243	—
<b>Westward Dough Holdings, LLC</b>								
Limited Liability Co. Interest	3,612,000	—	—	1,169,000	4,781,000	—	—	—
<b>Totals</b>	<b>\$ 143,336,244</b>	<b>\$ 90,941,523</b>	<b>\$ (64,275,048)</b>	<b>\$ 32,568,273</b>	<b>\$ 202,570,992</b>	<b>\$ (31,888,848)</b>	<b>\$ 10,619,305</b>	<b>\$ 2,738,680</b>

\* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK 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.

† Investment no longer held at December 31, 2013.

†† Investment moved into controlled category during the period.

The aggregate fair value of controlled investments at December 31, 2013 represents 28.5% of the Company's net assets.

- (n) Security bears interest at a floating rate that may or may not include an interest rate floor.
- (o) Interest may be paid in cash or PIK, or a combination thereof which is generally at the option of the borrower. PIK earned is included in the cost basis of the security. PIK represented approximately 6.1% of interest income earned for the year ended December 31, 2013. In accordance with the Company's policy, PIK may be recorded on an effective yield basis.
- (p) Non-income producing equity securities at December 31, 2013.
- (q) BDCs are required to invest at least 70% of their total assets primarily in securities of private or thinly traded U.S. public companies, cash, cash equivalents, U.S. Government securities and other high quality debt investments that mature in one year or less. The securities referenced represent either fully or partially non-qualified assets for purposes of this requirement.

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

**BlackRock Kelso Capital Corporation**  
**Notes to Consolidated Financial Statements**

**1. Organization**

BlackRock Kelso Capital Corporation and subsidiaries (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 (“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 approximately \$529 million. 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.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**2. Significant accounting policies**

***Basis of Presentation***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated 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 accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, which were established to hold certain investments of the Company. The Company owns 100% of each subsidiary and, as such, the subsidiaries are consolidated into the Company’s consolidated financial statements. The subsidiaries hold investments which are treated as pass through entities for tax purposes. By investing through these 100% owned subsidiaries, the Company is able to benefit from corporate tax treatment for these entities and thereby create a tax structure that is more advantageous with respect to the RIC status of the Company. Transactions between subsidiaries, to the extent they occur, are eliminated in consolidation.

Expenses are recorded on an accrual basis.

***Investments***

Security transactions are accounted for on the trade date unless there are substantial conditions to the purchase. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized. Realized gains or losses on the disposition of investments are calculated using the specific identification method.



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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 obtains market quotations, when available, from an independent pricing service or one or more broker-dealers or market makers and utilizes the average of the range of bid and ask quotations. 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 for substantially all of the investments in its portfolio, the Company expects to value substantially all 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 and subjectivity 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 the Company's investments than on the fair values of the Company's 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", "BKCA", "BlackRock Kelso Capital Advisors" or the "Existing Advisor"), believes that facts and circumstances applicable to an issuer, a 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 where a security trades infrequently causing a quoted purchase or sale price to become stale, where there is a "forced" sale by a distressed seller, where market quotations vary substantially among market makers, or where there is a wide bid-ask spread or significant increase in the bid-ask spread.

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 has approved a multi-step valuation process applied 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 prepared by 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.

Those investments for which market quotations are not readily available or for which market quotations are deemed not to represent fair value are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that the Company may take into account in determining the fair value of its investments include, as relevant and among other factors: available current

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market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, (e.g. non-performance risk), its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, the Company's principal market (as the reporting entity) and enterprise values.

Until the end of the second calendar quarter following its acquisition, each unquoted investment in a new portfolio company generally is held at amortized cost, which the Advisor believes approximates fair value under the circumstances. As of that date, an independent valuation firm conducts an initial independent appraisal of the investment.

Accounting Standards Codification ("ASC") 820-10, *Fair Value Measurements and Disclosures* ("ASC 820-10"), issued by the Financial Accounting Standards Board ("FASB"), defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. See note 10 for further details.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include short-term liquid overnight investments.

### ***Revenue recognition***

Interest income is recorded on an accrual basis and includes amortization of premiums and accretion of discounts. Discounts and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security. Premiums and discounts are determined based on the cash flows expected to be received for a particular investment upon maturity.

Dividend income is recorded on the ex-dividend date and is adjusted to the extent that the Company expects to collect such amounts. For loans and securities with payment-in-kind ("PIK") income, which represents contractual interest or dividends accrued and added to the principal balance and generally due at maturity, such income is accrued only to the extent that the Advisor believes that the PIK income is likely to be collected. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash.

Fee income, such as structuring fees, origination, closing, commitment and other upfront fees are generally non-recurring and are recognized as revenue when earned. In instances where the Company does not perform significant services in connection with the related investment, fees paid to the Company may be deferred and amortized over the estimated life of the investment. 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 income.

### ***U.S. Federal income taxes***

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs.

In order to qualify for favorable tax treatment as a RIC, the Company is required to distribute annually to its stockholders at least 90% of its investment company taxable income, as defined by the Code. To avoid federal excise taxes, the Company must distribute annually at least 98% of our ordinary income and 98.2% of net capital gains from the current year and any undistributed ordinary income and net capital gains from the preceding years. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and

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pay a 4% excise tax on this income. If the Company chooses to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. The Company will accrue excise tax on estimated undistributed taxable income as required.

Distributions from net investment income and net realized capital gains are determined in accordance with U.S. federal income tax regulations, which may differ from those amounts determined in accordance with GAAP. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, they are charged or credited to paid-in-capital in excess of par or accumulated net realized loss, as appropriate, in the period that the differences arise. Temporary and permanent differences are primarily attributable to differences in the tax treatment of certain loans and the tax characterization of income and non-deductible expenses. These differences are generally determined in conjunction with the preparation of the Company's annual RIC tax return.

Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified among the Company's capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.

The Company may pay distributions in excess of its taxable net investment income. This excess would be a tax-free return of capital in the period and reduce the shareholder's tax basis in its shares. The cumulative amount is disclosed on the Consolidated Statements of Assets and Liabilities as distributions in excess of taxable net investment income. Cumulative distributions in excess of taxable net investment income are \$15,675,925 and \$19,373,748 as of December 31, 2014 and December 31, 2013, respectively.

### ***Distributions to Common Stockholders***

Distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a distribution 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.

The Company has adopted a dividend reinvestment plan that provides for reinvestment of distributions on behalf of stockholders, unless a stockholder elects to receive cash. As a result, if the Board of Directors authorizes, and the Company declares, a cash distribution, then stockholders who have not "opted out" of the dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of Common Stock, rather than receiving the cash distributions.

### ***Foreign Currency***

Foreign currency amounts are translated into United States dollars on the following basis:

- (i) market value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and
- (ii) purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such transactions, income or expenses.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, the Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Investments denominated in foreign currencies and foreign currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. dollar.

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### ***Debt Issuance Costs***

Debt issuance costs are amortized over the term of the related debt using the straight line method.

### ***Equity Offering Expenses***

The Company records registration expenses related to its shelf registration statement and related SEC filings as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with ASC 946, *Financial Services—Investment Companies*.

### ***Non-Accrual Loans***

Loans or debt securities are placed on non-accrual status, as a general matter, 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 or debt security is placed on non-accrual status. Interest payments received on non-accrual loans or debt securities may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans and debt securities are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this treatment if the loan has sufficient collateral value and is in the process of collection.

### ***Accounting Pronouncements***

In June 2013, the FASB issued ASU 2013-08, *Financial Services—Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements* ("ASU 2013-08"). ASU 2013-08 amends the current criteria for an entity to qualify as an investment company, creates new disclosure requirements and amends the measurement criteria for certain interests in other investment companies. ASU 2013-08 was effective on January 1, 2014, and did not have a material effect on the Company's consolidated financial statements.

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

### ***Base Management Fee***

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.

For the years ended December 31, 2014, 2013 and 2012, the Advisor earned \$23,641,231, \$21,629,665 and \$22,504,433, respectively, in base management fees under the Management Agreement.

### ***Incentive Management Fee***

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 do not meet an 8.0% annualized rate of return during the applicable fee measurement period, and will result in the Advisor or its affiliates receiving less than the full amount of the Incentive Fee percentage until returns to stockholders exceed an approximate 13.3% annualized rate of return during such period. Annualized rate of return in this context is computed by reference to the Company's net asset value and does not take into account changes in 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: trailing four quarters' periods (which applies only to the portion of the Incentive Fee based on income) and annual periods (which applies only to the portion of the Incentive Fee based on capital gains). The "trailing four quarters' periods" for purposes of determining the income portion of the Incentive Fee payable for the three months ended December 31, 2014 and 2013 was determined by reference to the four quarter periods ended on December 31, 2014 and 2013, respectively. The term "annual period" means the period beginning on July 1 of each calendar year and ending on June 30 of the next calendar year.

The hurdle rate for each measurement period is 2.0% multiplied by the Company's net asset values at the beginning of each calendar quarter during the measurement period, calculated after giving effect to any distributions that occurred during 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 trailing four quarters' period, the Company pays 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 sum of, if negative, net unrealized capital appreciation/(depreciation) and net realized capital gains/(losses) during the period, in excess of (B) the hurdle rate for the period. The amount of the excess of (A) over (B) 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 equal 20% of the period's income amount distributed or distributable to stockholders as described in clause (A) of the preceding paragraph. Thereafter, the portion of the Incentive Fee based on income for the period will equal 20% of the period's remaining excess income amount.

For the years ended December 31, 2014, 2013 and 2012, the Advisor earned \$9,972,822, \$10,889,088 and \$16,997,054, respectively, in Incentive Fees based on income from the Company.

***Annual Incentive Fee Based on Capital Gains.*** The portion of the Incentive Fee based on capital gains is calculated and paid on an annual basis beginning on July 1, 2007, the first day of the calendar quarter in which the Public Market Event occurred and each annual period thereafter, ending on June 30 of the next calendar year. For each annual period, the Company pays the Advisor an Incentive Fee based on the amount by which (A) net realized capital gains, if any, to the extent they exceed gross 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 of (A) over (B) 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 capital gain amount distributed or distributable to stockholders. Thereafter, the portion of the Incentive Fee based on capital gains for the period equals an amount such that the portion of the Incentive Fee payments to the Advisor based on capital gains for the period equals 20% of the period's remaining 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 capital 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 gross 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

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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.

We are required under GAAP to accrue a hypothetical capital gains Incentive Fee based upon net realized capital gains and unrealized capital appreciation and depreciation on investments held at the end of each period. The accrual of this hypothetical capital gains incentive fee assumes all unrealized capital appreciation and depreciation is realized in order to reflect a hypothetical capital gains incentive fee that would be payable at each measurement date. If such amount is positive at the end of the period, then we record a capital gains incentive fee equal to 20% of such amount, less the amount of capital gains related incentive fees already accrued in prior periods. If the resulting amount is negative, the accrual for GAAP in a given period may result in an additional expense. There can be no assurance that such unrealized capital appreciation will be realized in the future. However, it should be noted that a fee so calculated and accrued would not be payable under the Investment Advisers Act of 1940 or the Management Agreement. Amounts actually paid will be consistent with the Advisers Act which specifically excludes consideration of unrealized capital appreciation.

The capital gains fee due to the Advisor as calculated under the Management Agreement as described above was zero at December 31, 2014, December 31, 2013 and 2012. In accordance with GAAP, the hypothetical incentive fee for the years ended December 31, 2014, 2013 and 2012 resulted in a capital gains incentive fee of \$17,533,209, \$20,259,349 and \$5,494,735, respectively.

### ***Advisor Reimbursements***

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 Advisor 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 years ended December 31, 2014, 2013 and 2012, the Company incurred \$2,168,611, \$2,066,737 and \$1,991,416, respectively, for such investment advisor expenses under the Management Agreement.

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 years ended December 31, 2014, 2013 and 2012, were \$3,490,730, \$2,808,014 and \$3,107,677, 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.

### ***Administration***

The Company also has entered into an administration agreement with BlackRock Financial Management, Inc. (the "Administrator") under which the Administrator provides certain 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. For the years ended December 31, 2014, 2013 and 2012, the Company incurred \$512,056, \$574,895 and \$322,013, respectively, for administrative services expenses payable to the Administrator under the administration agreement.

*Advisor Stock Transactions*

In 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 this authorization, during the year ended December 31, 2014 the Advisor purchased 144,400 shares of the Company's common stock in the open market for \$1,218,299 including brokerage commissions. There were no such purchases during the years ended December 31, 2013 and 2012.

In March 2011, the Company's Board of Directors authorized the purchase in a private placement of up to 1,000,000 shares of the Company's common stock, by the Advisor in its discretion, subject to compliance with the Company's and the Advisor's applicable policies and requirements of law. Pursuant to this authorization, on March 16, 2011, the Company issued and sold to the Advisor in a private placement 200,000 shares of common stock for \$2,000,000 or \$10.00 per share, which was the closing price of the Company's common stock price on The NASDAQ Global Select Market on that date. There were no private placement purchases for the years ended December 31, 2014 and 2013.

At December 31, 2014 and 2013, the Advisor owned and had the right to vote approximately 244,000 and 46,000 shares, respectively, of the Company's common stock, representing less than 1.0% of the total shares outstanding. On such dates, under compensation arrangements for its officers and employees the Advisor owned of record but did not have the right to vote an additional 61,000 and 125,000 shares, respectively, of the Company's common stock. At December 31, 2014 and 2013, other entities affiliated with the Administrator beneficially owned approximately 3,383,000 and 4,808,000 shares, respectively, of the Company's common stock, representing approximately 4.5% and 6.5% of the total shares outstanding. An entity affiliated with the Administrator has ownership and financial interests in the Advisor.

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### 4. Earnings per share

The following information sets forth the computation of basic and diluted net increase in net assets per share (earnings per share) resulting from operations for the years ended December 31, 2014, 2013 and 2012.

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
<b>Earnings per share—basic:</b>			
Net increase in net assets resulting from operations	\$ 137,240,036	\$ 92,988,803	\$ 57,351,233
Weighted average shares outstanding—basic	74,539,159	74,174,560	73,623,983
<b>Earnings per share—basic:</b>	\$ 1.84	\$ 1.25	\$ 0.78
<b>Earnings per share—diluted:</b>			
Net increase in net assets resulting from operations, before adjustments	\$ 137,240,036	\$ 92,988,803	\$ 57,351,233
Adjustments for interest on unsecured convertible senior notes	6,571,195	5,642,866	—
Net increase in net assets resulting from operations, as adjusted	\$ 143,811,231	\$ 98,631,669	\$ 57,351,233
Weighted average shares outstanding—diluted	84,435,886	82,715,571	73,623,983
<b>Earnings per share—diluted:</b>	\$ 1.70	\$ 1.19	\$ 0.78

Diluted net increase in net assets per share from operations equals basic net increase in net assets per share from operations for December 31, 2012 because there were no common stock equivalents outstanding during those years.

### 5. Investments

Purchases of investments, including PIK, for the years ended December 31, 2014, 2013 and 2012 totaled \$531,693,417, \$533,735,123 and \$317,097,868, respectively. Proceeds from sales, repayments and other exits of investments for the years ended December 31, 2014, 2013 and 2012 totaled \$581,536,599, \$442,623,803 and \$314,755,655, respectively.

At December 31, 2014, investments consisted of the following:

	Cost	Fair Value
Senior secured notes	\$ 105,139,824	\$ 101,459,500
Unsecured debt	178,853,603	174,559,213
Subordinated debt	52,166,802	50,524,000
Senior secured loans:		
First lien	336,770,357	338,268,867
Second/other priority lien	331,854,788	327,019,125
Total senior secured loans	668,625,145	665,287,992
Preferred stock	35,283,803	40,484,870
Common stock	49,592,388	106,979,016
Limited partnership/limited liability company interests	39,064,194	98,591,728
Equity warrants/options	5,575,199	19,830,419
Total investments	\$ 1,134,300,958	\$ 1,257,716,738



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At December 31, 2013, investments consisted of the following:

	Cost	Fair Value
Senior secured notes	\$ 229,324,910	\$ 226,685,176
Unsecured debt	118,531,084	118,531,084
Subordinated debt	78,395,314	78,395,314
Senior secured loans:		
First lien	160,014,671	158,250,792
Second/other priority lien	368,148,461	368,952,906
Total senior secured loans	528,163,132	527,203,698
Preferred stock	21,891,614	24,872,259
Common stock	66,511,507	143,355,344
Limited partnership/limited liability company interests	34,998,706	68,364,016
Equity warrants/options	6,683,954	30,565,573
Total investments	<u>\$ 1,084,500,221</u>	<u>\$ 1,217,972,464</u>

### *Industry Composition*

The industry composition of our portfolio, at fair market value, at December 31, 2014 and 2013 was as follows:

Industry	December 31,	
	2014	2013
Financial Services	14.2%	4.9%
Consumer Products	14.1	14.6
Energy	10.9	5.4
Healthcare	10.3	12.1
Chemicals	9.8	8.5
Personal and Other Services	8.0	17.1
Building and Real Estate	7.4	2.7
Manufacturing	6.8	8.3
Printing, Publishing and Media	5.8	5.6
Business Services	4.6	7.1
Defense	3.6	—
Retail	2.0	2.8
Distribution	0.8	1.6
Beverage, Food and Tobacco	0.7	3.5
Containers and Packaging	0.7	0.2
Electronics	0.3	5.6
Total	<u>100.0%</u>	<u>100.0%</u>

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The geographic composition of the portfolio at fair value at December 31, 2014 was United States 96.8%, Canada 2.0% and the Cayman Islands 1.2%, and at December 31, 2013 was United States 93.1%, Canada 6.5% and the Cayman Islands 0.4%. The geographic composition is determined by several factors including the location of the corporate headquarters of the portfolio company.

### ***Market and Credit Risk***

In the normal course of business, the Company invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk) or failure of the issuer of a security to meet all its obligations (issuer credit risk). The value of securities held by the Company may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Company; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Company may be exposed to counterparty credit risk, or the risk that an entity with which the Company has unsettled or open transactions may fail to or be unable to perform on its commitments. The Company manages counterparty risk by entering into transactions only with counterparties that they believe have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Financial assets, which potentially expose the Company to market, issuer and counterparty credit risks, consist principally of investments in portfolio companies. The extent of the Company's exposure to market, issuer and counterparty credit risks with respect to these financial assets is generally approximated by their value recorded in the consolidated statements of assets and liabilities. The Company is also exposed to credit risk related to maintaining all of its cash at a major financial institution.

The Company has investments in lower rated and comparable quality unrated senior and junior secured, unsecured and subordinated debt securities and loans, which are subject to a greater degree of credit risk than more highly rated investments. The risk of loss due to default by the issuer is significantly greater for holders of such securities and loans, particularly in cases where the investment is unsecured or subordinated to other creditors of the issuer.

## **6. Derivatives**

### ***Foreign Currency***

The Company 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 the Company's 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. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled. The Company's forward foreign currency contracts generally have terms of approximately three months. The volume of open contracts at the end of each reporting period is reflective of the typical volume of transactions during each calendar quarter. Risks may arise as a result of the potential inability of the counterparties to meet the terms of their contracts. The Company attempts to limit this risk by dealing with only creditworthy counterparties. There were no open forward foreign currency contracts at December 31, 2014 and 2013.

All realized and unrealized gains and losses on forward foreign currency contracts are included in earnings (changes in net assets) and are reported as separate line items within the Company's Consolidated Statements of Operations. Unrealized gains and losses on forward foreign currency contracts are also reported as separate line items within the Company's consolidated Statements of Assets and Liabilities.

### ***Warrants and Options***

The Company holds warrants and options in certain portfolio companies in an effort to achieve additional investment return. In purchasing warrants and options, the Company bears the risk of an unfavorable change in the value of the underlying equity interest. The aggregate fair value of warrants and options as of December 31, 2014 and December 31, 2013 represents 2.5% and 4.3%, respectively, of the Company's net assets.

The Company may enter into other derivative instruments and incur other exposures with other counterparties in the future. The derivative instruments held as of December 31, 2014 and December 31, 2013 reflect the volume of derivative activity throughout the periods presented.

### **7. Debt**

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, calculated pursuant to the 1940 Act, is at least 200% after such borrowing. As of December 31, 2014, the Company's asset coverage was 271%.

On March 27, 2014, the Company entered into an Amended and Restated Senior Secured Revolving Credit Facility (the "Credit Facility") which has an initial aggregate principal amount of up to \$405,000,000 and canceled the prior credit facility that was outstanding at December 31, 2013. The Credit Facility has a stated maturity date of March 27, 2019. The interest rate applicable to borrowings thereunder is generally LIBOR plus an applicable margin of 2.25%. The Credit Facility's commitment may increase in size, under certain circumstances, up to a total of \$750,000,000.

On March 27, 2014, the Company entered into an Amended and Restated Senior Secured Term Loan Credit Agreement (the "Term Loan") which has a principal amount of \$15,000,000. The Term Loan has a stated maturity date of March 27, 2019. The interest rate applicable to borrowings thereunder is generally LIBOR plus an applicable margin of 3.25%.

On February 19, 2013, the Company closed a private offering of \$100,000,000 in aggregate principal amount of 5.50% unsecured convertible senior notes due 2018 (the "Convertible Notes"). The initial purchasers of the Convertible Notes fully exercised their overallocation option and purchased an additional \$15,000,000 in aggregate principal amount of the Convertible Notes. The closing of the overallocation option took place on March 4, 2013. With the exercise of the overallocation option, a total of \$115,000,000 in aggregate principal amount of the Convertible Notes was sold. Net proceeds to the Company from the offering, including the exercise of the overallocation option, were approximately \$111,300,000. The Convertible Notes were only offered to qualified institutional buyers as defined in the Securities Act of 1933, as amended (the "Securities Act") pursuant to Rule 144A under the Securities Act.

The Convertible Notes are unsecured and bear interest at a rate of 5.50% per year, payable semi-annually in arrears. In certain circumstances and during certain periods, the Convertible Notes are convertible into cash, shares of BlackRock Kelso Capital's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, at an initial conversion rate of 86.0585 shares of common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$11.62 per share of the Company's common stock, subject to defined anti-dilution adjustments. The Company does not have the right to redeem the Convertible Notes prior to maturity. The Convertible Notes mature on February 15, 2018, unless repurchased or converted in accordance with their terms prior to such date.

On January 18, 2011, the Company closed a private placement issuance of \$158,000,000 in aggregate principal amount of five-year, senior secured notes with a fixed interest rate of 6.50% and a maturity date of January 18, 2016 and \$17,000,000 million in aggregate principal amount of seven-year, senior secured notes with a fixed interest rate of 6.60% and a maturity date of January 18, 2018 (collectively, the "Senior Secured Notes").

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The Senior Secured Notes were sold to certain institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. Interest on the Senior Secured Notes is due semi-annually on January 18 and July 18, commencing on July 18, 2011.

The Company's outstanding debt as of December 31, 2014 and December 31, 2013 was as follows:

	As of					
	December 31, 2014			December 31, 2013		
	Total Aggregate Principal Amount Available(1)	Principal Amount Outstanding	Carrying Value	Total Aggregate Principal Amount Available(1)	Principal Amount Outstanding	Carrying Value
Credit Facility	\$ 405,000,000(2)	\$ 144,000,000	\$ 144,000,000	\$ 350,000,000(2)	\$ 179,000,000	\$ 179,000,000
Senior Secured Notes	175,000,000	175,000,000	175,000,000	175,000,000	175,000,000	175,000,000
Convertible Notes	115,000,000	115,000,000	114,227,689(3)	115,000,000	115,000,000	113,981,494(4)
Term Loan	15,000,000	15,000,000	15,000,000	10,000,000	10,000,000	10,000,000
	<u>\$ 710,000,000</u>	<u>\$ 449,000,000</u>	<u>\$ 448,227,689</u>	<u>\$ 650,000,000</u>	<u>\$ 479,000,000</u>	<u>\$ 477,981,494</u>

- (1) Subject to borrowing base and leverage restrictions.
- (2) Provides for a feature that allows the Company, under certain circumstances, up to a total of \$750,000,000.
- (3) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the 2018 Convertible Notes, was \$772,311 as of December 31, 2014.
- (4) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the 2018 Convertible Notes was \$1,018,506 as of December 31, 2013.

At December 31, 2014, the Company had \$144,000,000 drawn on the Credit Facility versus \$179,000,000 at December 31, 2013. Subject to compliance with applicable covenants and borrowing base limitations, the remaining amount available under the Credit Facility was \$261,000,000 at December 31, 2014 and \$171,000,000 at December 31, 2013.

The average debt outstanding during the years ended December 31, 2014, 2013 and 2012 was \$409,956,985, \$359,486,764 and \$381,451,093, respectively. The maximum amounts borrowed during the years ended December 31, 2014, 2013 and 2012 were \$517,227,691, \$485,831,495 and \$469,900,000, respectively.

The weighted average annual interest cost for the years ended December 31, 2014, 2013 and 2012 was 5.22%, 5.50% and 4.90%, respectively, exclusive of commitment fees and of other prepaid expenses related to establishing the Credit Facility, the Senior Secured Notes, the Convertible Notes and the Term Loan. With respect to any unused portion of the commitments under the Credit Facility, the Company incurs an annual commitment fee of 0.375%. Commitment fees incurred for the years ended December 31, 2014, 2013 and 2012 were \$1,087,227, \$1,077,196 and \$862,540, respectively.

At December 31, 2014, the Company was in compliance with all covenants required under the Credit Facility, the Senior Secured Notes and the Term Loan.

## 8. Capital stock

In 2008, the Company's Board of Directors approved a share repurchase plan under which the Company may repurchase up to 2.5 percent of its outstanding shares of common stock from time to time in open market or privately negotiated transactions. In 2009, the Board of Directors approved an extension and increase to the plan which authorized the Company to repurchase up to an additional 2.5 percent of its outstanding shares of common stock.

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In April 2014, the repurchase plan was further extended through the earlier of June 30, 2015 or until the approved number of shares has been repurchased. During the year ended December 31, 2014 the Company purchased a total of 333,108 shares of its common stock on the open market for \$2,807,308, including brokerage commissions. Since inception of the repurchase plan through December 31, 2014, the Company has purchased 1,758,615 shares of its common stock on the open market for \$12,283,985, including brokerage commissions. At December 31, 2014, the total number of remaining shares authorized for repurchase was 998,035. The Company currently holds the shares it repurchased in treasury. There were no such purchases during the years ended December 31, 2013 and 2012.

There were no share offerings during the years ended December 31, 2014, 2013 and 2012.

For the years ended December 31, 2014, 2013 and 2012, distributions paid to common stockholders were \$66,321,404, \$77,142,658 and \$76,572,302, respectively. For the years ended December 31, 2014, 2013 and 2012, distributions reinvested pursuant to the Company's dividend reinvestment plan were \$4,143,503, \$5,288,757 and \$5,591,912, respectively.

### **9. Guarantees and contingencies**

In the normal course of business, the Company may enter into guarantees on behalf of portfolio companies. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. The Company has no such guarantees outstanding at December 31, 2014 and December 31, 2013.

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.

From time to time, the Company may be a party to certain legal proceedings incidental to the normal course of its business, including the enforcement of the Company's rights under contracts with its portfolio companies. While the Company cannot predict the outcome of these legal proceedings with certainty, it does not expect that these proceedings will have a material effect on its consolidated financial statements.

### **10. Fair value of financial instruments**

#### ***Fair Value Measurements and Disclosure***

ASC 820-10 defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. ASC 820-10 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. ASC 820-10 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.

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

Level 2 – Valuations based on unadjusted 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. The inputs into the determination of fair value may require significant management judgment or estimation.

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Transfers between levels, if any, represent the value as of the beginning of the period of any investment where a change in the pricing level occurred from the beginning to the end of the period.

The Company's valuation policy and fair value disclosures are consistent with ASC 820-10. The Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value and categorizes each investment within the fair value hierarchy pursuant to ASC 820-10.

Under the 1940 Act, the Company is required to separately identify non-controlled investments where it owns 5% or more of a portfolio company's outstanding voting securities as investments in "affiliated" companies. In addition, under the 1940 Act, the Company is required to separately identify investments where it owns more than 25% of a portfolio company's outstanding voting securities as investments in "controlled" companies. Detailed information with respect to the Company's non-controlled non-affiliated, non-controlled affiliated and controlled investments is contained in the accompanying consolidated schedules of investments and other consolidated financial statements. The information in the tables below is presented on an aggregate portfolio basis, without segregating the non-controlled non-affiliated, non-controlled affiliated and controlled investment categories.

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 fair value of the Company's Credit Facility, Senior Secured Notes, Convertible Notes and Term Loan is derived by taking the average of the high and low quotes as obtained from a broker. The fair value of the Credit Facility, Senior Secured Notes, Convertible Notes and Term Loan would be classified as Level 2 with respect to the fair value hierarchy.

The carrying and fair values of the Company's outstanding debt as of December 31, 2014 and December 31, 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Facility	\$ 144,000,000	\$ 142,560,000	\$ 179,000,000	\$ 176,315,000
Senior Secured Notes	175,000,000	183,890,750	175,000,000	187,375,280
Convertible Notes	114,227,689	115,655,535	113,981,494	116,546,078
Term Loan	15,000,000	14,925,000	10,000,000	9,950,000
Total	<u>\$ 448,227,689</u>	<u>\$ 457,031,285</u>	<u>\$ 477,981,494</u>	<u>\$ 490,186,358</u>

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The following tables summarize the fair values of the Company's investments, forward foreign currency contracts and cash and cash equivalents based on the inputs used at December 31, 2014 and December 31, 2013 in determining such fair values:

	Fair Value at December 31, 2014	Fair Value Inputs at December 31, 2014		
		Price Quotations (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured notes	\$ 101,459,500	\$ —	\$ —	\$ 101,459,500
Unsecured debt	174,559,213	—	—	174,559,213
Subordinated debt	50,524,000	—	—	50,524,000
Senior secured loans	665,287,992	—	—	665,287,992
Preferred stock	40,484,870	—	—	40,484,870
Common stock	106,979,016	—	—	106,979,016
Limited partnership/limited liability company interests	98,591,728	—	—	98,591,728
Equity warrants/options	19,830,419	—	—	19,830,419
Total investments	1,257,716,738	—	—	1,257,716,738
Cash and cash equivalents	10,326,174	10,326,174	—	—
Total	\$ 1,268,042,912	\$ 10,326,174	\$ —	\$ 1,257,716,738

	Fair Value at December 31, 2013	Fair Value Inputs at December 31, 2013		
		Price Quotations (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured notes	\$ 226,685,176	\$ —	\$ —	\$ 226,685,176
Unsecured debt	118,531,084	—	—	118,531,084
Subordinated debt	78,395,314	—	—	78,395,314
Senior secured loans	527,203,698	—	—	527,203,698
Preferred stock	24,872,259	—	—	24,872,259
Common stock	143,355,344	—	—	143,355,344
Limited partnership/limited liability company interests	68,364,016	—	—	68,364,016
Equity warrants/options	30,565,573	—	—	30,565,573
Total investments	1,217,972,464	—	—	1,217,972,464
Cash and cash equivalents	18,474,784	18,474,784	—	—
Total	\$ 1,236,447,248	\$ 18,474,784	\$ —	\$ 1,217,972,464

The valuation techniques used at December 31, 2014 and December 31, 2013 in determining the fair values of the Company's investments for which significant unobservable inputs were used were the market approach, income approach or both using third party valuation firms or broker quotes for identical or similar assets. The total fair market value using the market or income approach or using third party valuation firms was \$1,251,086,872 and \$1,200,162,280 as of December 31, 2014 and December 31, 2013, respectively. The remaining balance was determined using broker quotes for identical or similar assets.

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The following is a reconciliation for the year ended December 31, 2014 of investments for which Level 3 inputs were used in determining fair value:

	Fair Value at December 31, 2013	Amortization of Premium/ Discount—Net	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation or Depreciation	Purchases	Sales or Repayments	Net Transfers in and/or out of Level 3	Fair Value at December 31, 2014
Senior secured notes	\$ 226,685,176	\$ 1,383,800	\$ 768,735	\$ (1,040,590)	\$ 20,805,330	\$(147,142,951)	\$ —	\$ 101,459,500
Unsecured debt	118,531,084	(2)	—	(4,294,390)	73,094,619	(12,772,098)	—	174,559,213
Subordinated debt	78,395,314	25,307	—	(1,642,802)	11,643,373	(37,897,192)	—	50,524,000
Senior secured loans	527,203,698	1,835,660	(3,509,596)	(2,377,719)	363,405,025	(221,269,076)	—	665,287,992
Preferred stock	24,872,259	—	423,373	2,220,422	26,373,979	(13,405,163)	—	40,484,870
Common stock	143,355,344	—	72,046,682	(19,457,209)	24,640,143	(113,605,944)	—	106,979,016
Limited partnership/LLC Interest	68,364,016	—	14,268,482	26,162,224	11,497,570	(21,700,564)	—	98,591,728
Equity warrants/options	30,565,573	—	13,082,672	(9,626,399)	506,505	(14,697,932)	—	19,830,419
Total investments	<u>\$1,217,972,464</u>	<u>\$ 3,244,765</u>	<u>\$ 97,080,348</u>	<u>\$ (10,056,463)</u>	<u>\$531,966,544</u>	<u>\$(582,490,920)</u>	<u>\$ —</u>	<u>\$1,257,716,738</u>

The following is a reconciliation for the year ended December 31, 2013 of investments for which Level 3 inputs were used in determining fair value:

	Fair Value at December 31, 2012	Amortization of Premium/ Discount—Net	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation or Depreciation	Purchases	Sales or Repayments	Net Transfers in and/or out of Level 3	Fair Value at December 31, 2013
Senior secured notes	\$ 193,934,286	\$ 2,339,554	\$ 9,092,475	\$ 30,857	\$ 66,446,805	\$ (45,158,801)	\$ —	\$ 226,685,176
Unsecured debt	69,725,040	85,875	—	(85,875)	53,806,044	(5,000,000)	—	118,531,084
Subordinated debt	97,910,598	1,099,329	—	65,692	25,031,979	(45,712,284)	—	78,395,314
Senior secured loans	556,456,919	9,410,079	(24,135,225)	25,083,229	431,732,754	(471,344,058)	—	527,203,698
Preferred stock	5,848,306	216,156	(34,502,744)	1,597,760	68,777,885	(17,065,104)	—	24,872,259
Common stock	72,341,231	—	(8,288,493)	51,578,371	28,138,978	(414,743)	—	143,355,344
Limited partnership/LLC Interest	49,037,167	—	86,358	19,533,569	153,745	(446,823)	—	68,364,016
Equity warrants /options	16,343,994	824,670	85,232	11,420,391	2,372,792	(481,506)	—	30,565,573
Total investments	<u>\$1,061,597,541</u>	<u>\$ 13,975,663</u>	<u>\$(57,662,397)</u>	<u>\$ 109,223,994</u>	<u>\$676,460,982</u>	<u>\$(585,623,319)</u>	<u>\$ —</u>	<u>\$1,217,972,464</u>

There were no transfers between levels during year ended December 31, 2014 and 2013. Transfers, to the extent they exist, are deemed to take place at the beginning of the reporting period. 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 consolidated statements of operations.

Net change in unrealized appreciation (depreciation) of Level 3 assets that were still held by the Company at December 31, 2014, 2013, and 2012 were \$69,331,672, \$76,154,226 and (\$1,030,260), respectively.

The significant unobservable inputs used in the market approach of fair value measurement of the Company's investments are the market multiples of earnings before income tax, depreciation and amortization ("EBITDA") of the comparable guideline public companies. The independent valuation firms select a population of public companies for each investment with similar operations and attributes of the subject company. Using these guideline public companies' data, a range of multiples of enterprise value to EBITDA is calculated. The independent valuation firms select percentages from the range of multiples for purposes of determining the subject company's estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the subject company (or other meaningful measure). Significant increases or decreases in the multiple will result in an increase or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the investment.



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The significant unobservable input used in the income approach of fair value measurement of the Company's investments is the discount rate or market yield used to discount the estimated future cash flows expected to be received from the underlying investment, which include both future principal and interest payments. Significant increases or decreases in the discount rate would result in an decrease or increase in the fair value measurement. Included in the consideration and selection of discount rates are the following factors: risk of default, rating of the investment and comparable company investments, and call provisions.

The ranges of significant unobservable inputs used in the fair value measurement of the Company's Level 3 investments as of December 31, 2014 were as follows:

<b>EBITDA Multiples:</b>	<b>High</b>	<b>Low</b>	<b>Weighted Average</b>
Senior secured notes	n/a	n/a	n/a
Unsecured debt	5.03x	5.86x	5.45x
Subordinated debt	4.50x	5.50x	5.00x
Senior secured loans	5.68x	6.62x	6.15x
Preferred stock	5.42x	6.06x	5.74x
Common stock	7.84x	8.79x	8.32x
Limited partnerships/LLC interest	8.04x	8.80x	8.42x
Equity warrants/options	6.35x	7.12x	6.73x
<b>Market Yields:</b>			
Senior secured notes	14.40%	16.00%	15.20%
Unsecured debt	13.92%	14.75%	14.33%
Subordinated debt	11.42%	12.58%	12.00%
Senior secured loans	10.57%	11.54%	11.06%
Preferred stock	n/a	n/a	n/a
Common stock	n/a	n/a	n/a
Limited partnerships/LLC interest	n/a	n/a	n/a
Equity warrants/options	n/a	n/a	n/a

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The ranges of significant unobservable inputs used in the fair value measurement of the Company's Level 3 investments as of December 31, 2013 were as follows:

<b>EBITDA Multiples:</b>	<b>High</b>	<b>Low</b>	<b>Weighted Average</b>
Senior secured notes	n/a	n/a	n/a
Unsecured debt	5.62x	4.94x	5.28x
Subordinated debt	n/a	n/a	n/a
Senior secured loans	7.54x	6.65x	7.09x
Preferred stock	6.20x	5.60x	5.90x
Common stock	7.15x	6.37x	6.76x
Limited partnerships/LLC interest	9.80x	8.98x	9.39x
Equity warrants/options	6.54x	5.60x	6.07x
<b>Market Yields:</b>			
Senior secured notes	14.93%	13.43%	14.18%
Unsecured debt	12.75%	12.25%	12.50%
Subordinated debt	15.00%	13.00%	14.00%
Senior secured loans	10.71%	10.00%	10.35%
Preferred stock	n/a	n/a	n/a
Common stock	n/a	n/a	n/a
Limited partnerships/LLC interest	2.90%	2.75%	2.83%
Equity warrants/options	2.90%	2.75%	2.83%

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**11. Consolidated financial highlights**

The following per share data and ratios have been derived from information provided in the consolidated financial statements. The following is a schedule of consolidated financial highlights for a common share outstanding for each of the five years in the period ended December 31, 2014.

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
<b>Per Share Data:</b>					
Net asset value, beginning of year	\$ 9.54	\$ 9.31	\$ 9.58	\$ 9.62	\$ 9.55
Net investment income	0.68	0.64	1.00	1.00	0.96
Net realized and unrealized gain (loss)	1.16	0.61	(0.22)	0.05	0.18
Total from investment operations	1.84	1.25	0.78	1.05	1.14
<b>Distributions to stockholders from:</b>					
Net investment income	(0.63)	(0.60)	(0.07)	(0.81)	(1.28)
Tax return of capital	(0.26)	(0.44)	(0.97)	(0.29)	—
Total distributions	(0.89)	(1.04)	(1.04)	(1.10)	(1.28)
Equity component of warrant	—	0.01	—	—	—
Issuance of stock at prices from dividend reinvestment plan	(0.01)	0.01	(0.01)	0.01	0.35
Offering costs	—	—	—	—	(0.14)
Purchases of treasury stock at prices below net asset value	0.01	—	—	—	—
Net increase (decrease) in net assets	0.95	0.23	(0.27)	(0.04)	0.07
Net asset value, end of year	\$ 10.49	\$ 9.54	\$ 9.31	\$ 9.58	\$ 9.62
Market price, end of year	\$ 8.20	\$ 9.33	\$ 10.06	\$ 8.16	\$ 11.06
Total return(1)	(2.18)%	3.56%	38.02%	(16.03)%	48.40%
<b>Ratios / Supplemental Data:</b>					
Ratio of operating expenses to average net assets(2)	8.18%	8.78%	7.28%	5.55%	6.05%
Ratio of credit facility related expenses to average net assets	3.38%	3.29%	3.13%	2.67%	1.35%
Ratio of total expenses to average net assets(3)	11.56%	12.07%	10.41%	8.22%	7.40%
Ratio of net investment income to average net assets	6.93%	6.85%	10.41%	10.22%	9.68%
Net assets, end of year	\$ 781,959,168	\$ 709,704,341	\$ 687,379,692	\$ 701,008,849	\$ 698,479,924
Average debt outstanding	\$ 409,956,985	\$ 359,486,764	\$ 381,451,093	\$ 291,353,425	\$ 205,151,507
Weighted average shares outstanding	74,539,159	74,174,560	73,623,983	73,037,357	62,663,002
Average debt per share(4)	\$ 5.50	\$ 4.85	\$ 5.18	\$ 3.99	\$ 3.27
Portfolio turnover	47%	41%	29%	26%	49%

*Figures may not foot due to rounding.*

- (1) For the years ended December 31, 2014, 2013, 2012, 2011 and 2010, total return is based on the change in market price during the respective years. Total return calculations take into account distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan and do not reflect brokerage commissions. Total return is not annualized.
- (2) Ratio excluding capital gains incentive fee for years ended December 31, 2014, 2013 and 2012 is 5.77%, 5.87% and 6.48%, respectively. There were no capital gains incentive fees for the years ended December 31, 2011 and 2010.
- (3) Ratio excluding capital gains incentive fee for years ended December 31, 2014, 2013 and 2012 is 9.15%, 9.16% and 9.60%, respectively. There were no capital gains incentive fees for the years ended December 31, 2011 and 2010.
- (4) Average debt per share is calculated as average debt outstanding divided by the weighted average shares outstanding during the applicable period.

**12. Federal tax information**

Distributions from net investment income and net realized capital gains are determined in accordance with U.S. federal income tax regulations, which may differ from those amounts determined in accordance with GAAP. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, they are charged or credited to paid-in-capital, distributions in excess of net investment income or accumulated net realized gain (loss), as appropriate, in the period that the differences arise. The following temporary and permanent differences at December 31, 2014 and 2013 primarily attributable to differences in the tax treatment of certain debt securities, the tax characterization of income from partnership investments, foreign currency transactions, non-deductible expenses and differences in accounting for certain upfront fees (treated as taxable income when received and may be accreted over the life of the respective investment for financial reporting purposes), were reclassified for tax purposes as follows:

Taxable income generally differs from the change in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as unrealized gains or losses are not included in taxable income until they are realized.

Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified among the Company's capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.

	December 31, 2014	December 31, 2013
Paid-in capital in excess of par	\$ 236,080	\$ 3,237,331
Increase (decrease) in distributions in excess of net investment income	\$ 578,338	\$ (177,995)
Accumulated net realized loss	\$ (814,418)	\$ (3,059,336)

The following reconciles net increase in net assets resulting from operations to taxable income for the years ended December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Net increase in net assets resulting from operations	\$ 137,240,036	\$ 92,988,803
Net unrealized appreciation not taxable	10,212,018	(109,714,146)
Deferral of late year capital loss	—	6,587,449
Reversal of prior year post-October capital loss	(6,587,449)	(7,379,468)
Deferral of late year ordinary loss	—	4,343
Reversal of prior year post-October ordinary loss	(4,343)	(159,963)
Reversal of prior year Section 1256 currency contracts mark-to-market	—	(369,411)
Current year net capital (gains) losses	(54,514,406)	64,993,718
Upfront fees recognized for book, already recognized for tax	—	(2,536,703)
Losses not currently deductible	(31,374)	(4,965)
Losses recognized on prior year exchange	(34,963,217)	—
Other book/tax differences	(405,564)	(11,311)
Amortization of organizational costs	(3,804)	(3,804)
Taxable income before deductions for distributions	<u>\$ 50,941,897</u>	<u>\$ 44,394,542</u>

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At December 31, 2014, the cost of investments for tax purposes was \$1,124,608,106 resulting in net unrealized appreciation of \$133,108,632 which was comprised of gross unrealized appreciation and depreciation of \$161,160,318 and (\$28,051,686), respectively. At December 31, 2013, the cost of investments for tax purposes was \$1,109,971,444 resulting in net unrealized appreciation of \$108,001,020 which was comprised of gross unrealized appreciation and depreciation of \$154,625,031 and (\$46,624,011), respectively.

At December 31, 2014 and 2013, the components of accumulated net losses on a tax basis and a reconciliation to accumulated net losses on a book basis were as follows:

	December 31, 2014	December 31, 2013
Net unrealized appreciation	\$ 120,310,290	\$ 130,522,308
Deferred late year capital loss	—	(6,587,449)
Deferred late year ordinary loss	—	(4,343)
Differences between book and tax loss on investments	(10,925,889)	(45,889,105)
Distributions payable	(15,655,007)	(19,344,682)
Capital loss carry forward	(192,691,456)	(247,205,862)
Wash sales on investments	—	(31,374)
Expenses not currently deductible	(20,920)	(24,725)
Net income from pass thru investments	13,189,914	13,020,429
Total accumulated losses—net, book basis	<u>\$ (85,793,068)</u>	<u>\$ (175,544,803)</u>

For the tax year ended December 31, 2014, the Company had a net capital loss carry forward of \$192,691,456, which can be used to offset future capital gains. If not utilized against future gains, \$9,065,897 expires in 2017 and \$95,856,015 expires in 2018. The remaining \$87,769,544 of this capital loss carry forward will not be subject to expiration and must be utilized prior to the losses subject to expiration.

As a RIC, the Company is subject to a non-deductible federal excise tax of 4% if it does not distribute at least 98% of its ordinary income, excluding net short-term capital gains, in any calendar year; 98.2% of its capital gains in excess of capital losses for each one-year period ended October 31; and any ordinary income and net capital gains for preceding years that were not distributed during such years. For each of the years ended December 31, 2014 and 2013, no provision for federal excise tax was recorded.

For income tax purposes, distributions paid to stockholders are reported as ordinary income, non-taxable (return of capital), capital gains, or a combination thereof. The tax character of distributions paid or declared during the year ended December 31, 2014 was \$47,252,222 of ordinary income and \$19,069,182 of return of capital. The tax character of distributions paid or declared during the year ended December 31, 2013 was \$44,542,806 of ordinary income and \$32,599,852 of return of capital.

ASC 740-10, *Income Taxes* (“ASC 740-10”) clarifies the accounting for income taxes by prescribing the minimum recognition threshold an uncertain tax position is required to meet before tax benefits associated with such uncertain tax position are recognized in the consolidated financial statements. Based on its analysis of its tax position, the Company has concluded that it does not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10.

The Company files U.S. federal and various state and local tax returns. No income tax returns are currently under examination. The statute of limitations on the Company’s U.S. federal income tax returns remains open for each of the four years ended December 31, 2014. The statute of limitations on the Company’s state and local tax returns may remain open for an additional year depending upon the jurisdiction.

**13. Selected quarterly financial data (unaudited)**

<u>Quarter Ended</u>	<u>Total Investment Income</u>	<u>Net Investment Income</u>	<u>Net Realized and Unrealized Gain (Loss)</u>	<u>Net Increase (Decrease) in Net Assets Resulting from Operations</u>	<u>Basic Earnings per Common Share</u>	<u>Diluted Earnings per Common Share</u>	<u>Net Asset Value per Common Share at End of Quarter</u>
(Dollars in thousands, except per share data)							
December 31, 2014	\$ 37,926	\$ 3,514	\$ 50,973	\$ 54,487	\$ 0.73	\$ 0.67	\$ 10.49
September 30, 2014	33,163	19,332	9,637	28,970	0.39	0.36	9.97
June 30, 2014	33,762	16,431	14,436	30,867	0.41	0.39	9.79
March 31, 2014	29,567	11,094	11,822	22,917	0.31	0.29	9.59
December 31, 2013	32,977	4,580	26,744	31,325	0.42	0.39	9.54
September 30, 2013	31,383	8,874	10,970	19,844	0.27	0.26	9.38
June 30, 2013	36,136	21,220	(9,196)	12,023	0.16	0.16	9.37
March 31, 2013	31,130	12,964	16,833	29,797	0.40	0.39	9.47
December 31, 2012	37,898	8,316	(6,574)	1,742	0.02	0.02	9.31
September 30, 2012	40,720	23,938	(9,609)	14,329	0.19	0.19	9.55
June 30, 2012	35,466	22,383	(1,401)	20,982	0.29	0.29	9.61
March 31, 2012	33,207	19,024	1,274	20,298	0.28	0.28	9.59

**14. Subsequent events**

The Company has reviewed subsequent events occurring through the date that these consolidated financial statements were issued, and determined that no subsequent events occurred requiring accrual or disclosure, except as disclosed below and elsewhere in these Notes to Consolidated Financial Statements.

On March 5, 2015, the Company's Board of Directors declared a distribution of \$0.21 per share, payable on April 3, 2015 to stockholders of record at the close of business on March 20, 2015.

On November 5, 2014, BlackRock Advisors, LLC ("BlackRock Advisors"), a wholly owned indirect subsidiary of BlackRock, Inc. ("BlackRock"), and BlackRock Kelso Capital Advisors, entered into a definitive agreement wherein BlackRock Advisors will acquire certain assets of BKCA (the "Transaction"). On February 18, 2015, the stockholders approved a new investment advisory agreement between the BDC and BlackRock Advisors, including a new management and incentive fee structure. The fee structure will be effective on the second anniversary of the Transaction date. Based on the terms of the definitive agreement, BlackRock Advisors will enter into an investment management agreement with the Company and serve as BKCC's investment manager following the completion of the Transaction.

BlackRock has substantial investment and portfolio management experience, which we believe will be beneficial to the Company and our stockholders. As part of the BlackRock platform, we will continue to seek to enhance the risk-return profile of the Company, strengthen its distribution paying capacity and optimize the valuation for our shareholders.

Upon completion of the Transaction, James R. Maher and Michael B. Lazar will be stepping down from their roles with the Company. Mr. Maher, the Company's Chairman and Chief Executive Officer, will remain on the Board of Directors and will become a senior advisor to BlackRock to assist in the transition of the business. Mr. Lazar, Chief Operating Officer of the Company has also agreed to serve as an advisor to BlackRock in transitioning the business, including portfolio responsibility and business operations. Mr. Lazar will step down from the Board at closing. Steven Sterling, Managing Director and head of BlackRock's Global Capital Markets group, will assume the role of CEO of the Company at closing, subject to Board of Directors approval.

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In addition, as disclosed in the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on December 23, 2014 the Company proposed the following amendments to the existing investment management agreement between the Company and the Advisor (such agreement, the "Existing Agreement"). The amendment will: (a) reduce the base management fee from 2.00% of the Company's total assets to 1.75% of the Company's total assets, excluding cash, and (b) change the structure of the incentive management fee based on the Company's performance (the "Incentive Fee") in a manner will (i) reduce the "hurdle rate" required for the Existing Advisor to earn, and be paid, the Incentive Fee, (ii) adjust the related "catch-up" provision, (iii) adjust the period over which the Incentive Fee on income is based, (iv) eliminate the off-set of any net unrealized capital depreciation during such period in respect of the Incentive Fee based on income and (v) introduce a deferral feature on the income portion of the Incentive Fee during periods when our total return does not equal or exceed the hurdle rate (collectively the "Amendments"). The only change in the Incentive Fee on capital gains is the removal of the hurdle and associated catch-up provision with respect to such portion of the Incentive Fee. Please reference the complete Proxy Statement filed with the Securities and Exchange Commission on December 23, 2014 for further information on the fee structure.

Completion of the Transaction is expected to occur in the first quarter of 2015 and remains subject to customary closing conditions.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ James R. Maher  
**James R. Maher**  
**Chairman of the Board and Chief Executive Officer**

March 5, 2015

Each of the officers and directors of BlackRock Kelso Capital Corporation whose signature appears below, in so signing, also makes, constitutes and appoints each of James R. Maher and Corinne Pankovcin, or either of them, each acting alone, his true and lawful attorneys-in-fact, with full power and substitution, for him in any and all capacities, to execute and cause to be filed with the Securities and Exchange Commission any and all amendments to the Annual Report on Form 10-K, with exhibits thereto and other documents connected therewith and to perform any acts necessary to be done in order to file such documents, and hereby ratifies and confirms all that said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ JAMES R. MAHER</u> <b>James R. Maher</b>	Chairman of the Board and Chief Executive Officer (principal executive officer)	March 5, 2015
<u>/s/ CORINNE PANKOVGIN</u> <b>Corinne Pankovcin</b>	Chief Financial Officer and Treasurer (principal financial and accounting officer)	March 5, 2015
<u>/s/ JOHN R. BARON</u> <b>John R. Baron</b>	Director	March 5, 2015
<u>/s/ BRIAN D. FINN</u> <b>Brian D. Finn</b>	Director	March 5, 2015
<u>/s/ JERROLD B. HARRIS</u> <b>Jerrold B. Harris</b>	Director	March 5, 2015
<u>/s/ MICHAEL B. LAZAR</u> <b>Michael B. Lazar</b>	Director	March 5, 2015
<u>/s/ WILLIAM E. MAYER</u> <b>William E. Mayer</b>	Director	March 5, 2015
<u>/s/ FRANÇOIS DE SAINT PHALLE</u> <b>François de Saint Phalle</b>	Director	March 5, 2015
<u>/s/ MAUREEN K. USIFER</u> <b>Maureen K. Usifer</b>	Director	March 5, 2015



**SUBSIDIARIES OF BLACKROCK KELSO CAPITAL CORPORATION**

<u>Name</u>	<u>Jurisdiction</u>
BKC ARS Blocker, Inc.	Delaware
BKC ASW Blocker, Inc.	Delaware
BKC CSP Blocker, Inc.	Delaware
BKC DVSH Blocker, Inc.	Delaware
BKC MTCH Blocker, Inc.	Delaware
BKC Sentry LLC.	Delaware
BKC WBS, LLC.	Delaware

In addition, we may be deemed to control certain portfolio companies identified as “Controlled Investments” in footnotes to the Consolidated Schedule of Investments at December 31, 2014 included in the Consolidated Financial Statements portion of BlackRock Kelso Capital Corporation’s Form 10-K for the year ended December 31, 2014.

CEO CERTIFICATION

I, James R. Maher, certify that:

1. I have reviewed this Annual Report on Form 10-K, for the fiscal year ended December 31, 2014 of BlackRock Kelso Capital Corporation and subsidiaries;
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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, consolidated results of operations and consolidated 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), 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;
  - 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 consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 5, 2015

By: /s/ James R. Maher  
James R. Maher  
Chairman of the Board and Chief Executive Officer

CFO CERTIFICATION

I, Corinne Pankovcin, certify that:

1. I have reviewed this Annual Report on Form 10-K, for the fiscal year ended December 31, 2014 of BlackRock Kelso Capital Corporation and subsidiaries;
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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, consolidated results of operations and consolidated 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), 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;
  - 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 consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 5, 2015

By: /s/ Corinne Pankovcin  
 Corinne Pankovcin  
 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 Annual Report on Form 10-K of BlackRock Kelso Capital Corporation and subsidiaries (the "Company") for the annual period ended December 31, 2014 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 Corinne Pankovcin, 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 consolidated financial condition and consolidated results of operations of the Company.

/s/ James R. Maher

Name: James R. Maher

Title: Chairman of the Board and Chief Executive Officer

Date: March 5, 2015

/s/ Corinne Pankovcin

Name: Corinne Pankovcin

Title: Chief Financial Officer and Treasurer

Date: March 5, 2015