UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2005

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 000-51327

BlackRock Kelso Capital Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-2725151
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
40 East 52nd Street, New York, New York	10022
(Address of Principal Executive Offices)	(Zip Code)

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, $.001 par value
(Title of Class)

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

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 |X|

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 |X| 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. |X|

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 |X|

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 |X|

There is no public trading market for the Registrant's common stock. As a result, an aggregate market value of the Registrant's common stock cannot be determined.

The number of shares of the Registrant's common stock, $.001 par value per share, outstanding at March 28, 2006, was 35,837,489.

BLACKROCK KELSO CAPITAL CORPORATION
2005 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 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. BlackRock Kelso Capital Corporation (the "Company") cautions that 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 the Company assumes no duty to and does 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 the Company's Securities and Exchange Commission (the "SEC") reports and those identified elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

(1) the introduction, withdrawal, success and timing of business initiatives and strategies;
(2) changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of the Company's assets;
(3) the relative and absolute investment performance and operations of the Company's investment adviser, BlackRock Kelso Capital Advisors LLC (the "Advisor");
(4) the impact of increased competition;
(5) the impact of future acquisitions and divestitures;
(6) the unfavorable resolution of legal proceedings;
(7) the extent and timing of any share repurchases;
(8) the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
(9) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to the Company or the Advisor;
(10) terrorist activities, which may adversely affect the general economy, real estate, financial and capital markets, specific industries, and the Company and the Advisor;
(11) the ability of the Advisor to attract and retain highly talented professionals;
(12) fluctuations in foreign currency exchange rates; and
(13) the impact of changes to tax legislation and, generally, the tax position of the Company.

Forward-looking statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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"), a Delaware corporation organized on April 13, 2005, is a company that has filed an election to be treated as a business development company, or BDC, under the Investment Company Act of 1940 (the "1940 Act"). In addition, for tax purposes the Company intends to elect to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986 (the "Code").

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We intend to 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. The term "middle-market" refers to companies with annual revenues typically between $25 million and $500 million.

On July 25, 2005, we completed a private placement of 35,366,589 shares of our common stock at a price of $15.00 per share. We commenced operations on July 25, 2005, receiving approximately $529.3 million in total net proceeds from the placement.

For the period July 25, 2005 (inception of operations) through December 31, 2005, we invested approximately $137.7 million in 27 portfolio companies and received proceeds from principal repayments/dispositions of approximately $1.0 million. At December 31, 2005, our net portfolio consisted of 26 portfolio companies and was invested 25% in senior secured loans, 1% in subordinated debt/corporate notes, 1% in publicly traded, floating rate closed-end funds, less than 1% in common stock/warrants and 73% in short-term investments (including cash equivalents). Our average portfolio company investment was approximately $5 million. Our largest portfolio company investment was approximately $26.5 million, with our five largest portfolio company investments comprising approximately 15% of our net assets at December 31, 2005. Our targeted investment typically ranges between $5 million and $50 million, although the investment sizes may be more or less than the targeted range.

Our weighted average yield on invested capital other than closed-end funds, short-term investments and cash equivalents was 10.7% at December 31, 2005. The weighted average yield on our invested capital including closed-end funds, short-term investments and cash equivalents was 6.0% and, net of expenses, was 4.4% at December 31, 2005. The weighted average yields on our subordinated debt/corporate notes and senior secured loans were 10.3% and 10.8%, respectively, at December 31, 2005.

BLACKROCK KELSO CAPITAL ADVISORS

Our investment activities are managed by our investment adviser, BlackRock Kelso Capital Advisors LLC ("BlackRock Kelso Capital Advisors" or "Advisor"), and are supervised by our Board of Directors, a majority of whom are independent of the Advisor, BlackRock (as defined below), the Kelso Principals (as defined below) and their respective affiliates. The Advisor is led by James R. Maher, our Chairman and Chief Executive Officer, and Michael B. Lazar, our Chief Operating Officer. They are supported by the Advisor's team of 10 dedicated investment professionals, as well as additional investment professionals of BlackRock, Inc. (together with its subsidiaries, "BlackRock"). BlackRock Kelso Capital Advisors' investment committee (the "Investment Committee") has 13 members, including Messrs. Maher and Lazar and several senior executives of BlackRock and principals (the "Kelso Principals") of Kelso & Company, L.P. ("Kelso").

In addition to the professionals dedicated to the Advisor, we benefit from the business and specific industry knowledge, transaction expertise and deal-sourcing capabilities of the Investment Committee and its connection to BlackRock and Kelso. The Advisor has access to investment opportunities through a broad network of contacts. Professionals in Kelso's and BlackRock's businesses are among our sources of potential long-term subordinated loans, senior secured and unsecured loans, preferred and common equity and other investment opportunities.

BlackRock, one of the leading investment managers in the world, manages approximately $453 billion in assets as of December 31, 2005, including over $10 billion in non-investment grade and bank loan assets. In addition, BlackRock provides risk management, investment system outsourcing and financial advisory services to a growing number of institutional investors. BlackRock was founded in 1988 on the belief that experienced investment professionals using a disciplined investment process and highly sophisticated analytical tools will consistently add value to client portfolios. BlackRock has assembled a team of investment professionals with expertise in fixed income, liquidity, equity and alternative asset classes, and continues to make extensive investments in internal technology and analytics. BlackRock manages a set of private investment funds, with Kelso as its advisor, with over $3.9 billion in aggregate initial capital. These funds invest primarily in public and private debt obligations and, to a lesser extent, in mezzanine, private equity and other special situation investments. BlackRock is majority owned by The PNC Financial Services Group, Inc. ("PNC").

On February 15, 2006, BlackRock entered into an agreement with Merrill Lynch & Co., Inc. ("Merrill Lynch") pursuant to which Merrill Lynch will contribute its investment management business, Merrill Lynch Investment Managers, to BlackRock. The combined company would be one of the world's largest asset management firms with nearly $1 trillion

in assets under management, over 4,500 employees in 18 countries and a major presence in most key markets, including the United States, the United Kingdom, Asia, Australia, the Middle East and Europe. Merrill Lynch would own approximately 49% (but in any event, not more than 49.8%) of the combined company, including a 45% voting interest, PNC would retain approximately 34% ownership of the combined company and the remainder would be held by employees and public shareholders. The transaction, which has been approved by the boards of directors of BlackRock and Merrill Lynch, is subject to various regulatory approvals, client consents, approval by BlackRock shareholders and other customary closing conditions, and is expected to close on or around September 30, 2006.

The Kelso Principals have an average tenure of over fifteen years at Kelso. Kelso is one of the leading private equity firms and since 1980 has invested over $3.4 billion of private equity capital, primarily in middle-market companies across a broad range of industries. Kelso was organized in 1971 as a private advisory firm and initially focused its business activities on the development and implementation of employee stock ownership plans. In 1980, Kelso formed its first investment partnership and has made more than 80 private equity investments through seven investment partnerships since that time. The firm typically makes investments in companies where key managers make significant investments and works in partnership with management teams to create value for investors.

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.

ADMINISTRATION

BlackRock, through its subsidiary, BlackRock Financial Management, Inc. (the "Administrator"), serves as our administrator and provides us with office facilities, equipment and office services. BlackRock oversees our financial records, prepares reports to our shareholders and reports filed with the SEC, and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Subject to BlackRock's oversight, PFPC Inc., a subsidiary of PNC, serves as our sub-administrator, accounting agent, investor services agent and transfer agent and provides legal and regulatory support services. PFPC Trust Company, another subsidiary of PNC, serves as custodian of our investment assets. Fees and indemnification in respect of the Administrator and the PFPC entities were approved by our Board of Directors, including the directors that are not "interested persons."

MARKET OPPORTUNITY

We believe the environment for investing in middle market companies is attractive for several reasons, including:

o The middle-market remains underserved by traditional financing sources. Between December 1990 and September 2005, the broad-based consolidation in the U.S. financial services industry reduced the number of FDIC-insured commercial banks and savings institutions from approximately 15,000 to 9,000. Additionally, traditional commercial banks are highly regulated and we believe their credit spectrum and risk profile limit their ability to serve the middle-market.

o Middle-market companies face increasing difficulty in accessing capital markets. We believe many middle-market companies have faced increasing difficulty in accessing the public capital markets because investors are generally seeking larger, more liquid debt offerings. As evidence of this trend, the market for high yield issuance has seen average deal size increase from approximately $198 million in 1995 to $278 million in 2005, while the percentage of offerings of $100 million or less declined from approximately 14% to under 3%.

o There is currently a large pool of uninvested private equity capital. We also believe there is a large pool of uninvested private equity capital, estimated to be in excess of $150 billion at the end of 2005, available to middle market companies. We expect that private equity firms will be active investors in middle market companies and that these private equity funds will seek to leverage their investments by combining capital with senior secured loans, mezzanine debt and equity co-investments from other sources, such as us. Through our extensive deal sourcing contacts and relationships, we anticipate that we will have access to these investment opportunities.

COMPETITIVE ADVANTAGES

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

Investment Expertise. The investment professionals of the Advisor and BlackRock and the Kelso Principals, individually and collectively, have had experience investing in nearly every industry group in small, middle and large capitalization companies and at every level of the capital structure. Additionally, these individuals have had extensive exposure to middle-market companies through their investment activities in private equity securities, debt securities (comprised of senior and junior, secured and unsecured instruments) and bank loan investments. Although the Kelso Principals who serve on the Investment Committee will bring the benefit of the expertise they have gained at Kelso and elsewhere, Kelso as an organization will not participate in the activities of the Advisor or advise us.

BlackRock manages approximately $304 billion in fixed income investments as of December 31, 2005, and as of that date manages over $10 billion in non-investment grade assets, including over $3.3 billion in bank loan assets. BlackRock has over 400 investment professionals in the fixed income area, including 27 credit research analysts and 321 quantitative research analysts dedicated to risk management. BlackRock emphasizes rigorous credit and deal structure analysis, relative value assessment against pertinent investment risks and ongoing surveillance and risk management. All of the principals who founded the firm in 1988 remain affiliated with the firm. BlackRock manages a set of private investment funds, with Kelso as its advisor, with over $3.9 billion in aggregate initial capital. These funds invest primarily in public and private debt obligations and, to a lesser extent, in mezzanine, private equity and other special situation investments.

The Kelso Principals have an average tenure of over fifteen years at Kelso. Over the past 24 years Kelso has made more than 80 private equity investments totaling over $3.4 billion through seven investment partnerships, spanning multiple business cycles and widely varying conditions in the debt and equity markets. Most of these investments have been made in middle-market companies. The firm has consistently realized attractive returns on its portfolio of investments. Kelso has structured and placed on behalf of its portfolio companies nearly $400 million in privately placed junior debt securities.

Deal Sourcing Capability. We identify potential investments both through active origination and due diligence and through dialogue with numerous management teams, members of the financial community and potential corporate partners with whom the Advisor's investment professionals have relationships. The Advisor's investment professionals also have a broad network of contacts within the investment, commercial banking, private equity and investment management communities. We expect that these contacts will refer investment opportunities to us. The network of contacts of BlackRock's investment professionals and the Kelso Principals are an additional source of potential investments to us. We also expect to generate investment opportunities from accountants, consultants and lawyers with whom the Advisor's and BlackRock's investment professionals and the Kelso Principals have relationships, as well as the management teams of Kelso portfolio companies and other companies. In addition, we will have access to investment opportunities generated through the network of BlackRock clients, including regional banks and other financial institutions.

Operating Expertise. BlackRock has developed a dedicated professional staff, systems, software and procedures necessary for overseeing tax reporting, trading and other administrative, accounting and portfolio and regulatory compliance functions on behalf of its clients. We benefit from the existing infrastructure and administrative capabilities of BlackRock. The BlackRock organization has over 18 years of experience managing closed-end products and, as of December 31, 2005, advised a closed-end family of 55 active funds with approximately $17.6 billion in assets, and 9 unregistered high yield funds with approximately $3.9 billion in assets.

Disciplined, Value-Oriented Investment Philosophy with a Focus on Preservation of Capital. We focus on the risk/reward profile of each prospective portfolio company, seeking to minimize the risk of capital loss without foregoing potential for capital appreciation. 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 key drivers of that business, as well as an assessment of the legal and economic features of each particular investment. As part

of its review process, the Advisor draws on the industry expertise of its investment professionals, as well as on that of the investment professionals of BlackRock and the Kelso Principals.

Versatile Transaction Structuring. The collective expertise and experience of the Advisor's investment professionals enables them to identify, assess and structure investments that are appropriate for us across all levels of a company's capital structure and to manage potential risk and return at all stages of the economic cycle. We are not subject to many of the regulatory limitations that govern traditional lending institutions such as banks. As a result, we expect to be able to be flexible in selecting and structuring our investments. This approach should enable us to identify attractive investment opportunities throughout the economic cycle so that we can make investments consistent with our stated objective, even during turbulent periods in the capital markets.

Attractive Fund Structure. Unlike typical private equity and mezzanine funds, we are not subject to capital commitment expirations. The terms of typical private equity or mezzanine funds usually stipulate that their capital, together with any capital gains on such investment, can only be invested once and must be returned to investors after a pre-agreed time period. These provisions often force private equity and mezzanine funds to seek investments that are likely to satisfy these timing constraints, resulting in diminished investment opportunities and potentially lower overall return to investors. Our anticipated flexibility to make investments with a long-term view and without the capital return requirements of traditional private equity or mezzanine funds should provide us with excellent investment opportunities.

OPERATING AND REGULATORY STRUCTURE

Our investment activities are managed by BlackRock Kelso Capital Advisors and supervised by our Board of Directors, a majority of whom are independent of the Advisor, BlackRock, the Kelso Principals and their respective affiliates. BlackRock Kelso Capital Advisors is an investment adviser that is registered under the Investment Advisers Act of 1940. Under our investment management agreement, we have agreed to pay BlackRock Kelso Capital Advisors an annual base management fee based on our total assets, as well as an incentive fee based on our performance. The investment 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 performance by the Advisor of its duties 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.

As a BDC, we are required to comply with certain regulatory requirements. For example, to the extent provided by the 1940 Act, we will not invest in any private company in which BlackRock, Kelso, or any of their affiliates, or any of the unregistered investment funds managed by them, holds an existing investment. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. We intend to elect to be treated for federal income tax purposes as a RIC under Subchapter M of the Code.

PORTFOLIO COMPOSITION

We commenced operations on July 25, 2005, when we received approximately $529.3 million in total net proceeds from the private placement of our common stock. During our initial period of operations, our portfolio was invested primarily in short-term investments and cash equivalents. As we continue to invest the net proceeds from our private placement in longer-term investments, the amounts of our short-term investments and cash equivalents will decline, and we expect to generate additional income at rates higher than those we received on our investments during this initial period, although there can be no assurance that we will achieve this objective. At December 31, 2005, our portfolio was invested 25% in senior secured loans, 1% in subordinated debt/corporate notes, 1% in publicly traded, floating rate closed-end funds, less than 1% in common stock/warrants and 73% in short-term investments (including cash equivalents). At December 31, 2005, all of our senior secured loans were supported by first, second or third priority liens in our favor on collateral consisting of assets or stock of the portfolio company and/or its affiliates.

We will generally seek to invest in companies that generate positive cash flows in a broad variety of industries. Although we may invest in all segments of the capital structure, the Advisor seeks to create a portfolio consisting primarily of various fixed-income securities and obligations of U.S. private middle-market companies. We may also invest in other types of securities and obligations, including common and preferred equity, options and warrants, credit derivatives,

high yield bonds, distressed debt and other structured securities. Up to 30% of our assets may be invested opportunistically in investments other than those issued by "eligible portfolio companies," as defined in the 1940 Act.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds.

To the extent provided by the 1940 Act, we will not invest in any private company in which BlackRock, Kelso, or any of their affiliates, or any of the unregistered investment funds managed by them, holds an existing investment. We may, however, co-invest on a concurrent basis with other affiliates of BlackRock or Kelso, subject to compliance with applicable allocation procedures.

INVESTMENT SELECTION

In managing BlackRock Kelso, the Advisor utilizes a similar value oriented philosophy to that used by the investment professionals of BlackRock and to those used by the Kelso Principals serving on the Investment Committee in managing other investment accounts and commits its resources to managing downside exposure.

PROSPECTIVE PORTFOLIO COMPANY CHARACTERISTICS

The Advisor has identified several criteria that 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; however, 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 and those of its affiliates to identify investment candidates and to structure investments quickly and effectively.

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.

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 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 mergers and acquisitions transactions.

Liquidation Value of Assets. The prospective liquidation value of the assets, if any, collateralizing loans in which we invest are 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.

DUE DILIGENCE

The Advisor on our behalf conducts diligence on prospective portfolio companies. The Advisor's due diligence typically includes:

- review of historical and prospective financial information;
- review of public information;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- review of financing documents and other material contracts;
- on-site visits;
- background checks; and
- research relating to the company's management, industry, markets, products, services and competitors.

One or more of the foregoing may not be appropriate and therefore not performed with respect to any particular prospective portfolio company. To the extent we are not the sole investor with respect to a particular prospective portfolio company transaction, we may rely on others investing in the same transaction to perform one or more of the foregoing.

INVESTMENT STRUCTURE

Once the Advisor has determined that a prospective portfolio company is suitable for investment, the Advisor works with the management of that company and its other capital providers, including senior, junior, and equity capital providers, to structure an investment. The Advisor negotiates among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

The Advisor invests a portion of our assets in senior secured loans. These senior secured loans generally have terms of three to ten years and in some cases provide for deferred interest in the first few years of the term of the loan. Senior secured loans are supported by first, second or third priority liens in our favor on all or a portion of the assets or stock of the portfolio company or on assets or stock of affiliates of the portfolio company. Although we may seek to dispose of such collateral in the event of default, we may be delayed in exercising such rights or our rights may be contested by others. In addition, the value of the collateral may deteriorate so that the collateral is insufficient for us to recover our investment in the event of default. In the current environment, the Advisor expects that the interest rate on our senior secured loans generally will range between 2% and 10% over the London Interbank Offer Rate, or LIBOR. No assurance can be given that these or any other returns, however, can be achieved.

The Advisor may invest a portion of our assets in junior, subordinated and/or unsecured loans, which usually rank subordinate in priority of payment to senior debt, such as senior bank debt, and are often unsecured. However, such loans rank senior to common and preferred equity in a borrower's capital structure. Typically, such loans have elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior debt, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest could take the form of warrants, options or an equity co-investment with the transaction sponsor or management of the portfolio company. Such equity interests may include a "put" feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula. Due to their higher risk profile and often less restrictive covenants as compared to senior loans, such loans generally earn a higher return than senior secured loans. We believe that such loans offer an attractive alternative investment opportunity.

The availability of mezzanine investments has waned in recent years as borrowers have increasingly turned to second-lien financing as an alternative to unsecured mezzanine financing to fund leveraged buyouts, recapitalizations and other transactions. Borrowers have found second-lien financing to result in a lower overall cost of funds than mezzanine

financing, in many cases without having to offer any equity inducement to lenders to make the loan or any call protection to lenders other than perhaps a nominal premium. Accordingly, if current market conditions continue, the Advisor does not expect to invest a substantial portion of our assets in mezzanine investments.

In the event that opportunities for mezzanine investments arise, the Advisor will structure them primarily as unsecured, subordinated obligations that provide for relatively high, fixed interest rates that will provide us with significant current interest income. These loans typically will have interest-only payments in the early years, with amortization of principal deferred to the later years. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt securities or defer payments of cash interest for the first few years after investment. Also, in some cases our loans will be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, these loans will have maturities of five to ten years. In the current environment, the Advisor generally targets a total return of 12% to 20%, including capital gains on equity components, for our mezzanine investments. No assurance can be given that these or any other returns, however, can be achieved.

The Advisor may structure equity investments as common and preferred stock, including convertible, participating or payment-in-kind preferred stock. Equity investments may be paired with debt investments in the form of convertible debt or equity co-investments with the transaction sponsor or management of the portfolio company.

The Advisor tailors the terms of our investment to the circumstances of the transaction and the prospective portfolio company, negotiating a structure that seeks to protect our rights and to manage our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, where the Advisor structures a debt investment, it will seek to limit the downside potential of our investments by means of one or more of the following actions:

o requiring a total return on investment (including both interest and potential equity appreciation) that compensates us adequately for its credit risk;

o incorporating "put" rights and call protection into the investment structure; and

o negotiating covenants that afford the portfolio companies as much flexibility in managing their businesses as possible, consistent with 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.

We expect to hold most of our debt investments to maturity or repayment, but will sell investments earlier if otherwise appropriate.

Our fixed-income investments may include equity features, such as warrants or options to buy a minority interest in the common stock of the portfolio company. Any warrants received with debt securities generally will require only a nominal cost to exercise, and thus, if a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. The Advisor may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, which are rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we will also obtain registration rights in connection with these equity interests. We seek to achieve additional investment return from the appreciation and sale of these warrants.

In an effort to increase returns and the number of loans made, we may in the future seek to securitize a portion of our loans. To securitize loans, we would contribute a pool of loans to a wholly-owned subsidiary and sell investment grade fixed income securities issued by such subsidiary to investors willing to accept a lower interest rate to invest in investment-grade securities of loan pools. Our retained interest in the subsidiary would consequently be subject to first loss on the loans in the pool. We may use the proceeds of such sales to pay down bank debt, to fund additional investments or for other corporate purposes.

MANAGERIAL ASSISTANCE

As a business development company, 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 will not receive any direct compensation from our portfolio companies for providing managerial assistance.

ONGOING RELATIONSHIPS 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 value of our investments, which may include the following and other methods:

o Assessment of success of the portfolio company in adhering to its business plan and compliance with covenants;

o Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

o Comparisons to other companies in the industry;

o Attendance at and participation in board meetings;

o Review of monthly and quarterly financial statements and financial projections for portfolio companies; and

o Retention of third-party valuation firms to assist in determination of fair value.

COMPETITION

Our primary competitors to provide financing to middle market companies include public and private funds, commercial and investment banks, commercial financing companies, business development companies, insurance companies 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 business development company or the restrictions that the Code will impose on us as a regulated investment company. We expect to use the industry information of the investment professionals of the Advisor and BlackRock and of the Kelso Principals to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of these individuals, and of BlackRock and Kelso, enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies.

STAFFING

We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees of the Advisor or the Administrator, pursuant to the terms of the investment management agreement and the administration agreement. Each of our executive officers is an employee of the Advisor or the Administrator. Our executive officers are also executive officers of the Advisor. Our day-to-day investment operations are managed by the Advisor. The Advisor has 12 investment professionals who focus on origination and transaction development and monitoring of our investments, and expects to hire additional professionals in the future. We reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the performance by the Advisor of its duties under the investment 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 business development company under the 1940 Act. The 1940 Act contains prohibitions and restrictions related to transactions between business development companies and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates 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 business development company unless approved by holders of a majority of our outstanding voting securities.

Under the 1940 Act, a business development company may not acquire any assets other than "qualifying assets," unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. This results from the definition of "eligible portfolio company" in the 1940 Act, which in part looks to whether a company has outstanding any securities against which margin credit may be extended ("marginable securities"). Marginable securities are any class of securities with respect to which a member of a national securities exchange, broker or dealer may extend or maintain credit to or for a customer pursuant to rules and regulations adopted by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") under Section 7 of the Securities Exchange Act of 1934 (the "Exchange Act").

We will invest in private companies that may have outstanding privately placed debt securities (in addition to the securities that we acquire) and we intend to treat such investments as qualifying assets. The Advisor believes that these companies should not be deemed to have any outstanding marginable securities for purposes of the 1940 Act's BDC provisions. Furthermore, extensions of commercial credit such as bank loans, leases and receivables factoring are not securities for purposes of the Exchange Act, which provides the authority for the Federal Reserve Board's margin regulations, and accordingly the many private middle-market companies that have only such obligations outstanding should not be treated as having any outstanding marginable securities.

In 1998, the Federal Reserve Board amended Regulation T to include within the definition of marginable securities any "non-equity security." Non-equity securities include debt securities. If applied literally, this change would mean that any company that has issued any debt securities would not be an eligible portfolio company and we would be severely limited in our ability to pursue our strategy.

The Advisor does not believe that this result was intended by the Federal Reserve Board when it amended Regulation T in 1998 or contemplated by Congress when it enacted the provisions of the 1940 Act relating to business development companies, and the Advisor does not believe that these provisions should be interpreted as causing a private company that had outstanding debt securities to be deemed to have outstanding marginable securities, notwithstanding the literal language of the 1940 Act and Regulation T. The SEC and the courts may have a different interpretation of this provision and, accordingly, there can be no assurance that we will be able to pursue our investment objective through privately placed securities.

A decision by the SEC or a court that conflicts with the Advisor's interpretation would have a material adverse effect on our business. For example, such a decision would make it more difficult for the Advisor to identify investment

opportunities and may require us to change our investment objective or policies, or conceivably seek shareholder approval to cease to be regulated as a business development company. Such a decision also may require that we dispose of investments made based on the Advisor's interpretation. Disposing of such investments could have a material adverse effect on us and our shareholders. We may need to dispose of such investments quickly, which would make it difficult to dispose of such investments on favorable terms. Because these types of investments will generally be illiquid, we may have difficulty in finding a buyer for these investments and, if we do, we may have to sell them at a substantial loss.

On November 1, 2004, the SEC proposed for comment two new rules under the 1940 Act that are designed to realign the definition of eligible portfolio company set forth in the 1940 Act, and the investment activities of BDCs, with their original purpose by (1) defining eligible portfolio company with reference to whether an issuer has any class of securities listed on a national securities exchange or on an automated interdealer quotation system of a national securities association ("NASDAQ") and (2) permitting BDCs to make certain additional ("follow-on") investments in those issuers even after they list their securities on a national securities exchange or on NASDAQ. The proposed rules are intended to expand the definition of eligible portfolio company in a manner that would promote the flow of capital to small, developing and financially troubled companies. We cannot assure you that these rules, or related rules arising out of the comment process, will be approved by the SEC.

Until the SEC or its staff has issued final rules with respect to the issue discussed above, we will continue to monitor this issue closely, and may be required to adjust our investment focus to comply with and/or take advantage of any future administrative position, judicial decision or legislative action.

The 1940 Act limits our ability to borrow money or issue debt securities or preferred stock so that the resulting leverage does not exceed our net assets attributable to common shares. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend.

Under the 1940 Act, we cannot, with minor exceptions, sell securities to, buy securities from, or lend money to, certain controlling or closely affiliated persons or companies; e.g., our directors, officers and employees or the directors, officers and employees of the Advisor, or members of the Investment Committee, or any company that any of these people control. Any such transactions would be subject to prior SEC approval, and we have no plans to invest in these affiliates. If we choose to invest in companies that the Advisor has other associations with, such as a company in which BlackRock or Kelso has a noncontrolling minority equity investment, or a company to which a BlackRock or Kelso affiliate has made a loan or loans, such decision would be subject to approval by our Board of Directors, including a majority of the directors that are not "interested persons."

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we rarely use brokers in the normal course of business. In those cases where the Advisor does use a broker on our behalf, the Advisor does not execute transactions through any particular broker or dealer, but will seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While the Advisor generally seeks reasonably competitive execution costs, it may not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the Advisor may select a broker based partly upon brokerage or research services provided to it. In return for such services, we may pay a higher commission than other brokers would charge if the Advisor determines in good faith that such commission is reasonable in relation to the services provided. For the period July 25, 2005 (inception of operations) through December 31, 2005, we paid $13,182 in brokerage commissions related to purchases of closed-end funds.

ITEM 1A. RISK FACTORS

WE ARE A NEW COMPANY WITH A LIMITED OPERATING HISTORY.

We commenced operations on July 25, 2005 and therefore have a limited operating history. We are subject to the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that our net asset value could decline substantially.

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 plan to make in middle market companies. We compete with other business development companies, public and private funds, commercial and investment banks, 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 will impose on us as a BDC. 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 take advantage of attractive investment opportunities from time to time, and we cannot assure you that we will be able to identify and make investments that meet our investment objectives.

We will not seek to compete primarily based on the interest rates we will offer and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer.

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 better terms to our portfolio companies than what we may have originally anticipated, which may impact our return on these investments.

OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS WILL DEPEND ON OUR ABILITY TO MANAGE FUTURE GROWTH EFFECTIVELY.

Our ability to achieve our investment objective will depend on our ability to manage our business, which will depend, in turn, on the ability of the Advisor to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result largely will be 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.

The members of the Investment Committee will have substantial responsibilities to other clients of the Advisor's affiliates in addition to their activities on our behalf. The members of the Investment Committee and the investment professionals dedicated primarily 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.

REGULATIONS GOVERNING OUR OPERATION AS A BDC MAY REDUCE OUR OPERATING FLEXIBILITY.

Please refer to the section on "Regulation" on pages 11 and 12 for a discussion of business development company limitations.

WE MAY NOT REPLICATE THE SUCCESS OF BLACKROCK'S OR KELSO'S INVESTMENT FUNDS.

We are a different vehicle from any investment fund managed by either BlackRock or the Kelso Principals. Our investment strategies differ from those of private funds that are or have been managed by BlackRock, the Kelso Principals or their respective affiliates. To the extent provided by the 1940 Act, we will not invest in any private company in which BlackRock, Kelso, or any of their affiliates, or any of the unregistered investment funds managed by them, holds an existing investment. This may adversely affect the pace at which we make investments. We can provide no assurance that we will replicate the historical or future performance of BlackRock's or Kelso's private investment funds and our investment returns may be substantially lower than the returns achieved by those private funds. As a business development company, we are subject to certain investment restrictions that do not apply to BlackRock's or Kelso's private investment funds.

MANY OF OUR PORTFOLIO INVESTMENTS ARE RECORDED AT FAIR VALUE AS DETERMINED IN GOOD FAITH BY OUR BOARD OF DIRECTORS. AS A RESULT, THERE WILL BE UNCERTAINTY AS TO THE VALUE OF OUR PORTFOLIO INVESTMENTS.

Many of our portfolio investments are in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these securities at least quarterly at fair value as determined in good faith by our Board of Directors with the assistance of the Advisor and, to the extent determined by the Audit Committee of our Board of Directors, one or more independent valuation firms. However, because fair valuations, and particularly fair valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and are often based to a large extent on estimates, comparisons and qualitative evaluations of private information, our determinations of fair value may differ materially from the values that would have been determined if a ready market for these securities existed. This could make it more difficult for investors to accurately value our portfolio investments and could lead to under-valuation or over-valuation of our common shares.

THE LACK OF LIQUIDITY IN OUR INVESTMENTS MAY ADVERSELY AFFECT OUR BUSINESS.

We will generally make investments in private companies. Many of these securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these 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 had previously recorded such investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

IF WE DO NOT ACHIEVE THE PUBLIC MARKET EVENT ON OR PRIOR TO THE FIFTH ANNIVERSARY OF OUR INCEPTION, WE COULD BE SUBJECT TO TERMINATION ON THE TENTH ANNIVERSARY OF OUR INCEPTION, WHICH COULD CAUSE SHAREHOLDERS TO INCUR A LOSS OR A LOWER RETURN ON THEIR INVESTMENT.

We expect to seek to complete an initial public offering of our common shares registered under the Securities Act of 1933 (the "Securities Act") and list such common shares on a national securities exchange (collectively, the "Public Market Event") on or prior to the fifth anniversary of our inception. There can be no assurance that we will achieve this objective. In the event we fail to effect the Public Market Event, our Articles of Incorporation provide that we could be subject to termination on the tenth anniversary of our inception and accordingly would be required to liquidate our portfolio of investments, wind up our business and affairs, and be dissolved. The proceeds from the liquidation of our portfolio, net of costs and expenses of winding up our business and affairs, would be distributed to our shareholders, which could result in shareholders receiving less than their original investment or less than the most recent net asset value of our common shares at the time. As a result, shareholders could incur a loss or a lower return on their investment.

WE MAY BORROW MONEY, WHICH MAY MAGNIFY THE POTENTIAL FOR GAIN OR LOSS ON AMOUNTS INVESTED AND MAY INCREASE THE RISK OF INVESTING WITH US.

We may borrow money or issue debt securities or preferred stock to leverage our capital structure. If we do so:

o Our common shares will be exposed to incremental risk of loss. In these circumstances, 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.

o Adverse changes in interest rates could reduce or eliminate the incremental income we expect to make with the proceeds of any leverage.

o Our ability to pay dividends on our common shares will be restricted if our asset coverage ratio is not at least 200% and any amounts used to service indebtedness or preferred stock would not be available for such dividends.

o It is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility.

o We, and indirectly our shareholders, will bear the cost of issuing and paying interest or dividends on such securities.

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

WE MAKE LOANS TO AND INVEST IN PRIVATE MIDDLE-MARKET COMPANIES, WHICH MAY DEFAULT ON THEIR LOANS, THEREBY REDUCING OR ELIMINATING THE RETURN ON OUR INVESTMENTS.

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

o 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.

o They 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.

o They 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 the portfolio company and, in turn, on us.

o They 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.

o They may cease to be treated as private companies for purposes of the regulatory restrictions applicable to us, in which case we may not be able to invest additional amounts in them.

o Little public information exists about these companies. The greater difficulty in making a fully informed investment decision raises the risk of misjudging the credit quality of the company, and we may lose money on our investments.

ECONOMIC DOWNTURNS OR RECESSIONS COULD IMPAIR OUR PORTFOLIO COMPANIES' ABILITY TO REPAY OUR LOANS, HARM OUR OPERATING RESULTS AND REDUCE OUR VOLUME OF NEW LOANS.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. 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 funding costs, limit 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.

A portfolio company's failure to satisfy financial or operating covenants could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the debt securities that we hold. We may need to incur additional expenses to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

WE ARE EXPOSED TO RISKS ASSOCIATED WITH CHANGES IN INTEREST RATES.

Because a substantial portion of our assets will consist of loans and debt securities, the net asset value of our common shares will fluctuate with changes in interest rates, as well as with changes in the prices of the securities we own caused by other factors. These fluctuations are likely to be greater when we are using financial leverage.

IF WE FAIL TO QUALIFY AS A REGULATED INVESTMENT COMPANY, WE WILL HAVE TO PAY CORPORATE-LEVEL TAXES ON OUR INCOME AND OUR INCOME AVAILABLE FOR DISTRIBUTION WOULD BE REDUCED.

To maintain our qualification as a regulated investment company under the Code, which is required in order for us to distribute our income without tax at the corporate level, we must meet certain income source, asset diversification and annual distribution requirements. Satisfying these requirements may require us to take actions we would not otherwise take, such as selling investments at unattractive prices to satisfy diversification, distribution or source of income requirements. In addition, while we are authorized to borrow funds in order to make distributions, under the 1940 Act we are not permitted to make distributions to shareholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. If we fail to qualify as a regulated investment company for any reason and become or remain subject to corporate income tax, the resulting corporate 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 shareholders.

WE MAY HAVE DIFFICULTY PAYING OUR REQUIRED DISTRIBUTIONS IF WE RECOGNIZE INCOME BEFORE OR WITHOUT RECEIVING CASH REPRESENTING SUCH INCOME.

For U.S. federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we invest in zero coupon securities, deferred interest securities or certain other securities, or if we receive warrants in connection with the making of a loan or possibly in other circumstances. Such original issue discount, which could but is not expected to be significant relative to our overall investment activities, generally will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty making distributions in the amounts necessary to satisfy the requirements for maintaining regulated investment company status and for avoiding income and excise taxes. Accordingly, we may have to sell some of our investments at times the Advisor would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify as a regulated investment company and thus be subject to corporate-level income tax. Such a failure would have a material adverse effect on us and our shareholders.

THERE ARE SIGNIFICANT POTENTIAL CONFLICTS OF INTEREST THAT COULD IMPACT OUR INVESTMENT RETURNS.

The Advisor, its affiliates or their officers and employees serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business or of investment funds managed by affiliates of the Advisor. 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 shareholders.

The Advisor and its affiliates have procedures and policies in place designed to manage potential conflicts of interest that may arise from time to time between the Advisor's fiduciary obligations to us and their similar fiduciary obligations to other clients so that, for example, investment opportunities are allocated in a fair and equitable manner among us and such other clients. An investment opportunity that is suitable for multiple clients of the Advisor's affiliates may not be capable of being shared among some or all of such clients due to the limited scale of the opportunity or other factors, including regulatory restrictions imposed by the 1940 Act. There can be no assurance that the Advisor's or its affiliates' efforts to allocate any particular investment opportunity fairly among all clients for whom such opportunity is appropriate will result in an allocation of all or part of such opportunity to us. Not all conflicts of interest can be expected to be resolved in our favor.

Some individuals may be employed both by the Advisor and by another entity that has other clients for whom a particular investment opportunity may be appropriate. When the Advisor can determine the capacity in which a dual employee obtained an investment opportunity, the opportunity will be offered first to the clients of the entity through which the opportunity arose. Where the capacity cannot readily be determined, the Advisor will seek to allocate the opportunity in accordance with the principles articulated above.

RESTRICTIONS ON THE ABILITY OF INVESTMENT PROFESSIONALS OF BLACKROCK AND THE KELSO PRINCIPALS TO REFER POTENTIAL INVESTMENTS TO US COULD REDUCE THE VOLUME OF OUR INVESTMENT OPPORTUNITIES.

We expect that the Kelso Principals, certain of whom are affiliated with the Advisor but have no individual contractual duty to the Advisor or to us, will be a source of investment opportunities. However, investors should be aware that the Kelso Principals are subject to the terms and conditions of the agreements governing the private investment partnerships managed by Kelso, which include restrictions on the non-Kelso fund activities of Kelso and the Kelso Principals. The primary obligation of the Kelso Principals is to manage Kelso's investment partnerships. For example, these agreements generally require that certain of the Kelso Principals who serve on the Investment Committee in their individual capacities as members of the Advisor devote substantially all of their business time and efforts to the private investment partnerships managed by Kelso, and each of them intends to do so. The Advisor is not subject to these restrictions. In addition, these agreements require that any investment opportunities presented to Kelso or the Kelso Principals that are appropriate to such partnerships be offered to the partnerships. Therefore, although the investment opportunities appropriate for us will generally not be of the type that would be appropriate for the private investment partnerships managed by Kelso, if the Kelso Principals are presented with any opportunities that are appropriate for both us and such partnerships, the Kelso Principals would be obligated to offer the opportunities first to such partnerships and not to us, regardless of the capacity in which they received such opportunity. This may limit the extent to which the Kelso Principals (but not the Advisor, to the extent it is able to identify investment opportunities independently) will be a source of investment transactions for us. BlackRock is not subject to any similar arrangements in favor of its clients other than with respect to mezzanine real estate debt, as to which it is required to bring certain opportunities first to certain private real estate debt funds managed by BlackRock.

THE CARRIED INTEREST MAY CREATE AN INCENTIVE FOR THE ADVISOR TO TAKE ACTIONS DETRIMENTAL TO US.

The Carried Interest, which is an incentive fee that may be owing to the Advisor or its affiliates from time to time under the investment management agreement, may create an incentive for the Advisor to make investments that are riskier or more speculative than would otherwise be the case. The way in which the amount of the Carried Interest is determined, which is calculated as a percentage of distributions on our common shares, may encourage the Advisor to use leverage in an effort to increase the return on our investments. If the Advisor acquires poorly performing assets with such leverage, the loss to holders of our common shares could be substantial. Finally, because a portion of the Carried Interest is likely to reflect interest and dividend income and is calculated on an accrual basis regardless of whether we have received a cash payment of such interest or dividends, the Advisor might have an incentive to invest in zero coupon or deferred interest securities in circumstances where it would not have done so but for the opportunity to continue to earn Carried Interest even when the issuers thereof would not be able to make cash payments on such securities. The foregoing risks could be increased because the Advisor is not obligated to reimburse us for any Carried Interest received even if we subsequently incur losses or never receive in cash income that was previously accrued.

We do not believe the Advisor is susceptible to engaging in these practices, both because excessive risk taking will reduce the likelihood of earning incentive fees over the long term and because of the high standards of fiduciary conduct exhibited by BlackRock and the Kelso Principals in the past. However, our Board of Directors will monitor the investment activities of the Advisor and will be prepared to terminate its services and seek restitution of any harm to us if it believes the Advisor has breached its fiduciary duties in this regard.

DUE TO THE LACK OF LIQUIDITY OF OUR COMMON SHARES, YOU MAY NOT BE ABLE TO SELL YOUR INVESTMENT IN US IF THE NEED ARISES OR YOU MAY REALIZE SIGNIFICANTLY LESS FROM A SALE THAN OUR NET ASSET VALUE PER SHARE.

There is currently no public trading market for our common shares. Our common shares are not freely transferable and shareholders do not have the right to redeem their common shares. The lack of liquidity of our common shares may make it difficult for you to sell your shares if the need arises. In addition, if you need to dispose of your shares, you may realize significantly less than our net asset value per share. Our common shares should be regarded as a long-term investment.

IF THE INDUSTRY SECTORS IN WHICH OUR PORTFOLIO IS CURRENTLY CONCENTRATED EXPERIENCE ADVERSE ECONOMIC CONDITIONS, OUR OPERATING RESULTS MAY BE NEGATIVELY AFFECTED.

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, although over time we anticipate investing in a minimum of 15 to 20 issuers to ensure we satisfy diversification requirements for qualification as a RIC for U.S. federal income tax purposes. Concentration of our assets in an industry or sector may present more risks than if we were broadly diversified over numerous industries and sectors of the economy. 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 industry or sector. As a result of investing a greater portion of our assets in the securities of a smaller number of issuers, we are classified as a non-diversified company under the 1940 Act. We may be more vulnerable to events affecting a single issuer or industry and therefore subject to greater volatility than a company whose investments are more broadly diversified. Accordingly, an investment in us may present greater risk than an investment in a diversified company. 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.

CHANGES IN LAWS OR REGULATIONS GOVERNING OUR OPERATIONS, OR CHANGES IN THE INTERPRETATION THEREOF, AND ANY FAILURE BY US TO COMPLY WITH LAWS OR REGULATIONS GOVERNING OUR OPERATIONS MAY ADVERSELY AFFECT OUR BUSINESS.

We and our portfolio companies are subject to laws and regulations at the local, state and federal level. These laws and regulations, as well as their interpretation, may be changed from time to time. Any change in these laws or regulations, or any failure to comply with them by us or our portfolio companies, could have a material adverse affect on our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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 52nd 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

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during our fourth fiscal quarter ended December 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

There is no established public trading market for our common stock.

HOLDERS

At March 28, 2006, we had approximately 395 shareholders of record. Such number of shareholders includes institutional or omnibus accounts that hold common stock for multiple underlying investors.

DIVIDENDS

We intend to distribute quarterly dividends to our shareholders. Our quarterly dividends, if any, will be determined by our Board of Directors. On December 22, 2005, we declared an initial dividend of $0.20 per share. On March 8, 2006, we declared a dividend of $0.20 per share for the first quarter of 2006. Because of our limited operating history, these are the only dividends to date that we have declared on our common stock.

We intend to elect to be taxed as a regulated investment company, or RIC, under Subchapter M of the Code. To maintain our RIC status, we must distribute annually 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. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31st and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. 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.

We maintain an "opt out" dividend reinvestment plan for our common shareholders. As a result, if we declare a dividend, shareholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our status as a regulated investment company. We cannot assure shareholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

With respect to the dividends paid to shareholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to shareholders. For the period from July 25, 2005 (inception of operations) through December 31, 2005, these fees totaled $906,250.

RECENT SALES OF UNREGISTERED SECURITIES

On July 25, 2005, we completed a private placement of 35,366,589 shares of our common stock, par value $.001 per share, for aggregate gross proceeds of $530,498,845, consisting of cash of $110,780,905 and a contribution of short-term investments and cash equivalents of $419,717,940. The contribution of short-term investments and cash equivalents represented a portion of the consideration for shares of our common stock purchased by BlackRock Kelso Capital Holding LLC, an entity for which the Advisor serves as manager. The transaction was effected in accordance with our valuation procedures governing securities transactions with affiliates and was ratified by our Board of Directors, including the directors that are not "interested persons."

The placement of our common stock was exempt from the registration requirements of the Securities Act, pursuant to Section 4(2) of the Securities Act and Regulation D, Rule 506 promulgated thereunder for transactions not involving a public offering and based on the fact that the common stock was issued primarily to institutional or accredited investors.

Wachovia Capital Markets, LLC, a broker-dealer registered with the SEC and the National Association of Securities Dealers, acted as our placement agent in connection with a portion (approximately 3% of gross proceeds) of the private placement referenced above and we paid them a placement fee of $507,407. We incurred legal fees and other offering

costs of $657,639 relating to the private placement. The net proceeds from the private placement of $529,333,799 were used for general corporate purposes.

Our common stock became a registered class of securities under the Exchange Act pursuant to our Registration Statement on Form 10 (SEC file no. 000-51327), which became effective on July 25, 2005.

ISSUER PURCHASES OF EQUITY SECURITIES

We did not repurchase any shares of our common stock during the three months ended December 31, 2005.

ITEM 6. SELECTED FINANCIAL DATA

The Statement of Operations, Per Share and Balance Sheet data for the period ended December 31, 2005 are derived from our 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 financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

	for the Period July 25, 2005* Through December 31, 2005 (Dollar Amounts in Thousands, Except Per Share Data)
Statement of Operations Data:	
Total Investment Income	$ 10,005
Net Expenses:	
Before Management Fee Waiver	$ 6,137
After Management Fee Waiver	$ 3,802
Net Investment Income	$ 6,203
Net Realized and Unrealized Gain	$ 241
Net Increase in Net Assets Resulting from Operations	$ 6,444
Per Share Data:	
Net Asset Value at Period End	$ 14.95
Net Investment Income	$ 0.17
Net Realized and Unrealized Gain	$ 0.01
Net Increase in Net Assets Resulting from Operations	$ 0.18
Dividends Declared	$ 0.20
Balance Sheet Data at Period End:	
Total Assets	$ 542,226
Total Net Assets	$ 528,705
Other Data:	
Total Return (1)	1.0 %
Number of Portfolio Companies at Period End	26
Amount of Investments in Loans, Bonds and Equities	$ 137,664
Amount of Loans Sold and Repayments	$ 1,022
Weighted Average Yield on Invested Capital, other than Closed-End Funds, Short-Term Investments and Cash Equivalents, at Period End (2)	10.7 %
Weighted Average Yield on Invested Capital, including Closed-End Funds, Short-Term Investments and Cash Equivalents, at Period End (2)	6.0 %
Weighted Average Yield on Invested Capital, including Closed-End Funds, Short-Term Investments and Cash Equivalents, at Period End, Net of Expenses (2)	4.4 %

_____

* Inception of operations

(1) Total return is based on the change in net asset value per share assuming an investment at the initial offering price of $15.00 per share. Total return also takes into account dividends and distributions, if any, reinvested in accordance with our dividend reinvestment plan. Total return is not annualized.

(2) Yields are computed using interest rates and dividend yields as of the purchase date and include amortization of loan origination and commitment fees, original issue discount and market premium or discount, weighted by the value of the respective investment when averaged.

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 financial statements and notes thereto appearing elsewhere in this Annual Report.

OVERVIEW

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

We are externally managed and have elected to be treated 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 U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

On July 25, 2005, we completed a private placement (the "Offering") of 35,366,589 shares of our common stock at a price of $15.00 per share, less a placement fee of $507,407 and legal fees and other offering costs of $657,639. We received approximately $529.3 million in net proceeds from the Offering.

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

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 for such companies, the general economic environment and the competitive environment for the types of investments we make. Although conditions during the period from July 25, 2005 (our inception of operations) to December 31, 2005 were challenging, because of our broad relationship network and flexibility and creativity in responding to the needs of prospective portfolio companies we were able to accumulate a diverse portfolio of companies with solid fundamentals at attractive spreads. In the year ahead, we expect the environment for investments in middle-market companies to remain very competitive. We intend to maintain our disciplined investment process, selectively participating in transactions when our assessment of risk and reward indicates a favorable opportunity.

Revenues. We generate revenue primarily in the form of interest on the debt we hold, dividends on our equity interests and capital gains on warrants and other debt or equity interests that we acquire in portfolio companies. Our 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. Payments of principal on our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt instruments and preferred stock investments may defer payments of cash interest or pay interest in-kind. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing significant managerial assistance and consulting fees.

Expenses. Our primary operating expenses include the payment of a management fee (the "Management Fee"), expenses reimbursable under the investment management agreement, administration fees and the allocable portion of overhead under the administration agreement. The Management Fee compensates the Advisor for work in identifying, evaluating, negotiating, closing and monitoring our investments. The investment management agreement provides that we will reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the performance by the Advisor of its duties under the investment 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 Management Fee; distributions on our common shares; administration fees payable under the administration agreement; fees payable to third parties relating to, or associated with, making investments; transfer 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 shareholders, including printing costs; our fidelity bond, 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 in connection with administering our business, such as its 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.

The Advisor has agreed to waive its rights to receive one-half of the amount of the Management Fee the Advisor would otherwise be entitled to receive from us until the first date on which 90% of our assets are invested in portfolio companies in accordance with our investment objective, excluding investments in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, or the first anniversary of our inception of operations, whichever is sooner (the "Ramp-Up Date"). Thereafter, the Advisor has agreed to waive, until such time as we have completed an initial public offering of our common stock and listed our common stock on a national securities exchange (collectively, the "Public Market Event"), one-quarter of the amount of the Management Fee the Advisor would otherwise be entitled to receive from us. In addition, the Advisor has agreed to (a) waive Management Fees for any calendar year in excess of approximately $11.9 million until the earlier of (i) such time as the we have completed the Public Market Event or (ii) the fourth anniversary of our inception of operations and (b) waive Management Fees in excess of approximately $5.6 million during the fifth year of our operations unless we have completed the Public Market Event.

CRITICAL ACCOUNTING POLICIES

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

Valuation of Portfolio Investments. Under procedures established by our Board of Directors, we value investments for which market quotations are readily available at such market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. However, we value debt investments with remaining maturities within 60 days at cost plus accreted discount, or minus amortized premium, which approximates fair value. As a BDC, we generally invest in securities of middle-market companies for which market quotations are not

readily available. We value such securities at fair value as determined in good faith by or under the direction of our Board of Directors. Such determinations of fair values may involve subjective judgments and estimates. With respect to investments for which market quotations are not readily available, our Board of Directors, together with independent valuation advisers to the extent the Board of Directors determines in its discretion to utilize them, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public, valuations of like securities and other factors.

As noted, we expect to value many of our portfolio investments at fair value as determined in good faith by or 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 the Board of Directors. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available, our Board of Directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

- Preliminary valuation conclusions are then documented and discussed with senior management;

- To the extent determined by the Audit Committee of our Board of Directors, independent valuation firms engaged by our Board of Directors conduct independent appraisals and review management's preliminary valuations and their own independent assessment;

- The Audit Committee of our Board of Directors reviews the preliminary valuations of the investment professionals, senior management and independent valuation firms; and

- The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our investment adviser, the respective independent valuation firms and the Audit Committee.

Revenue Recognition. We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis. We do not accrue interest income if collection is deemed doubtful or the related investment is in default. For loans and debt securities with contractual payment-in-kind, or PIK, interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we do not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. Origination, structuring, closing, commitment and other upfront fees and discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment. Unamortized origination, structuring, closing, commitment and other upfront fees are recorded as unearned income. Upon the prepayment of a loan or debt security, we record any prepayment penalties and unamortized loan origination, structuring, closing, commitment and other upfront fees as interest income.

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

Federal Income Taxes. We intend to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Code, and, among other things, intend to make the requisite distributions to our shareholders to relieve us from federal income and excise taxes. In order to qualify as a RIC, we are required to distribute annually at least 90% of investment company taxable income, as defined by the Code, to our shareholders. To avoid federal excise taxes, we must distribute annually at least 98% of our income (both ordinary income and net capital gains).

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

PORTFOLIO AND INVESTMENT ACTIVITY

During the period July 25, 2005 (inception of operations) through December 31, 2005, we invested approximately $137.7 million in 27 portfolio companies and received proceeds from principal repayments/dispositions of approximately $1.0 million. At December 31, 2005, our net portfolio consisted of 26 portfolio companies and was invested 25% in senior secured loans, 1% in subordinated debt/corporate notes, 1% in publicly traded, floating rate closed-end funds, less than 1% in common stock/warrants and 73% in short-term investments (including cash equivalents). Our average portfolio company investment was approximately $5 million. Our largest portfolio company investment was approximately $26.5 million, with our five largest portfolio company investments comprising approximately 15% of our net assets at December 31, 2005.

Our weighted average yield on invested capital other than closed-end funds, short-term investments and cash equivalents was 10.7% at December 31, 2005. The weighted average yield on our invested capital including closed-end funds, short-term investments and cash equivalents was 6.0% and, net of expenses, was 4.4% at December 31, 2005. The weighted average yields on our subordinated debt/corporate notes and senior secured loans were 10.3% and 10.8%, respectively, at December 31, 2005. Yields are computed using interest rates and dividend yields as of the purchase date and include amortization of loan origination and commitment fees, original issue discount and market premium or discount, weighted by the value of the respective investment when averaged.

RESULTS OF OPERATIONS

As this is our first fiscal year of operations, there is no previous period with which to compare financial results. Our financial results for the period July 25, 2005 (inception of operations) to December 31, 2005 are not necessarily indicative of a full year's results.

Operating Income

Investment income totaled $10,004,626 for the period July 25, 2005 (inception of operations) through December 31, 2005, of which $8,501,049 was attributable to interest earned on short-term investments and cash equivalents, $1,253,427 to interest earned on senior secured loans, $215,359 to interest earned on subordinated debt/corporate notes and $34,791 to dividends received from closed-end funds. As we continue to invest the net proceeds from the Offering in longer-term investments, we expect that we will generate additional income at rates higher than those we received on our investments during our initial period of operations, although there can be no assurance that we will achieve this objective.

Operating Expenses

Operating expenses for the period July 25, 2005 (inception of operations) through December 31, 2005 were $3,801,635, consisting of $2,334,922 in management fees (net of management fee waivers of $2,334,922), $435,483 in administrative services expenses, $333,969 in professional fees, $233,508 in director fees, $138,405 in Advisor expenses, $108,374 in insurance expenses, $57,056 in organizational expenses and $159,918 in other expenses. For the period July 25, 2005 (inception of operations) through December 31, 2005, no incentive fee, or Carried Interest, amounts were paid or owed to the Advisor.

Net Investment Income

Net investment income was $6,202,991 for the period July 25, 2005 (inception of operations) through December 31, 2005.

Net Realized Gain

Net realized gain on investments of $1,141 for the period July 25, 2005 (inception of operations) through December 31, 2005 resulted from the disposition of a senior secured loan.

Net Unrealized Appreciation

For the period July 25, 2005 (inception of operations) through December 31, 2005, net unrealized appreciation was $240,236, which was comprised of net unrealized appreciation on investments of $252,276 and net unrealized depreciation on cash equivalents of $12,040.

Net Increase in Net Assets Resulting From Operations

The net increase in net assets resulting from operations for the period July 25, 2005 (inception of operations) through December 31, 2005 was $6,444,368.

Financial Condition, Liquidity and Capital Resources

During the period July 25, 2005 (inception of operations) to December 31, 2005, we completed a private placement of 35,366,589 shares of our common stock at a price of $15.00 per share. The net proceeds from the Offering of $529,333,799 consisted of cash of $109,615,859 and a contribution of short-term investments and cash equivalents of $419,717,940.

We generated cash primarily from the net proceeds of the Offering as well as cash flows from operations, including interest earned on senior secured loans and subordinated debt/corporate notes, as well as from temporary investments in cash equivalents and other high-quality debt investments that mature in one year or less. In the future, we may also fund a portion of our investments through borrowings from banks and issuances of senior securities. As a business development company, we are subject to regulations governing our operations that affect our ability to raise additional capital. In the future, we may also securitize a portion of our investments in senior secured loans or other assets.

At December 31, 2005, we had approximately $289.0 million in cash and cash equivalents and $106.3 million in other short-term investments that we intend to use in our operations. We do not expect to incur indebtedness until such amounts have been substantially invested in longer-term investments.

Our primary uses of funds are expected to be investments in portfolio companies, payment of fees and other operating expenses and cash distributions to shareholders.

Our operating activities resulted in a net use of cash of $240,361,452 for the period July 25, 2005 (inception of operations) through December 31, 2005, primarily due to the purchase of investments and the payment of management fees and other expenses.

Our financing activities provided cash of $529,333,799 for the period July 25, 2005 (inception of operations) through December 31, 2005, comprised of net proceeds from the Offering. In addition, our non-cash financing activities consisted of $7,073,318 of dividend distributions declared.

Off-Balance Sheet Financing

At December 31, 2005, we had a $10 million commitment outstanding to fund a senior secured loan. We have no other off-balance sheet contractual obligations or arrangements.

DIVIDENDS

We intend to distribute quarterly dividends to our shareholders. Our quarterly dividends, if any, will be determined by our Board of Directors. On December 22, 2005, we declared an initial dividend of $0.20 per share. On March 8, 2006, we declared a dividend of $0.20 per share for the first quarter of 2006. Because of our limited operating history, these are the only dividends to date that we have declared on our common stock.

We intend to elect to be taxed as a regulated investment company, or RIC, under Subchapter M of the Code. To maintain our RIC status, we must distribute annually 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. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least

equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31st and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. 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.

We maintain an "opt out" dividend reinvestment plan for our common shareholders. As a result, if we declare a dividend, shareholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our status as a regulated investment company. We cannot assure shareholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

With respect to the dividends paid to shareholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to shareholders. For the period from July 25, 2005 (inception of operations) through December 31, 2005, these fees totaled $906,250.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates. During the period July 25, 2005 (inception of operations) to December 31, 2005, all of the loans in our portfolio had floating rates determined by reference to an index such as LIBOR, the Federal Funds Rate or the Prime Rate. The interest rates on such loans generally reset by reference to the current market index after one to six months. At December 31, 2005, over 99% of our investment assets consisted of floating rate investments and high quality short-term investments and cash equivalents.

To illustrate the potential impact of changes in interest rates, we have performed the following analysis based on our December 31, 2005 balance sheet and assuming no changes in our investment structure. Net asset value is analyzed using the assumptions that interest rates, as defined by the LIBOR and U.S. Treasury yield curves, increase or decrease and that the yield curves of the rate shocks will be parallel to each other. Under this analysis, an instantaneous 100 basis point increase in LIBOR and U.S. Treasury yields would cause a decline of approximately $634,000 in the value of our net assets at December 31, 2005.

While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the period July 25, 2005 (inception of operations) through December 31, 2005, we did not engage in any hedging activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of assets and liabilities of BlackRock Kelso Capital Corporation (the "Company"), including the schedule of investments, as of December 31, 2005, and the related statements of operations, changes in net assets, and cash flows for the period July 25, 2005 (inception of operations) through December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 securities owned at December 31, 2005 by correspondence with the custodian, the management of the investment funds and the brokers; where replies were not received from the brokers, alternative procedures were performed. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of its operations, changes in its net assets, and cash flows for the period July 25, 2005 (inception of operations) through December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

New York, New York

March 28, 2006

BLACKROCK KELSO CAPITAL CORPORATION
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2005

ASSETS:	
Cash and cash equivalents (amortized cost of $288,984,387)	$ 288,972,347
Investments, at value (amortized cost of $250,184,074)	250,436,350
Receivable for investments sold	996,250
Interest receivable	1,656,131
Other assets	165,363
TOTAL ASSETS	$ 542,226,441
LIABILITIES:	
Payable for investments purchased	4,198,296
Dividend distribution payable	7,073,318
Legal fees (offering costs) payable	587,080
Management fees payable	455,329
Accrued administrative services expenses	508,950
Other accrued expenses and payables	698,619
TOTAL LIABILITIES	13,521,592
NET ASSETS:	
Common stock, par value $.001 per share, 40,000,000 common shares authorized, 35,366,589 issued and outstanding	35,367
Paid-in capital in excess of par	529,298,432
Distributions in excess of net investment income	(870,327)
Undistributed net realized gain	1,141
Net unrealized appreciation	240,236
TOTAL NET ASSETS	528,704,849
TOTAL LIABILITIES AND NET ASSETS	$ 542,226,441
NET ASSET VALUE PER SHARE	$ 14.95

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

BLACKROCK KELSO CAPITAL CORPORATION
STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 25, 2005 (INCEPTION OF OPERATIONS)
THROUGH DECEMBER 31, 2005

INVESTMENT INCOME:	
Interest income	$ 9,969,835
Dividend income	34,791
Total investment income	10,004,626
EXPENSES:	
Management fees	4,669,844
Administrative services	435,483
Professional fees	333,969
Director fees	233,508
Advisor expenses	138,405
Insurance	108,374
Organizational	57,056
Other	159,918
Expenses Before Management Fee Waiver	6,136,557
Management fee waiver	(2,334,922)
Net Expenses	3,801,635
NET INVESTMENT INCOME	6,202,991
REALIZED AND UNREALIZED GAIN (LOSS):	
Net realized gain on investments	1,141
Net unrealized appreciation (depreciation):	
Investments	252,276
Cash equivalents	(12,040)
Net unrealized appreciation	240,236
Net Realized and Unrealized Gain	241,377
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 6,444,368
Earnings Per Share	$ 0.18
Basic and Diluted Shares Outstanding	35,366,589

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

BLACKROCK KELSO CAPITAL CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD JULY 25, 2005 (INCEPTION OF OPERATIONS)
THROUGH DECEMBER 31, 2005

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:	
Net investment income	$ 6,202,991
Net unrealized appreciation	240,236
Net realized gain on investments	1,141
Net increase in net assets resulting from operations	6,444,368
DIVIDENDS TO SHAREHOLDERS FROM NET INVESTMENT INCOME	(7,073,318)
CAPITAL SHARE TRANSACTIONS:	
Proceeds from shares sold	530,498,845
Less offering costs charged against capital	(1,165,046)
Net increase in net assets resulting from capital share transactions	529,333,799
TOTAL INCREASE IN NET ASSETS	528,704,849
Net assets at beginning of period	-
Net assets at end of period	$ 528,704,849
Distributions in excess of net investment income	$ (870,327)

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

BLACKROCK KELSO CAPITAL CORPORATION
STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 25, 2005 (INCEPTION OF OPERATIONS)
THROUGH DECEMBER 31, 2005

OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 6,444,368
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Purchases of short-term investments - net	(106,043,189)
Purchases of long-term investments	(144,808,218)
Proceeds from disposition of long-term investments	1,021,610
Net unrealized appreciation on investments	(252,276)
Net realized gain on investments	(1,141)
Amortization of premium/discount - net	(353,136)
Increase in receivable for investment sold	(996,250)
Increase in interest receivable	(1,656,131)
Increase in other assets	(165,363)
Increase in payable for investments purchased	4,198,296
Increase in legal fees (offering costs) payable	587,080
Increase in management fees payable	455,329
Increase in accrued administrative services payable	508,950
Increase in other accrued expenses and payables	698,619
Net cash used in operating activities	(240,361,452)
FINANCING ACTIVITIES:	
Net proceeds from issuance of common stock:	
Cash	109,615,859
Contribution of short-term investments and cash equivalents	419,717,940
Net cash provided by financing activities	529,333,799
Net increase in cash and cash equivalents	288,972,347
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	$ 288,972,347
Supplemental disclosure of non-cash financing activities:	
Dividend distribution declared	$ 7,073,318

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

BLACKROCK KELSO CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2005

PORTFOLIO COMPANY (a)	INDUSTRY (b)	PRINCIPAL AMOUNT OR NUMBER OF SHARES/UNITS	COST (c)	FAIR VALUE
SHORT-TERM INVESTMENTS - 20.1%				
ASSET-BACKED SECURITY - 2.8%				
RACERS Trust, Series 2005-17-O, 4.39% (LIBOR + 0.02%/Q), 8/21/06, acquired 8/29/05 (d)	Asset-Backed Security	$ 15,000,000	$ 15,000,000	$ 15,006,300
COMMERCIAL PAPER - 11.6%				
Barclays US Funding Corp., 4.24%, 2/3/06	Banking	26,000,000	25,900,019	25,900,019
BNP Paribas (Canada), 3.83%, 1/24/06	Banking	1,500,000	1,496,397	1,496,397
Credit Suisse First Boston USA, Inc., 3.83%, 1/27/06	Security Broker and Dealer	8,000,000	7,978,626	7,978,626
Morgan Stanley & Co. Incorporated, 4.08%, 8/4/06	Security Broker and Dealer	26,000,000	26,000,000	26,003,120
TOTAL COMMERCIAL PAPER		61,500,000	61,375,042	61,378,162
CERTIFICATES OF DEPOSIT - 5.7%				
DEFPA BANK plc, New York, 4.53%, 10/16/06	Banking	15,000,000	15,000,000	14,961,713
Washington Mutual Bank N.A., 4.46%, 3/28/06	Banking	15,000,000	15,000,000	14,999,820
TOTAL CERTIFICATES OF DEPOSIT		30,000,000	30,000,000	29,961,533
TOTAL SHORT-TERM INVESTMENTS		$ 106,500,000	106,375,042	106,345,995
LONG-TERM INVESTMENTS - 27.3%				
SUBORDINATED DEBT / CORPORATE NOTES - 1.3%				
First Mercury Holdings, Inc., 12.33% (LIBOR + 8.00%/Q), 8/15/12, acquired 8/12/05 (d)	Insurance	$ 1,800,000	1,782,965	1,831,500
InSight Health Services Corp., 9.17% (LIBOR + 5.25%/Q), 11/1/11, acquired 9/16/05 (d)	Diagnostic Imaging	2,500,000	2,488,066	2,375,000
Select Medical Holdings Corporation, 9.93% (LIBOR + 5.75%/S), 9/15/15, acquired 9/15/05 (d)	Specialty Hospitals	2,500,000	2,500,000	2,512,500
TOTAL SUBORDINATED DEBT / CORPORATE NOTES		$ 6,800,000	6,771,031	6,719,000
SENIOR SECURED LOANS (E) - 24.8%				
Applied Tech Products Corp. et al., Tranche A, First Lien, 8.91% (LIBOR + 4.50%), 10/24/10	Plastic Packaging	$ 4,251,515	4,219,701	4,219,629 (f)
Applied Tech Products Corp. et al., Tranche B, Second Lien, 13.41% (LIBOR + 9.00%), 4/24/11	Plastic Packaging	1,951,515	1,932,040	1,932,000 (f)
Applied Tech Products Corp. et al., Tranche C, Third Lien, 16.91% (LIBOR + 6.30% cash, 6.20% PIK), 10/24/11	Plastic Packaging	696,970	598,331	598,145 (f)
Benchmark Medical Holdings Inc., First Lien, 9.00% (Base Rate + 1.75%), 12/27/12	Rehabilitation Centers	2,000,000	2,000,000	2,015,000
Benchmark Medical Holdings Inc., Second Lien, 13.00% (Base Rate + 5.75%), 6/27/13	Rehabilitation Centers	9,000,000	9,000,000	9,000,000

Bushnell Performance Optics, First Lien, 7.53% (LIBOR + 3.00%), 8/19/11	Leisure Products	1,000,000	1,000,000	1,012,469

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

BLACKROCK KELSO CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS (CONTINUED)
DECEMBER 31, 2005

PORTFOLIO COMPANY (a)	INDUSTRY (b)	PRINCIPAL AMOUNT OR NUMBER OF SHARES/UNITS	COST (c)	FAIR VALUE	
Cannondale Bicycle Corporation, Second Lien, 11.53% (LIBOR + 7.00%), 6/5/10	Bicycles/Apparel	$ 10,000,000	$ 10,000,000	$ 10,000,000	(f)
Champion Energy Corporation et al., First Lien, 13.38% (LIBOR + 9.00%), 6/30/09	Heating and Oil Services	18,000,000	18,000,000	18,000,000	(f)
Clean Earth Inc., Tranche B, First Lien, 7.39% (LIBOR + 3.00%), 10/17/11	Environmental Services	1,500,000	1,500,000	1,515,000	
Delta Air Lines, Inc., Term Loan B, First Lien, 11.01% (LIBOR + 6.50%), 3/16/08	Airlines	1,000,000	1,000,000	1,036,750	
Eight O'Clock Coffee Company, First Lien, 7.44% (LIBOR + 3.00%), 11/14/11	Coffee Distributor	3,000,000	3,000,000	3,022,500	
Eight O'Clock Coffee Company, Second Lien, 11.44% (LIBOR + 7.00%), 11/14/12	Coffee Distributor	12,000,000	12,000,000	12,000,000	
Event Rentals, Inc., First Lien, 9.94% (LIBOR + 5.25%), 11/17/11	Party Rentals	14,454,545	14,454,545	14,454,545	(f)
Event Rentals, Inc., Acquisition Loan (Funded), First Lien, 9.92% (LIBOR + 5.25%), 11/17/11	Party Rentals	9,847,159	9,847,159	9,847,159	(f)
Event Rentals, Inc., Acquisition Loan (Unfunded), First Lien, 0.50%, 11/18/07	Party Rentals	2,198,295	2,198,295	2,198,295	(f)
Haggar Clothing Co., Second Lien, 11.51% (LIBOR + 7.00%), 11/1/11	Apparel	2,500,000	2,500,000	2,500,000	
The Hertz Corporation, Tranche B, First Lien, 8.50% (Base Rate + 1.25%), 12/21/12	Automobile and Equipment Rental	2,000,000	2,000,000	2,022,500	
HIT Entertainment, Inc., Second Lien, 9.71% (LIBOR + 5.50%), 2/26/13	Entertainment	1,000,000	1,000,000	990,000	
Houghton International Inc., First Lien, 9.25% (Base Rate + 2.00%), 12/15/11	Specialty Chemicals	5,000,000	5,000,000	5,043,750	
MD Beauty, Inc., Second Lien, 11.25% (LIBOR + 7.00%), 2/18/13	Cosmetics	3,000,000	3,000,000	3,022,500	
Metaldyne Corporation et al., First Lien, 8.58% (LIBOR + 4.50%), 12/31/09	Automotive Parts	998,741	988,476	1,001,237	
NTELOS Inc., Second Lien, 9.39% (LIBOR + 5.00%), 2/24/12	Telecommunications	2,000,000	1,984,276	2,020,000	
PBI Media, Inc., Second Lien, 10.24% (LIBOR + 6.00%), 9/30/13	Information Services	6,000,000	5,990,032	5,940,000	
Precision Parts International Services Corp. et al., First Lien, 7.98% (LIBOR + 3.75%), 9/30/11	Automotive Parts	3,000,000	3,000,000	3,022,501	
QTC Acquisition Inc., Second Lien, 10.84% (LIBOR + 6.50%), 5/10/13	Disability Evaluations	10,000,000	10,000,000	10,075,000	
US Investigations Services, Inc., Tranche B, First Lien, 7.00% (LIBOR + 2.50%), 10/14/12	Commercial Services	1,995,000	1,995,000	1,999,988	
U.S. Security Holdings, Inc., First Lien, 7.27% (LIBOR + 3.25%), 2/29/12	Security Services	983,400	983,400	990,776	
Wastequip, Inc., Second Lien, 10.53% (LIBOR + 6.00%), 7/15/12	Waste Treatment	500,000	500,000	506,250	
Wembley, Inc., Second Lien, 7.83% (LIBOR + 3.75%), 8/23/12	Gaming	1,000,000	1,000,000	1,006,250	
TOTAL SENIOR SECURED LOANS		$ 130,877,140	130,691,255	130,992,244	

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

BLACKROCK KELSO CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS (CONTINUED)
DECEMBER 31, 2005

PORTFOLIO COMPANY (a)	INDUSTRY (b)	PRINCIPAL AMOUNT OR NUMBER OF SHARES/UNITS	COST (c)	FAIR VALUE
CLOSED-END FUNDS - 1.4%				
Eaton Vance Floating-Rate Income Trust	Closed-End Fund	175,000	$ 2,988,408	$ 2,952,250
Nuveen Floating Rate Income Fund	Closed-End Fund	94,400	1,159,147	1,188,496
PIMCO Floating Rate Strategy Fund	Closed-End Fund	170,000	2,997,026	3,036,200
TOTAL CLOSED-END FUNDS			7,144,581	7,176,946
EQUITY WARRANTS - 0.0%				
ATEP Holdings, Inc., expire 10/24/15	Plastic Packaging	470	-	- (f)
ATH Holdings, Inc., expire 10/24/15	Plastic Packaging	470	-	- (f)
ATPP Holdings, Inc., expire 10/24/15	Plastic Packaging	470	90,114	90,114 (f)
ATPR Holdings, Inc., expire 10/24/15	Plastic Packaging	470	-	- (f)
TOTAL EQUITY WARRANTS			90,114	90,114
TOTAL LONG-TERM INVESTMENTS INCLUDING UNEARNED INCOME			144,696,981	144,978,304
UNEARNED INCOME - (0.2)%			(887,949)	(887,949)
TOTAL LONG-TERM INVESTMENTS			143,809,032	144,090,355
TOTAL INVESTMENTS - 47.4%			$ 250,184,074	250,436,350
OTHER ASSETS & LIABILITIES (NET) - 52.6%				278,268,499
NET ASSETS - 100.0%				$ 528,704,849

_____

(a) None of our portfolio companies are "controlled" or "affiliated" as defined by the Investment Company Act of 1940.

(b) Unaudited.

(c) Represents amortized cost for fixed income securities and unearned income, and cost for closed-end funds and equity warrants.

(d) These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 4.1% of net assets at December 31, 2005.

(e) All of the senior secured loans to our 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. Additionally, the borrower under a senior secured loan generally has the option to select from interest rate reset periods of one, two, three or six months and may alter that selection at the end of any reset period. Current reset frequencies for floating rate instruments other than senior secured loans are indicated by Q (quarterly) or S (semiannually).

(f) Fair value of this investment determined by or under the direction of our Board of Directors (see Note 2).

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

BLACKROCK KELSO CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

BlackRock Kelso Capital Corporation (the "Company"), was organized as a Delaware corporation on April 13, 2005 and was initially funded on July 25, 2005. The Company has filed an election to be treated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). In addition, for tax purposes the Company intends to elect to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986 (the "Code"). The Company's investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company intends to 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.

On July 25, 2005, the Company completed a private placement (the "Offering") of 35,366,589 shares of its common stock, par value $.001 per share (the "Common Stock"), at a price of $15.00 per share. Net proceeds from the Offering of $529,333,799 reflect the payment of a placement fee of $507,407 and legal fees and other offering costs of $657,639.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies consistently followed by the Company are:

(a) Investments for which market quotations are readily available are valued at such market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. However, debt investments with remaining maturities within 60 days are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. Debt and equity securities for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Company's Board of Directors. Because the Company expects that there will not be a readily available market value for many of the investments in its portfolio, the Company expects to value many of its portfolio investments at fair value as determined in good faith by or under the direction of the Board of Directors using a consistently applied valuation process in accordance with a documented valuation policy that has been reviewed and approved by the Board of Directors. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

(1) The quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with senior management;

(3) To the extent determined by the Audit Committee of the Board of Directors, independent valuation firms engaged by the Board of Directors conduct independent appraisals and review management's preliminary valuations and their own independent assessment;

(4) The Audit Committee of the Board of Directors reviews the preliminary valuations of the investment professionals, senior management and independent valuation firms; and

(5) 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 Company's investment adviser, the respective independent valuation firms and the Audit Committee.

The types of factors that the Company may take into account in fair value pricing its investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair values involves subjective judgments and estimates. Accordingly, these notes to the financial statements express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on the financial statements.

The carrying value of the Company's financial instruments approximate fair value. The carrying value of receivables, other assets, accounts payable and accrued expenses approximate fair value due to their short maturity.

None of the Company's portfolio companies are controlled by or affiliated with the Company as defined in the 1940 Act.

(b) Cash equivalents include short-term investments in money market instruments with remaining maturities when purchased of three months or less.

(c) Security transactions are accounted for on the trade date unless there are substantial conditions to the purchase.

(d) Gains or losses on the sale of investments are calculated using the specific identification method.

(e) Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Interest income is not accrued if collection is deemed doubtful or the related investment is in default. For loans and debt securities with contractual payment-in-kind ("PIK") interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, PIK interest is not accrued if the portfolio company valuation indicates that the PIK interest is not collectible. Origination, structuring, closing, commitment and other upfront fees and discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment. Unamortized origination, structuring, closing, commitment and other upfront fees are recorded as unearned income. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, structuring, closing, commitment and other upfront fees are recorded as interest income. Dividend income is recorded on the ex-dividend date. Expenses are recorded on an accrual basis.

(f) Organizational costs of the Company are expensed as incurred. Offering costs are charged against paid-in capital.

(g) The Company intends to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Code, and, among other things, intends to make the requisite distributions to its shareholders which will relieve the Company from federal income and excise taxes. Therefore, no provision has been recorded for federal income or excise taxes.

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

In accordance with GAAP, book and tax basis differences relating to distributions to shareholders and other

permanent book and tax differences are reclassified to capital in excess of par. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.

(h) Dividends and distributions to common shareholders are recorded on the ex-date. The amount to be paid out as a dividend is determined by the Board of Directors. On December 22, 2005, the Company declared a dividend of $0.20 per share, payable on January 31, 2006 to shareholders of record at the close of business on December 31, 2005. The ex-date of this dividend was December 29, 2005. On March 8, 2006, the Company declared a dividend of $0.20 per share, payable on March 31, 2006 to shareholders of record at the close of business on March 15, 2006. The ex-date of this dividend is March 29, 2006.

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

3. AGREEMENTS AND RELATED PARTY TRANSACTION

The Company has entered into an Investment Management Agreement (the "Management Agreement") with BlackRock Kelso Capital Advisors LLC (the "Investment Advisor"), under which the Investment 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 Investment Advisor receives a fee (the "Management Fee") from the Company at an annual rate of 2.0% of the Company's total assets, including any assets acquired with the proceeds of leverage. For services rendered under the Management Agreement during the period commencing from the closing of the Offering (the "Closing") through and including the first twelve months of operations, the Management Fee will be payable monthly in arrears. For services rendered under the Management Agreement after that time, the Management Fee will be paid quarterly in arrears. The Investment Advisor has contractually agreed to waive its rights to receive one-half of the amount of the Management Fee the Investment Advisor would otherwise be entitled to receive from the Company until the first date on which 90% of the assets of the Company are invested in portfolio companies in accordance with the Company's investment objective, excluding investments in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, or the first anniversary of the Closing, whichever is sooner (the "Ramp-Up Date"). Thereafter, the Investment Advisor has agreed to waive, until such time as the Company has completed an initial public offering of its Common Stock and listed its Common Stock on a national securities exchange (collectively, the "Public Market Event"), one-quarter of the amount of the Management Fee the Investment Advisor would otherwise be entitled to receive from the Company. In addition, the Investment Advisor has agreed to (a) waive Management Fees for any calendar year in excess of approximately $11.9 million until the earlier of (i) such time as the Company has completed the Public Market Event or (ii) the fourth anniversary of the Company's inception of operations and (b) waive Management Fees in excess of approximately $5.6 million during the fifth year of the Company's operations unless the Company has completed the Public Market Event.

For the period July 25, 2005 (inception of operations) through December 31, 2005, the Investment Advisor earned $2,334,922 in fees, net of the waiver provision, from the Company.

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

Commencing on the Ramp-Up Date, the Company will pay to the Investment Advisor or its affiliates at the same time as, and not in advance of, any distributions in respect of the Company's Common Stock, (i) 50% of the amount by which the cumulative distributions and amounts distributable to the holders of the Common Stock of the Company exceed an 8% annualized rate of return on net asset value until the Investment Advisor or its affiliates have received from the Company an amount equal to 20% of the sum of the cumulative amounts distributed pursuant to this paragraph and the cumulative amounts of net income (including realized capital gains in excess of realized capital losses) in excess of net unrealized capital depreciation distributed to the holders of the Company's Common Stock, and (ii) thereafter an amount equal to 20% of the sum of the amount distributed pursuant to this paragraph and the cumulative amounts of net income (including realized capital gains in excess of realized capital losses) in excess of net unrealized capital depreciation distributed to the holders of the Company's Common Stock. After the Public Market Event, if any, the amounts above will be measured and paid quarterly on a rolling four-quarter basis and will take into account any decrease in net unrealized depreciation during the measurement period to the extent such decrease did not exceed the net amount of capital depreciation at the beginning of such period and does not exceed the excess of cumulative realized capital gains over cumulative realized capital losses.

For the period July 25, 2005 (inception of operations) through December 31, 2005, no Carried Interest amounts were earned by the Investment Advisor.

The Management Agreement provides that the Company will reimburse the Investment Advisor for costs and expenses incurred by the Investment Advisor for office space rental, office equipment and utilities allocable to the performance by the Investment Advisor of its duties under the Management Agreement, as well as any costs and expenses incurred by the Investment Advisor relating to any non-investment advisory, administrative or operating services provided by the Investment Advisor to the Company. For the period July 25, 2005 (inception of operations) through December 31, 2005, the Company accrued $138,405 for costs and expenses reimbursable to the Investment Advisor under the Management Agreement.

No person who is an officer, director or employee of the Investment 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 Investment Advisor receive compensation for their services and reimbursement of expenses incurred to attend meetings.

The Company has also entered into an Administration Agreement with BlackRock Financial Management, Inc. (the "Administrator"), a majority-owned subsidiary of The PNC Financial Services Group, Inc., under which the Administrator provides administrative services to the Company. For providing these services, facilities and personnel, the Company reimburses the Administrator for the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of the cost of certain of the Company's officers and their respective staffs.

For the period July 25, 2005 (inception of operations) through December 31, 2005, the Company accrued $435,483 for administrative services expenses payable to the Administrator under the Administration Agreement.

From time to time, the Administrator may pay amounts owed by the Company to third party providers of goods or services. The Company will subsequently reimburse the Administrator for such amounts paid on its behalf. For the period July 25, 2005 (inception of operations) through December 31, 2005, the Company reimbursed the Administrator $198,875 of payments made on behalf of the Company to third party providers of goods and services. At December 31, 2005, an additional $10,935 has been accrued for and is owing to the Administrator for such payments.

PFPC Inc. ("PFPC"), a subsidiary of The PNC Financial Services Group, Inc. ("PNC"), provides administrative and accounting services to the Company pursuant to a Sub-Administration and Accounting Services Agreement. PFPC Trust Company, another subsidiary of PNC, provides custodian services to the Company pursuant to a Custodian Services Agreement. Also, PFPC provides transfer agency and compliance support services to the Company pursuant to a Transfer Agency Agreement and a Compliance Support Services Agreement, respectively. For the services provided to the Company by PFPC and its affiliates, PFPC is entitled to an annual fee of 0.02% of the Company's average net assets plus reimbursement of reasonable expenses, and a base fee, payable monthly.

For the period July 25, 2005 (inception of operations) through December 31, 2005, the Company accrued $83,919 for administrative, accounting, custodian and transfer agency services fees payable to PFPC and its affiliates under the related agreements.

On July 25, 2005, in connection with the closing of the Offering, the Company issued approximately 33,333,333 shares of its common stock to BlackRock Kelso Capital Holding LLC, an entity for which the Investment Advisor serves as manager, in exchange for total consideration of $500,000,000 ($15.00 per share), consisting of $80,282,060 in cash and a portfolio of short-term investments and cash equivalents valued at $419,717,940. The transaction was effected in accordance with the Company's valuation procedures governing securities transactions with affiliates and was ratified by the Board of Directors.

At December 31, 2005, the Investment Advisor beneficially owned indirectly 733,333 shares of the Company's Common Stock, representing approximately 2.1% of the total shares outstanding. At December 31, 2005, other entities affiliated with the Administrator and PFPC beneficially owned indirectly 2,309,150 shares of the Company's Common Stock, representing approximately 6.5% of the total shares outstanding. At December 31, 2005, an entity affiliated with the Administrator and PFPC owned 36.5% of the members' interests of the Investment Advisor.

4. ORGANIZATIONAL EXPENSES AND OFFERING COSTS

A portion of the proceeds of the Offering was used for organizational expenses and offering costs of $57,056 and $1,165,046, respectively. Organizational expenses were charged to expense as incurred. Offering costs have been charged against paid-in capital in excess of par.

5. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in net assets per share resulting from operations for the period July 25, 2005 (inception of operations) through December 31, 2005.

Numerator for basic and diluted net increase in net assets per share:	$6,444,368
Denominator for basic and diluted weighted average shares:	35,366,589
Basic/diluted net increase in net assets per share resulting from operations:	$0.18

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

6. PURCHASES AND SALES OF INVESTMENTS

Excluding short-term investments, the Company's purchases and sales of investments for the period July 25, 2005 (inception of operations) to December 31, 2005 totaled $144,808,218 and $996,250, respectively.

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2005, the Company had a $10 million commitment outstanding to fund a senior secured loan.

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.

8. FINANCIAL HIGHLIGHTS

The following per share data and ratios have been derived from information provided in the financial statements. The following is a schedule of financial highlights for a common share outstanding during the period July 25, 2005 (inception of operations) through December 31, 2005.

Per Share Data:	
Net asset value, beginning of period	$ -
Gross proceeds from Offering	15.00
Offering costs	(0.03)
Net proceeds from Offering	14.97
Net investment income	0.17
Net realized and unrealized gain	0.01
Total from investment operations	0.18
Less: Dividends to shareholders from net investment income	(0.20)
Net decrease in net assets	(0.02)
Net asset value, end of period	$ 14.95
Total return (1)(2)	1.00%
Ratios / Supplemental Data:	
Ratio of expenses to average net assets (3)	
Before management fee waiver	2.64%
After management fee waiver	1.63%
Ratio of net investment income to average net assets (3)	2.67%
Net assets, end of period	$528,704,849
Portfolio turnover (2)	2%

(1) Total return is based on the change in net asset value per share assuming an investment at the initial offering price of $15.00 per share. Total return also takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.
(2) Not annualized.
(3) Annualized.

9. FEDERAL TAX INFORMATION

Dividends from net investment income and distributions from 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 or accumulated net realized gain, as appropriate, in the period that the differences arise. The following permanent difference as of December 31, 2005, attributable to the reclassification of dividends to shareholders, was reclassified for tax purposes as follows:

Decrease accumulated net realized gain	($1,141)
Increase distributions in excess of net investment income	$1,141

The following reconciles net increase in net assets resulting from operations to taxable income for the period from July 25, 2005 (inception of operations) through December 31, 2005:

Net increase in net assets resulting from operations	$ 6,444,368
Net unrealized appreciation not taxable	(240,236)
Origination, structuring, closing, commitment and other upfront fees currently taxable, deferred for book purposes	887,949
Expenses not currently deductible	55,467
Taxable income before deductions for distributions	$ 7,147,548

At December 31, 2005, the cost of investments for tax purposes was $251,072,023, resulting in net unrealized depreciation on investments of $635,673.

At December 31, 2005, the components of accumulated losses on a tax basis and a reconciliation to accumulated losses on a book basis were as follows:

Undistributed ordinary income - net	$ 74,230
Unrealized losses - net	(647,713)
Total accumulated losses - net, tax basis	(573,483)
Expenses not currently deductible	(55,467)
Total accumulated losses - net, book basis	$ (628,950)

The difference between book-basis unrealized gains and tax-basis unrealized losses is attributable to the book deferral of origination, structuring, closing, commitment and other upfront fees. Expenses not currently deductible are a book/tax temporary difference attributable to certain organizational expenses.

For income tax purposes, distributions paid to shareholders are reported as ordinary income, non-taxable, capital gains, or a combination thereof. Dividends declared of $7,073,318 for the period from July 25, 2005 (inception of operations) through December 31, 2005 were taxable entirely as ordinary income.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS

Our business and affairs are managed under the direction of our Board of Directors. The Board of Directors currently consists of five members, four of whom are not "interested persons" of the Company or of BlackRock Kelso Capital Advisors LLC as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our Board of Directors elects our officers, who serve at the discretion of the Board of Directors. Each director holds office until his successor is elected and qualified, or until his term as a director is terminated as provided in the Company's by-laws. The directors of the Company are as follows:

Name	Age	Position
James R. Maher*	56	Chairman of the Board of Directors and Chief Executive Officer, since 2005
Jerrold B. Harris (1)(2)	63	Director, since 2005
William E. Mayer (1)	65	Director, since 2005
Francois de Saint Phalle (1)(2)	60	Director, since 2005
Maureen K. Usifer (1)(2)	46	Director, since 2005

_____

*Interested person of the Company and of BlackRock Kelso Capital Advisors LLC within the meaning of the 1940 Act.
(1) Member of the Governance Committee.
(2) Member of the Audit Committee.

The address for each director is c/o BlackRock Kelso Capital Corporation, 40 East 52nd Street, New York, New York 10022.

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Our executive officers who are not directors are as follows:

Name	Age	Position
Michael B. Lazar	36	Chief Operating Officer, since 2005
Frank D. Gordon	45	Chief Financial Officer and Treasurer, since 2005
Vincent B. Tritto	44	Chief Compliance Officer and Secretary, since 2005

The address for each executive officer is c/o BlackRock Kelso Capital Corporation, 40 East 52nd Street, New York, New York 10022.

The following is information concerning the business experience of our Board of Directors and executive officers:

JAMES R. MAHER, Chairman of the Board and Chief Executive Officer of the Company and Chairman of the Board and Chief Executive Officer of the Advisor. Since June 2004 Mr. Maher has been engaged in establishing the Company. Mr. Maher was, from 2001 until June 2004, a partner at Park Avenue Equity Partners, L.P. ("Park Avenue"). Park Avenue is a private equity fund specializing in middle-market management buyouts and growth capital investments. Prior to joining Park Avenue, Mr. Maher was President of MacAndrews & Forbes Holdings Inc., a diversified holding company with interests primarily in consumer products and financial services companies. Mr. Maher served as Chairman of Laboratory

Corporation of America Holdings ("LabCorp"), a large clinical laboratory company, after serving as President and Chief Executive Officer of National Health Laboratories, LabCorp's predecessor, from 1992 to 1995. Prior to joining National Health Laboratories, Mr. Maher was Vice Chairman and a member of the Operating Committee of The First Boston Corporation, an international investment-banking firm. He served on the Group Executive Committee of Credit Suisse First Boston, Inc., where he was responsible for the global oversight and coordination of merger and acquisition activities, as well as being a member of its investment committee. He was also Head of the Investment Banking Group for more than four years. He joined The First Boston Corporation in 1976 and was named a Managing Director in 1982. Mr. Maher serves as a Director of Panavision, Inc. and HCI Direct, Inc. He is also a Director of Prep for Prep, an organization based in New York City that assists intellectually gifted public school students from minority group backgrounds, and prepares them for placement in independent schools. He has served as a Director of the Brearley School in New York City and on the boards of a number of public companies. Mr. Maher received a Master's in Business Administration from Columbia University in 1976 and an undergraduate degree from Boston College in 1971.

JERROLD B. HARRIS, Director of the Company. Mr. Harris has been retired since 1999. From 1990 to 1999, Mr. Harris was President and Chief Executive Officer of VWR Scientific Products Corporation (which was acquired by Merck KGaA in 1999). Mr. Harris is currently a director of BlackRock Liquidity Funds and Henry Troemner LLC. Mr. Harris is a trustee of Ursinus College. Mr. Harris earned a B.S. degree from the University of California at Berkeley in 1964.

WILLIAM E. MAYER, Director of the Company. Since 1999, Mr. Mayer has been a partner at Park Avenue, which he co-founded. From 1996 until the formation of Park Avenue, Mr. Mayer was a founding Partner of Development Capital, which invested in private and public companies. From the fall of 1992 until December 1996, Mr. Mayer was a professor and Dean of the College of Business and Management at the University of Maryland. From 1991 to 1992, Mr. Mayer served as a professor and Dean of the Simon Graduate School of Business at the University of Rochester. Mr. Mayer worked for The First Boston Corporation (now Credit Suisse), a major investment bank, from 1967 to 1990. During his career at The First Boston Corporation, Mr. Mayer held numerous management positions including President and Chief Executive Officer. Mr. Mayer is currently a board member of Lee Enterprises (a newspaper company owning or having stakes in approximately 45 daily newspapers) and Reader's Digest, and is a trustee of the Columbia Group of Mutual Funds. Over the past 25 years, he has been a board member of numerous other public and private companies. Mr. Mayer is also Chairman of the Aspen Institute and a trustee of The University of Maryland. Mr. Mayer was a First Lieutenant and Navigator in the U.S. Air Force. He holds a B.S. degree and an M.B.A. degree from the University of Maryland.

FRANCOIS DE SAINT PHALLE, Director of the Company. Mr. de Sainte Phalle has been retired since 2001. From 1990 to 2001, Mr. de Saint Phalle was Vice-Chairman and Chief Operating Officer of Dillon, Read & Co., Inc., an investment bank which was acquired by Swiss Bank Corporation in 1997. From 1968 to 1990, Mr. de Saint Phalle was a Managing Director at Lehman Brothers, Inc. and, from 1985 to 1990, Chairman of Lehman Brothers International (Europe). Mr. de Saint Phalle is currently a director of Cornerstone Management Solutions. Mr. de Saint Phalle earned a B.A. degree from Columbia College in 1968.

MAUREEN K. USIFER, Director of the Company. Maureen K. Usifer has been a senior finance director with Church & Dwight Co., Inc., a major producer of baking soda and consumer products, from May 2004 until present. From October 2001 until May 2004, Ms. Usifer was the Chief Financial Officer for Armkel, LLC a joint venture with Church & Dwight and Kelso which encompassed over $400 million in personal care sales. Ms. Usifer was Division Controller of Church & Dwight's Armus joint venture, which encompassed $500 million in laundry sales, from May 2000 through October 2001. From 1996 through 2000, Ms. Usifer was a Senior Finance Manager of Church & Dwight responsible for all of the Arm & Hammer's personal care businesses. Ms. Usifer received an undergraduate degree in business from St. Michael's College and an M.B.A. in Finance from Clarkson University.

MICHAEL B. LAZAR, Chief Operating Officer of the Company and Chief Operating Officer of the Advisor. Prior to joining the Company and the Advisor, Mr. Lazar was a Managing Director and Principal at Kelso, one of the oldest and most established firms specializing in private equity investing. Having originally joined Kelso in 1993, Mr. Lazar has been involved in Kelso's private equity transactions since that time. Prior to joining Kelso, Mr. Lazar worked in the Acquisition Finance Group at Chemical Securities, Inc. (predecessor to J.P. Morgan Securities Inc.) where his responsibilities included working with financial sponsors on the analysis, evaluation and financing of leveraged buyouts. Mr. Lazar began his career in the Corporate Finance and Structured Finance Groups at Chemical Bank, where he focused on financings for leveraged companies. He received a B.A. degree, cum laude, from Dartmouth College. Mr. Lazar is a director of Endurance Business Media, Inc. and Waste Services, Inc.

FRANK D. GORDON, Chief Financial Officer and Treasurer of the Company, Chief Financial Officer and Treasurer of the Advisor and a Director of the Administrator. Mr. Gordon has worked at BlackRock since 1998, where his primary responsibility was until recently the administration of structured finance entities managed by the high yield and bank loan teams, including compliance monitoring, legal affairs and financial and shareholder reporting. Mr. Gordon has been involved in BlackRock's high yield and mezzanine efforts since their inception. Prior to joining BlackRock's high yield effort, Mr. Gordon was the Controller of Anthracite Capital, Inc., a publicly traded (NYSE: AHR) real estate investment trust managed by BlackRock. From 1994 to 1998, Mr. Gordon was an attorney in the Structured Finance department of Skadden, Arps, Slate, Meagher & Flom LLP. From 1987 to 1990, Mr. Gordon was a Vice President in the Fixed Income Research department of The First Boston Corporation. From 1983 to 1986, Mr. Gordon was a senior auditor at Deloitte Haskins & Sells. Mr. Gordon earned a B.S. degree in economics from the Wharton School of the University of Pennsylvania in 1983 and an M.B.A. degree with honors and a J.D. degree from The University of Chicago in 1992 and 1994, respectively. Mr. Gordon is a Certified Public Accountant and a Chartered Financial Analyst.

VINCENT B. TRITTO, Chief Compliance Officer and Secretary of the Company, Chief Compliance Officer of the Advisor and a Managing Director and Senior Counsel of the Administrator. Mr. Tritto has worked at BlackRock since 2002. He also serves as the Secretary of the 56 active funds comprising the BlackRock Closed-end Funds. Prior to joining BlackRock, Mr. Tritto was Executive Director and Counsel at Morgan Stanley Investment Management Inc. for four years. Previously, he was Counsel (1998), and an associate (1988 through 1997), at the New York law firm of Rogers & Wells. During this time he also served as a foreign associate at the Tokyo law firm of Masuda & Ejiri, from 1992 to 1994. Mr. Tritto earned B.A. degrees, cum laude, from the University of Rochester in 1983 and a J.D. degree, cum laude, from St. John's University School of Law in 1988 where he was managing editor of the St. John's Law Review.

THE AUDIT COMMITTEE

The Audit Committee operates pursuant to a charter approved by our Board of Directors. The charter sets forth the responsibilities of the Audit Committee. The primary function of the Audit Committee is to serve as an independent and objective party to assist the Board of Directors in fulfilling its responsibilities for overseeing and monitoring the quality and integrity of the Company's financial statements, the adequacy of the Company's system of internal controls, the review of the independence, qualifications and performance of the Company's independent registered public accounting firm, and the performance of the Company's internal audit function. The Audit Committee is presently composed of three persons, including Ms. Usifer (Chairperson) and Messrs. Harris and de Saint Phalle, all of whom are considered independent. The Company's Board of Directors has determined that Ms. Usifer is an "audit committee financial expert" as defined under Item 401 of Regulation S-K of the Exchange Act. Ms. Usifer meets the current independence and experience requirements of Rule 10A-3 of the Exchange Act and, in addition, is not an "interested person" of the Company or of BlackRock Kelso Capital Advisors LLC as defined in Section 2(a)(19) of the 1940 Act.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the Securities and Exchange Commission and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4 and 5 filed by such persons, the Company believes that during the fiscal year ended December 31, 2005, all Section 16(a) filing requirements applicable to such persons were met in a timely manner.

CODE OF ETHICS

We have adopted a code of ethics that applies to our Chief Executive Officer, President, Chief Financial Officer and Treasurer, or persons performing similar functions, as required under Item 406 of Regulation S-K under the Exchange Act. The code of ethics is filed as an exhibit to this annual report on Form 10-K and is available at our corporate website at www.blackrockkelso.com under the heading "Investor Relations/Corporate Governance." Further, we will provide a copy of the code of ethics without charge to each shareholder upon written request. Requests for copies should be addressed to the Corporate Secretary, BlackRock Kelso Capital Corporation, 40 East 52nd Street, New York, New York 10022. We intend to satisfy any disclosure requirements regarding any amendment to, or waiver from, a provision of this code of ethics by posting such information on our corporate website at www.blackrockkelso.com under the heading "Investor Relations/Corporate Governance."

ITEM 11. EXECUTIVE COMPENSATION

The following table shows information regarding the compensation received by the directors and executive officers of the Company for the calendar year ended December 31, 2005. No compensation is paid to directors who are "interested persons."

Name and Principal Position	Aggregate Compensation from the Company	Pension or Retirement Benefits Accrued as Part of Our Expenses (1)	Total Compensation from the Company Paid to Director/Officer
DIRECTORS:			
James R. Maher,* Chairman of the Board of Directors and Chief Executive Officer (2)	None	None	None
Jerrold B. Harris, Director	$62,000	None	$62,000
William E. Mayer, Director	$62,500	None	$62,500
Francois de Saint Phalle, Director	$62,000	None	$62,000
Maureen K. Usifer, Director	$69,500	None	$69,500
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS:			
Michael B. Lazar, Chief Operating Officer (2)	None	None	None
Frank D. Gordon, Chief Financial Officer and Treasurer (3)	None	None	None
Vincent B. Tritto, Chief Compliance Officer and Secretary (3)	None	None	None

_____

*Interested person of the Company and of BlackRock Kelso Capital Advisors LLC within the meaning of the 1940 Act.
(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.
(2) James R. Maher and Michael B. Lazar are officers and members of BlackRock Kelso Capital Advisors LLC, the Advisor.
(3) Frank D. Gordon and Vincent B. Tritto are officers of BlackRock Kelso Capital Advisors LLC, the Advisor, and are employees of BlackRock Financial Management, Inc., the Administrator.

The independent directors receive an annual fee of $50,000. They also receive $2,500 ($1,250 for telephonic attendance) plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive $1,000 ($500 for telephonic attendance) plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the Chairman of the Audit Committee receives an annual fee of $7,500 and each chairman of any other committee receives an annual fee of $2,500 for their additional services in these capacities. In addition, we purchase directors' and officers' liability insurance on behalf of our directors and officers.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

At December 31, 2005, Virginia Retirement System beneficially owned 25% or more of our outstanding voting securities, and therefore would be deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth, at December 31, 2005, information with respect to the ownership of our common stock by each shareholder who owned more than 5% of our outstanding shares of common stock, each director, our chief executive officer, each of our other executive officers and our directors and executive officers as a group. Unless otherwise indicated, we believe that each beneficial owner set forth in the table has sole voting and investment power.

Name and Address	Type of Ownership	Shares Owned	Percentage of Common Stock Outstanding
Virginia Retirement System (1) 1200 East Main Street Richmond, VA 23219	Beneficial	13,333,333	37.70%
Performance Equity Management, LLC (2)(3) 2 Pickwick Plaza, Suite 310 Greenwich, CT 06830	Beneficial	6,666,667	18.85%
First Plaza Group Trust (2)(3) c/o JP Morgan Chase Bank, N.A. 3 Chase Metro Center - Fifth Floor Brooklyn, NY 11245	Beneficial	5,000,000	14.13%
Officers and Directors:			
James R. Maher (4)	Beneficial	666,666	1.89%
Jerrold B. Harris	Beneficial	40,000	*%
William E. Mayer	Beneficial	16,667	*%
Francois de Saint Phalle	Direct	333,333	*%
Maureen K. Usifer	Direct	6,667	*%
Michael B. Lazar	Beneficial	66,667	*%
Frank D. Gordon	Direct	3,333	*%
Vincent B. Tritto	Direct	67	*%
All officers and directors as a group (8 persons)(5)	Direct/ Beneficial	1,133,400	3.2%

_____

* Represents less than 1%.

(1) This information is obtained from a Schedule 13G filed on August 9, 2005, by Virginia Retirement System.
(2) This information is obtained from a Schedule 13G filed on August 9, 2005, by First Plaza Group Trust and General Motors Investment Management Corporation (predecessor in interest to Performance Equity Management, LLC).
(3) Performance Equity Management, LLC and First Plaza Group Trust retain shared power to vote or to direct the vote and to dispose or to direct the disposition of the same 5,000,000 shares.
(4) Includes 97,333 shares owned indirectly by the individual's children and 102,667 shares owned indirectly by a family trust for which the individual serves as a trustee, as to each of which the individual disclaims beneficial ownership.
(5) The address for all our officers and directors is c/o BlackRock Kelso Capital Corporation, 40 East 52nd Street, New York, NY 10022.

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors at December 31, 2005. We are not part of a "family of investment companies," as that term is defined in the 1940 Act.

Name of Director	Dollar Range of Equity Securities in the Company (1)
INDEPENDENT DIRECTORS:	
Jerrold B. Harris	$500,001 - $1,000,000
William E. Mayer	$100,001 - $500,000
Francois de Saint Phalle	Over $1,000,000
Maureen K. Usifer	$50,001 - $100,000
INTERESTED DIRECTOR AND EXECUTIVE OFFICER:	
James R. Maher	Over $1,000,000

_____

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

To the extent provided by the 1940 Act, we will not invest in any private company in which BlackRock, Kelso, or any of their affiliates, or any of the unregistered investment funds managed by them, holds an existing investment. We may, however, co-invest on a concurrent basis with other affiliates of BlackRock or Kelso, subject to compliance with applicable allocation procedures.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee of our Board of Directors selected Deloitte & Touche LLP as independent auditors for the Company for the fiscal year ended December 31, 2005. Deloitte & Touche LLP has advised the Company that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its subsidiaries.

AUDIT FEES: Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements and services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings. Fees incurred were $165,000 for the quarterly review associated with our Form 10-Q filing and for the annual audit of the Company's financial statements included as part of our Form 10-K filing.

AUDIT-RELATED FEES: Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards. There were no audit-related fees charged to the Company for the period ended December 31, 2005.

TAX SERVICES FEES: Tax fees consist of fees billed for professional services for tax compliance. These services include assistance regarding federal, state, and local tax compliance. Tax fees incurred by the Company were $4,000 during the

fiscal period ended December 31, 2005 and represented work related to our excise tax distribution requirements and their respective form extensions.

ALL OTHER FEES: Other fees would include fees for products and services other than the services reported above. There were no such fees charged to the Company for the period ended December 31, 2005.

The Audit Committee of the Board of Directors of BlackRock Kelso Capital Corporation operates under a written charter adopted by the Board of Directors. Management is responsible for the Company's internal controls and the financial reporting process. The Company's Independent Registered Public Accounting Firm ("Independent Auditors") are responsible for performing an independent audit of the Company's financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States) and expressing an opinion on the conformity of those audited financial statements in accordance with accounting principles generally accepted in the United States. The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee is also directly responsible for the appointment, compensation and oversight of the Company's Independent Auditors.

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

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

The Audit Committee has reviewed the audited financial statements and met and held discussions with management regarding the audited financial statements. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States.

The Audit Committee has discussed with Deloitte & Touche LLP, the Company's Independent Auditors, matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee received and reviewed the written disclosures and the letter from the Independent Auditors required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended by the Independence Standards Board, and has discussed with the Independent Auditors their independence.

Based on the Audit Committee's discussion with management and the Independent Auditors, the Audit Committee's review of the audited financial statements, the representations of management and the report of the Independent Auditors to the Audit Committee, the Audit Committee recommends that the Board of Directors include the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal period ended December 31, 2005 for filing with the Securities and Exchange Commission. The Audit Committee has also appointed Deloitte & Touche LLP to serve as independent auditors for the year ending December 31, 2006.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1)	Financial Statements.
	Refer to Item 8 above.
(a)(2)	Financial Statement Schedules
	None.
(a)(3)	Exhibits
3.1	Certificate of Incorporation of the Registrant (1)
3.2	Certificate of Amendment to the Certificate of Incorporation of the Registrant (1)
3.3	By-laws of the Registrant (1)
4.1*	Form of Stock Certificate of the Registrant
10.1*	Investment Management Agreement between the Registrant and BlackRock Kelso Capital Advisors LLC
10.2*	Administration Agreement between the Registrant and BlackRock Financial Management, Inc.
10.3*	Dividend Reinvestment Plan
10.4*	Custodian Services Agreement between PFPC Trust Company and the Registrant
10.5*	Transfer Agency Services Agreement between PFPC Inc. and the Registrant
10.6*	Sub-Administration and Accounting Services Agreement by and among the Registrant, PFPC Inc. and BlackRock Financial Management, Inc.
10.7*	Waiver Reliance Letter between the Registrant and BlackRock Kelso Capital Advisors LLC
11.1*	Statement regarding computation of per share earnings
14.1*	Code of Ethics 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) Incorporated by reference to the Registrant's Registration Statement on Form 10 (Commission File No. 000-51327), as amended, originally filed with the Securities and Exchange Commission on May 24, 2005.

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 29, 2006

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 Frank D. Gordon, 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.

SIGNATURE	TITLE	DATE
/s/ James R. Maher JAMES R. MAHER	Chairman of the Board and Chief Executive Officer (principal executive officer)	March 29, 2006
/s/ Frank D. Gordon FRANK D. GORDON	Chief Financial Officer and Treasurer (principal financial and accounting officer)	March 29, 2006
/s/ Jerrold B. Harris JERROLD B. HARRIS	Director	March 29, 2006
/s/ William E. Mayer WILLIAM E. MAYER	Director	March 29, 2006
/s/ Francois de Saint Phalle FRANCOIS DE SAINT PHALLE	Director	March 29, 2006
/s/ Maureen K. Usifer MAUREEN K. USIFER	Director	March 29, 2006

Exhibit 4.1

NUMBER Incorporated Under the laws of the State of Delaware SHARES

BlackRock Kelso Capital Corporation

Par Value $0.001 Common Stock

This is to certify that _____ is the owner of

_____

Fully Paid and Non-Assessable Shares of Par Vale $0.001 Common Stock of

BlackRock Kelso Captial Corporation

transferable only on the books of the Corporation by the holder thereof in person or by a duly authorized Attorney upon surrender of this Certificate properly endorsed.

Witness, the seal of the Corporation and the signatures of its dulyu authorized officers.

Dated

_____ _____

Treasurer Chairman and Chief Executive Officer

For value received _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____ _____

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

_____ Shares

represented by the within Certificate and do hereby irrevocably constitute and appoint

_____ Attorney to transfer the said Shares on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

In presence of_____

_____

THIS SECURITY HAS NOT BEEN RECOMMENDED, APPROVED OR DISAPPROVED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT"), AND ACCORDINGLY, MAY NOT BE OFFERED, PLEDGED OR SOLD EXCEPT AS SET FORTH N THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS AN "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501 OF REGULATION D UNDER THE SECURITIES ACT) (AN "ACCREDITED INVESTOR") AND (2) AGREES THAT IT WILL NOT REOFFER, PLEDGE, RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) TO AN ACCREDITED INVESTOR, PROVIDED THAT PRIOR TO SUCH TRANSFER THE HOLDER FURNISHES TO THE COMPANY A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE RESTRICTIONS ON TRANSFER OF THIS SECURITY (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE COMPANY), OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. PRIOR TO ANY TRANSFER, THE HOLDER OF THIS SECURITY AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE COMPANY SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THE COMPANY MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A

TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. AS USED HEREIN, THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

INVESTMENT MANAGEMENT AGREEMENT

AGREEMENT, dated July 25, 2005, between BlackRock Kelso Capital Corporation, a Delaware corporation, (the "BDC") and BlackRock Kelso Capital Advisors LLC (the "Advisor"), a Delaware limited liability company.

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

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

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

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

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

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

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

(c) In the performance of its duties under this Agreement, the Advisor shall at all times use all reasonable efforts to conform to, and act in accordance with, any requirements imposed by (i) the provisions of the Investment Company Act of 1940 (the "Act"), and of any rules or regulations in force thereunder; (ii) any other applicable provision of law; (iii) the provisions of the Certificate of Incorporation and the By-Laws of the BDC, as such documents are amended from time to time; (iv) the investment objectives, policies and restrictions applicable to the BDC as set forth in the BDC's Private Placement Memorandum; and (v) any policies and determinations of the Board of Directors of the BDC.

(d) The Advisor will seek to provide qualified personnel to fulfill its duties hereunder and, except as set forth in the following sentence, will bear all costs and expenses incurred in connection with its investment advisory duties thereunder. The BDC shall reimburse the Advisor for all direct and indirect cost and expenses incurred by the Advisor (i) for office space rental, office equipment and utilities allocable to performance of investment advisory and non investment advisory administrative or operating services hereunder by the Advisor and (ii) allocable to any non-investment advisory administrative or operating services provided by the Advisor hereunder, including salaries, bonuses, health insurance, retirement benefits and all similar employment costs, such as office equipment and other overhead items. All allocations made pursuant to this paragraph (d) shall be made pursuant to allocation guidelines approved from time to time by the Board of Directors. The BDC shall also be responsible for the payment of all the BDC's other expenses, including (i) payment of the fees payable to the Advisor under Section 8 hereof; (ii) organizational expenses; (iii) brokerage fees and commissions; (iv) taxes; (v) interest charges on borrowings; (vi) the cost of liability insurance or fidelity bond coverage for the BDC's officers and

employees, and directors' and officers' errors and omissions insurance coverage; (vii) legal, auditing and accounting fees and expenses; (viii) charges of the BDC's administrator (if any), custodian, transfer agent and dividend disbursing agent and any other service providers; (ix) the BDC's dues, fees and charges of any trade association of which the BDC is a member; (x) the expenses of printing, preparing and mailing proxies, stock certificates, reports, prospectuses, registration statements and other documents used by the BDC; (xi) expenses of registering and offering securities of the BDC under applicable law; (xii) the expenses of holding shareholder meetings; (xiii) the compensation, including fees, of any of the BDC's directors, officers or employees who are not affiliated persons of the Advisor; (xiv) all expenses of computing the BDC's net asset value per share; (xv) litigation and indemnification and other extraordinary or non recurring expenses; and (xvi) all other non investment advisory expenses of the BDC.

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

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

(b) In addition, the Advisor will:

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

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

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

4. Services Not Exclusive. Nothing in this Agreement shall prevent the Advisor or any officer, employee or other affiliate thereof from acting as investment advisor for any other person, firm or corporation, or from engaging in any other lawful activity, and shall not in any way limit or restrict the Advisor or any of its officers, employees or agents from buying, selling or

trading any securities for its or their own accounts or for the accounts of others for whom it or they may be acting; provided, however, that the Advisor will undertake, and will cause its employees to undertake, no activities which, in its judgment, will adversely affect the performance of the Advisor's obligations under this Agreement.

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

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

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

8. Compensation of the Advisor.

(a) The Advisor, for its services to the BDC, will be entitled to receive a management fee (the "Management Fee") from the BDC. The Management Fee will be calculated at an annual rate of 2.00% of total assets. For services rendered under this Agreement during the period commencing from the Closing through and including the first twelve months of operations, the Management Fee will be payable monthly in arrears based on the asset valuation for the prior month or, prior to the BDC's first valuation, its assets upon the commencement of its business. For services rendered under this Agreement after that time, the Management Fee will be paid quarterly in arrears based on the asset valuation for the prior quarter.

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

(c) The Advisor will be entitled to receive a fee (the "Carried Interest") in an amount equal to, (i) commencing on the Ramp-Up Date and prior to the first day of the calendar quarter during which the Public Market Event occurs, (A) 50% (payable at the same time as, and not in advance of, any distributions in respect of the BDC's common shares) of the amount by which the Cumulative Adjusted Common Distributions exceed the Hurdle until the cumulative payments that have been made in respect of the Carried Interest pursuant to this clause (i) since the Ramp-Up Date equal 20% of the sum of the amount paid pursuant to this clause (i) plus the amount of the Cumulative Adjusted Common Distributions since the Ramp-Up Date, and thereafter (B) an amount (payable at the same time as, and not in advance of, any distributions in respect of the BDC's common shares) such that, after payment thereof, the cumulative payments that have been made in respect of the Carried Interest pursuant to this clause (i) since the Ramp-Up Date equal 20% of the sum of the amount paid pursuant to this clause (i) plus the amount of the Cumulative Adjusted Common Distributions since the Ramp-Up Date and (ii) commencing on and after the first day of the calendar quarter during which the Public Market Event occurs, (A) 50% (payable at the same time as, and not in advance of, any distributions in respect of the BDC's common shares) of the amount by which the cumulative distributions and amounts distributable out of net income (including realized capital gains in excess of realized capital losses) in respect of the BDC's common shares (1) since the Public Market Event or (2) during the four calendar quarters most recently completed prior to or within 15 days after the date of declaration, whichever is most recent, exceed the Hurdle until the cumulative payments that have been made in respect of the Carried Interest pursuant to this clause (ii) equal 20% of the sum of the amount distributed pursuant to this clause (ii) plus the amount of the Cumulative Adjusted Common Distributions (1) since the Public Market Event or (2) during the four calendar

quarters most recently completed prior to or within 15 days after the date of declaration, whichever is most recent, and thereafter (B) an amount (payable at the same time as, and not in advance of, any distributions in respect of the Common Shares) equal to the excess of (1) 20% of the sum of the amount distributed pursuant to this clause (ii) plus the amount of the Measurement Period Adjusted Common Distributions (as defined below) over (2) the portion of the amount in item (1) above previously distributed during such four preceding quarters.

(d) For purposes of Section 8(c), (i) "Public Market Event" means the completion by the BDC of an initial public offering of its common shares registered under the Securities Act of 1933 and the commencement of trading of such common shares on a national securities exchange; (ii) "Hurdle" means the product of 2% times the quarterly net asset value of the BDC attributable to its common shares as of the beginning of such quarter (or such measurement period) calculated after giving effect to any distributions in respect of such quarter (or such measurement period) times the number of quarters in the measurement period (which, after the Public Market Event, will be four quarters); (iii) "Cumulative Adjusted Common Distributions" means the excess of the cumulative distributions and amounts distributable out of net income (including realized capital gain in excess of realized capital losses) in respect of the common shares over the net amount of capital depreciation, if any, at the time of determination; (iv) "Measurement Period Adjusted Common Distributions" means the aggregate distributions and amounts distributable out of net income (including realized capital gains in excess of realized capital losses) in respect of the common shares during the four calendar quarters most recently completed prior to or within 15 days after the date of declaration of any distribution under Section 8(c), less any increases in net capital depreciation attributable to the common shares during such four quarter period or plus any decrease in such net capital depreciation but only to the extent that both (A) such decrease did not exceed the net amount of capital depreciation at the beginning of such period and (B) such decrease did not exceed the excess of cumulative realized capital gains over cumulative realized capital losses since commencement of operations; and (v) "Ramp-up Date" means such time that 90% of the assets of the BDC are invested in portfolio companies in accordance with the BDC's investment objective, excluding investments in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, or the first anniversary of the date on which the BDC first draws funds under accepted subscriptions for its common shares, whichever is sooner.

(e) The Advisor shall only be entitled to the Carried Interest if such fees are not, have not, or will not be paid to the Advisor or an affiliate through another mechanism.

(f) Alternatively, the Carried Interest may be paid pursuant to a dividend on a preferred share (the "Special S Share") to be issued by the BDC. For avoidance of doubt, if the Special S Share is issued by the BDC the Carried Interest will not be paid pursuant to this agreement.

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

(b) The BDC may make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the BDC receives a written affirmation of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to reimburse the BDC unless it is

subsequently determined that such Indemnitee is entitled to such indemnification and if the Directors of the BDC determine that the facts then known to them would not preclude indemnification. In addition, at least one of the following conditions must be met: (A) the Indemnitee shall provide security for such Indemnitee-undertaking, (B) the BDC shall be insured against losses arising by reason of any unlawful advance, or (C) a majority of a quorum consisting of Directors of the BDC who are neither "interested persons" of the BDC (as defined in Section 2(a)(19) of the 1940 Act) nor parties to the proceeding ("Disinterested Non-Party Directors") or an independent legal counsel in a written opinion, shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the Indemnitee ultimately will be found entitled to indemnification.

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

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

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

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

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

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

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

13. Amendment of this Agreement. No provision of this Agreement may be

changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought. Any amendment of this Agreement shall be subject to the 1940 Act.

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

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

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

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

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

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

BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ Frank Gordon

Name: Frank Gordon
Title: Chief Financial Officer

BLACKROCK KELSO CAPITAL ADVISORS LLC

By: /s/ Michael B. Lazar

Name: Michael B. Lazar
Title: Chief Operating Officer

Exhibit 10.2

ADMINISTRATION AGREEMENT

AGREEMENT (this "Agreement") made as of August 4, 2005 by and between BlackRock Kelso Capital Corporation, a Delaware corporation (hereinafter referred to as the "Corporation"), and BlackRock Financial Management, Inc., a Delaware corporation (hereinafter referred to as the "Administrator").

W I T N E S S E T H:

WHEREAS, the Corporation is a newly organized closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (hereinafter referred to as the "Investment Company Act");

WHEREAS, the Corporation desires to retain the Administrator to provide administrative services to the Corporation in the manner and on the terms hereinafter set forth; and

WHEREAS, the Administrator is willing to provide administrative services to the Corporation on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Corporation and the Administrator hereby agree as follows:

1. Duties of the Administrator.

(a) Employment of Administrator. The Corporation hereby employs the Administrator to act as administrator of the Corporation, and to furnish, or arrange for others to furnish, the administrative services, personnel and facilities described below, subject to review by and the overall control of the Board of Directors of the Corporation, for the period and on the terms and conditions set forth in this Agreement. The Administrator hereby accepts such employment and agrees during such period to render, or arrange for the rendering of, such services and to assume the obligations herein set forth subject to the reimbursement of costs and expenses as provided for below. The Administrator and any such other persons providing services arranged for by the Administrator shall for all purposes herein be deemed to be independent contractors and shall, unless otherwise expressly provided or authorized herein, have no authority to act for or represent the Corporation in any way or otherwise be deemed agents of the Corporation.

(b) Services. The Administrator shall perform (or oversee, or arrange for, the performance of) the administrative services necessary for the operation of the Corporation. Without limiting the generality of the foregoing, the Administrator shall provide the Corporation with office facilities, equipment, clerical, bookkeeping and record keeping services at such office facilities and such other services as the Administrator, subject to review by the Board of Directors of the Corporation, shall from time to time determine to be necessary or useful to perform its obligations under this Agreement. The Administrator shall also, on behalf of the Corporation, arrange for the services of, and oversee, custodians, depositories, transfer agents, dividend disbursing agents, other stockholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Administrator shall make reports to the Corporation's Board of Directors of its performance of obligations hereunder and furnish advice and recommendations with respect to such other aspects of the business and affairs of the Corporation as it shall determine to be desirable; provided that nothing herein shall be construed to require the Administrator to, and the Administrator shall not, provide any advice or recommendation relating to the securities and other assets that the Corporation should purchase, retain or sell or any other investment advisory services to the Corporation. The Administrator shall be responsible for the financial and other records that the Corporation is required to maintain and shall prepare all reports and other materials required to be filed with the Securities and Exchange Commission (the "SEC") or any other regulatory authority, including reports to stockholders. At the Corporation's request, the Administrator will provide on the Corporation's behalf significant managerial assistance to those portfolio companies to which the Corporation is required to provide such assistance. In addition, the Administrator will assist the Corporation in determining and publishing the Corporation's net asset value, overseeing the preparation and filing of the Corporation's tax returns, and the printing and dissemination of reports to stockholders of the Corporation, and generally overseeing the payment of the Corporation's expenses and the performance of administrative and professional services rendered to the Corporation by others.

2. Records. The Administrator agrees to maintain and keep all books, accounts and other records of the Corporation that relate to activities performed by the Administrator hereunder and, if required by the Investment Company Act, will maintain and keep such books, accounts and records in

accordance with that act. In compliance with the requirements of Rule 31a-3 under the Investment Company Act, the Administrator agrees that all records that it maintains for the Corporation shall at all times remain the property of the Corporation, shall be readily accessible during normal business hours, and shall be promptly surrendered upon the termination of this Agreement or otherwise on written request. The Administrator further agrees that all records which it maintains for the Corporation pursuant to Rule 31a-1 under the Investment Company Act will be preserved for the periods prescribed by Rule 31a-2 under the Investment Company Act unless any such records are earlier surrendered as provided above. Records shall be surrendered in usable machine-readable form. The Administrator shall have the right to retain copies of such records subject to observance of its confidentiality obligations under this Agreement.

3. Confidentiality. The parties hereto agree that each shall treat confidentially all information provided by each party to the other regarding its business and operations. All confidential information provided by a party hereto, including nonpublic personal information pursuant to Regulation S-P of the SEC, shall be used by any other party hereto solely for the purpose of rendering services pursuant to this Agreement and, except as may be required in carrying out this Agreement, shall not be disclosed to any third party, without the prior consent of such providing party. The foregoing shall not be applicable to any information that is publicly available when provided or thereafter becomes publicly available other than through a breach of this Agreement, or that is required to be disclosed by any regulatory authority, any authority or legal counsel of the parties hereto, by judicial or administrative process or otherwise by applicable law or regulation.

4. Compensation; Allocation of Costs and Expenses.

(a) In full consideration of the provision of the services of the Administrator, the Corporation shall reimburse the Administrator for the costs and expenses incurred by the Administrator in performing its obligations and providing personnel and facilities hereunder.

(b) The Corporation will bear all costs and expenses that are incurred in its operation and transactions and not specifically assumed by the Corporation's investment adviser (the "Adviser"), pursuant to that certain Investment Management Agreement, dated as of July 25, 2005 by and between the Corporation and the Adviser. Costs and expenses to be borne by the Corporation include, but are not limited to, those relating to: organization and offering; calculating the Corporation's net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by the Adviser payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Corporation and in monitoring the Corporation's investments and performing due diligence on its prospective portfolio companies; interest payable on debt, if any, incurred to finance the Corporation's investments; offerings of the Corporation's common stock and other securities; investment advisory and management fees; administration fees, if any, payable under this Agreement; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; federal and state registration fees; all costs of registration and listing the Corporation's shares on any securities exchange; federal, state and local taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents required by the SEC; costs of any reports, proxy statements or other notices to stockholders, including printing costs; the Corporation's allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs; and all other expenses incurred by the Corporation or the Administrator in connection with administering the Corporation's business, including payments under this Agreement based upon the Corporation's allocable portion of the Administrator's overhead in performing its obligations under this Agreement, including rent and the allocable portion of the cost of the Corporation's officers and their respective staffs.

5. Limitation of Liability of the Administrator; Indemnification. The Administrator, its affiliates and their respective officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with any of them (collectively, the "Indemnified Parties"), shall not be liable to the Corporation for any action taken or omitted to be taken by the Administrator in connection with the performance of any of its duties or obligations under this Agreement or otherwise as administrator for the Corporation, and the Corporation shall indemnify, defend and protect the Administrator (and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with the Administrator, including without limitation the Indemnified Parties (each of whom shall be deemed a third party beneficiary hereof) and hold them harmless from and against all damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Corporation or its security holders) arising out of or otherwise based upon the performance of any of the Administrator's duties or obligations under this Agreement or otherwise as administrator for the Corporation. Notwithstanding the preceding sentence of this Paragraph 5 to the contrary, nothing contained herein shall protect or be

deemed to protect the Indemnified Parties against or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Corporation or its security holders to which the Indemnified Parties would otherwise be subject by reason of criminal conduct, willful misfeasance, bad faith or negligence in the performance of the Administrator's duties or by reason of the reckless disregard of the Administrator's duties and obligations under this Agreement (to the extent applicable, as the same shall be determined in accordance with the Investment Company Act and any interpretations or guidance by the SEC or its staff thereunder).

6. Activities of the Administrator. The services of the Administrator to the Corporation are not to be deemed to be exclusive, and the Administrator and each other person providing services as arranged by the Administrator is free to render services to others. It is understood that directors, officers, employees and stockholders of the Corporation are or may become interested in the Administrator and its affiliates, as directors, officers, members, managers, employees, partners, stockholders or otherwise, and that the Administrator and directors, officers, members, managers, employees, partners and stockholders of the Administrator and its affiliates are or may become similarly interested in the Corporation as stockholders or otherwise.

7. Duration and Termination of this Agreement.

(a) This Agreement shall become effective as of the date hereof, and shall remain in force with respect to the Corporation for two years thereafter, and thereafter continue from year to year, but only so long as such continuance is specifically approved at least annually by (i) the Board of Directors of the Corporation and (ii) a majority of those members of the Corporation's Board of Directors who are not parties to this Agreement or "interested persons" (as defined in the Investment Company Act) of any such party.

(b) This Agreement may be terminated at any time, without the payment of any penalty, by vote of the Corporation's Board of Directors, or by the Administrator, upon 60 days' written notice to the other party. This Agreement may not be assigned by a party without the consent of the other party.

8. Amendments of this Agreement. This Agreement may not be amended or modified except by an instrument in writing signed by all parties hereto.

9. Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither party may assign, delegate or otherwise transfer this Agreement or any of its rights or obligations hereunder without the prior written consent of the other party. No assignment by either party permitted hereunder shall relieve the applicable party of its obligations under this Agreement. Any assignment by either party in accordance with the terms of this Agreement shall be pursuant to a written assignment agreement in which the assignee expressly assumes the assigning party's rights and obligations hereunder.

10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, including without limitation Sections 5-1401 and 5-1402 of the New York General Obligations Law and New York Civil Practice Laws and Rules 327(b), and the applicable provisions of the Investment Company Act, if any. To the extent that the applicable laws of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, if any, the latter shall control. The parties unconditionally and irrevocably consent to the exclusive jurisdiction of the courts located in the State of New York and waive any objection with respect thereto, for the purpose of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

11. No Waiver. The failure of either party to enforce at any time for any period the provisions of or any rights deriving from this Agreement shall not be construed to be a waiver of such provisions or rights or the right of such party thereafter to enforce such provisions, and no waiver shall be binding unless executed in writing by all parties hereto.

12. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

13. Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

14. Counterparts. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original instrument and all of which taken together shall constitute one and the same agreement.

15. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and

shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service (with signature required), by facsimile, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at their respective principal executive office addresses.

16. Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, between the parties with respect to such subject matter.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

BLACKROCK KELSO CAPITAL CORPORATION

/s/ Frank Gordon

By: Frank Gordon
Title: Chief Financial Officer

BLACKROCK FINANCIAL MANAGEMENT, INC.

/s/ James Kong

By: James Kong
Title: Managing Director

[SIGNATURE PAGE TO ADMINISTRATION AGREEMENT BY AND BETWEEN BLACKROCK KELSO CAPITAL CORPORATION AND BLACKROCK FINANCIAL MANAGEMENT, INC.]

AUTOMATIC DIVIDEND REINVESTMENT PLAN

OF

BLACKROCK KELSO CAPITAL CORPORATION

TERMS AND CONDITIONS

Pursuant to this Automatic Dividend Reinvestment Plan (the "Plan") of the undersigned BlackRock Kelso Capital Corporation, a Delaware corporation (the "Corporation"), unless a holder (a "Shareholder") of the Corporation's common shares of beneficial interest (the "Common Shares") otherwise elects, all dividends and distributions on such Shareholder's Common Shares will be automatically reinvested by PFPC Inc., a Massachusetts corporation ("PFPC"), as agent for Shareholders in administering the Plan (the "Plan Agent"), in additional Common Shares of the Corporation. Shareholders who elect not to participate in the Plan will receive all dividends and other distributions in cash paid by check mailed directly to the Shareholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by PFPC as the Dividend Disbursing Agent. Participants may elect not to participate in the Plan and to receive all dividends and distributions in cash by sending written instructions to PFPC, as the Dividend Disbursing Agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received by the Plan Agent not less than ten days prior to any dividend or distribution payment date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or distribution.

The Plan Agent will open an account for each Shareholder under the Plan in the same name in which such Shareholder's Common Shares are registered. Whenever the Corporation declares a dividend or a distribution (collectively referred to as "dividends") payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Agent for the participants' accounts through receipt of additional unissued but authorized Common Shares from the Corporation ("newly issued Common Shares"). The number of newly issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per Common Share most recently determined on or prior to the payment date.

The Plan Agent will maintain all Shareholders' accounts in the Plan and furnish written confirmation of all transactions in the accounts, including information needed by Shareholders for tax records. Common Shares acquired by the Plan Agent on behalf of the Plan participant shall be credited to the Shareholders' Common Share accounts maintained by the Corporation's transfer agent.

In the case of Shareholders such as banks, brokers or nominees that hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record Shareholder and held for the account of beneficial owners who participate in the Plan and shall credit Common Shares acquired for the accounts of such Shareholders to their Common Share accounts maintained by the Corporation's transfer agent.

There will be no brokerage charges with respect to Common Shares issued directly by the Corporation as a result of dividends or capital gains distributions payable either in Common Shares or in cash.

For the avoidance of doubt, no Common Shares will be issued under the Plan at a price less than net asset value or under any circumstance that may violate the Investment Company Act of 1940, as amended, or any rules issued thereunder.

VOTING

Each Shareholder proxy will include those Common Shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for Common Shares held pursuant to the Plan in accordance with the instructions of the participants.

TAXATION

The automatic reinvestment of dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

AMENDMENT OF THE PLAN

The Plan may be amended or terminated by the Corporation. There is no direct service charge to participants in the Plan; however, the Corporation reserves the right to amend the Plan to include a service charge payable by the participants. Notice will be sent to Plan participants of any amendments as soon as practicable after such action by the Corporation.

INQUIRIES REGARDING THE PLAN

All correspondence concerning the Plan should be directed to the Plan Agent at 301 Bellevue Parkway, Wilmington, Delaware 19809, Attention: President.

APPLICABLE LAW

These terms and conditions shall be governed by the laws of the State of New York without regard to its conflicts of laws provisions.

EXECUTION

To record the adoption of the Plan as of August 4, 2005, the Corporation has caused this Plan to be executed in the name and on behalf of the Corporation by a duly authorized officer.

By and on behalf of
BLACKROCK KELSO CAPITAL CORPORATION

/s/ Michael B. Lazar

By: Michael B. Lazar
Title: Chief Operating Officer

EXHIBIT 10.4

CUSTODIAN SERVICES AGREEMENT

THIS AGREEMENT is made as of July 18, 2005 by and between PFPC TRUST COMPANY, a limited purpose trust company incorporated under the laws of Delaware ("PFPC Trust"), and BLACKROCK KELSO CAPITAL CORPORATION, a Delaware corporation (the "Fund").

W I T N E S S E T H:

WHEREAS, the Fund wishes to retain PFPC Trust to provide custodian services provided for herein, and PFPC Trust wishes to furnish such services.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. As used in this Agreement:

(a) "Authorized Person" means any officer of the Fund and any other person authorized by the Fund to give Oral Instructions or Written Instructions on behalf of the Fund. An Authorized Person's scope of authority may be limited by setting forth such limitation in a written document signed by both parties hereto.

(b) "Book-Entry System" means the Federal Reserve Treasury book-entry system for United States and federal agency securities, its successor or successors, and its nominee or nominees and any book-entry system registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

(c) "Oral Instructions" mean oral instructions received by PFPC Trust from an Authorized Person or from a person reasonably believed by PFPC Trust to be an Authorized Person. PFPC Trust may, in its sole discretion in each separate instance, consider and rely upon instructions it receives from an Authorized Person via electronic mail as Oral Instructions.

(d) "Shares" mean the shares of beneficial interest of any series or class of the Fund.

(e) "Property" means:

(i) any and all securities and other investment items which the Fund may from time to time deposit, or cause to be deposited, with PFPC Trust or which PFPC Trust may from time to time hold for the Fund;

(ii) all income in respect of any of such securities or other investment items;

(iii) all proceeds of the sale of any of such securities or investment items; and

(iv) all proceeds of the sale of Shares issued by the Fund, which are received by PFPC Trust from time to time, from or on behalf of the Fund.

(f) "Written Instructions" means (i) written instructions signed by an Authorized Person (or a person reasonably believed by PFPC Trust to be an Authorized Person) and received by PFPC Trust or (ii) trade instructions transmitted (and received by PFPC Trust) by means of an electronic transaction reporting system access to which requires use of a password or other authorized identifier

(g) "1940 Act" means the Investment Company Act of 1940, as amended.

2. Appointment. The Fund hereby appoints PFPC Trust to provide custodian services in accordance with the terms set forth in this Agreement. PFPC Trust accepts such appointment and agrees to furnish such services.

3. Compliance with Rules and Regulations.

PFPC Trust will comply with the requirements of any laws, rules and regulations of governmental authorities that are applicable to the duties to be performed by PFPC Trust under this Agreement. Except as specifically set forth in this Agreement, PFPC Trust assumes no responsibility for compliance by the Fund with any laws, rules and regulations.

4. Instructions.

(a) Unless otherwise provided in this Agreement, PFPC Trust shall act only upon Oral Instructions or Written Instructions.

(b) PFPC Trust shall be entitled to rely upon any Oral Instruction or Written Instruction it receives from an Authorized Person (or from a person reasonably believed by PFPC Trust to be an Authorized Person) pursuant to this Agreement. PFPC Trust may assume that any Oral Instructions or Written Instructions received hereunder are not in any way inconsistent with the provisions of organizational documents of the Fund or of any vote, resolution or proceeding of the Fund's board of directors or shareholders, unless and until PFPC Trust receives Written Instructions to the contrary.

(c) The Fund agrees to forward to PFPC Trust Written Instructions confirming Oral Instructions so that PFPC Trust receives the Written Instructions by the close of business on the same day that such Oral Instructions are received. The fact that such confirming Written Instructions are not received by PFPC Trust or differ from the Oral Instructions shall in no way invalidate the transactions or enforceability of the transactions authorized by the Oral Instructions or PFPC Trust's ability to rely upon such Oral Instructions.

5. Right to Receive Advice.

(a) Advice of the Fund. If PFPC Trust is in doubt as to any action it should or should not take, PFPC Trust may request directions or advice, by way of Oral Instructions or Written Instructions.

(b) Advice of Counsel. If PFPC Trust shall be in doubt as to any question of law pertaining to any action it should or should not take, PFPC Trust may request advice from counsel of its own choosing (who may be counsel for the Fund, the Fund's sponsor or adviser or PFPC Trust, at the option of PFPC Trust).

(c) Conflicting Advice. In the event of a conflict between Oral Instructions or Written Instructions and the advice PFPC Trust receives from counsel, PFPC Trust may rely upon and follow the advice of counsel.

(d) Protection of PFPC Trust. PFPC Trust shall be indemnified by the Fund and without liability for any action PFPC Trust takes or does not take in reliance upon Oral Instructions or Written Instructions PFPC Trust receives from or on behalf of the Fund or advice from counsel and which PFPC Trust believes, in good faith, to be consistent with those Oral Instructions or Written Instructions or that advice. Nothing in this section shall be construed so as to impose an obligation upon PFPC Trust (i) to seek such advice or Oral Instructions or Written Instructions, or (ii) to act in accordance with such advice or Oral Instructions or Written Instructions. Nothing in this subsection shall excuse PFPC Trust from liability for its acts or omissions in carrying out such Oral Instructions or Written Instructions to the extent such acts or omissions constitute willful misfeasance, bad faith, negligence or reckless disregard by PFPC Trust of any duties, obligations or responsibilities set forth in this Agreement.

6. Records; Visits. The books and records pertaining to the Fund, which are in the possession or under the control of PFPC Trust, shall be the property of the Fund. PFPC Trust may house such books and records in a third party storage facility. The Fund and Authorized Persons, and such other persons the Fund by means of Written Instructions reasonably authorizes (including but not limited to the Fund's independent accountants), shall have access to such books and records at all times during PFPC Trust's normal business hours; provided that the Fund shall not authorize access by any individuals employed by PFPC Trust's direct competitors. Upon the reasonable request of the Fund, copies of any such books and records shall be provided by PFPC Trust to the Fund, an Authorized Person, or such other person, at the Fund's expense.

7. Confidentiality. Each party shall keep confidential any information it receives hereunder relating to the other party's business ("Confidential Information"). Confidential Information shall include (a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finances, operations, customer relationships, customer profiles and information, customer lists, sales estimates, business plans, and internal performance results relating to the past, present or future business activities of the Fund or PFPC Trust; (b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Fund or PFPC Trust a competitive advantage over its competitors; (c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, and trade secrets, whether or not patentable or copyrightable; and (d) anything designated as confidential. Notwithstanding the foregoing, information shall not be Confidential Information and shall not be subject to such confidentiality obligations

if it: (a) is already known to the receiving party at the time it is obtained; (b) is or becomes publicly known or available through no wrongful act of the receiving party; (c) is rightfully received from a third party who, to the best of the receiving party's knowledge, is not under a duty of confidentiality; (d) is released by the protected party to a third party without restriction; (e) is requested or required to be disclosed by the receiving party pursuant to a court order, subpoena, governmental or regulatory agency request or law (provided the receiving party will provide the other party written notice of the same, to the extent such notice is permitted); (f) is relevant to the defense of any claim or cause of action asserted against the receiving party; (g) is necessary or desirable for PFPC Trust to release such information in connection with the provision of services under this Agreement; or (h) has been or is independently developed or obtained by the receiving party.

8. Cooperation with Accountants. PFPC Trust shall cooperate with the Fund's independent public accountants and shall take all reasonable action to make any requested information available to such accountants as reasonably requested by the Fund.

9. PFPC System. PFPC Trust shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by PFPC Trust in connection with the services provided by PFPC Trust to the Fund.

10. Disaster Recovery. PFPC Trust shall enter into and shall maintain in effect with appropriate parties one or more agreements making reasonable provisions for emergency use of electronic data processing equipment to the extent appropriate equipment is available. In the event of equipment failures, PFPC Trust shall, at no additional expense to the Fund, take reasonable steps to minimize service interruptions. PFPC Trust shall have no liability with respect to the loss of data or service interruptions caused by equipment failure, provided such loss or interruption is not caused by PFPC Trust's own willful misfeasance, bad faith, negligence or reckless disregard of its duties or obligations under this Agreement.

11. Compensation.

(a) As compensation for custody services that are rendered by PFPC Trust during the term of this Agreement, the Fund will pay to PFPC Trust a fee or fees as may be agreed to in writing by the Fund and PFPC Trust. The Fund acknowledges that PFPC Trust may receive float benefits in connection with maintaining certain accounts required to provide services under this Agreement.

(b) The undersigned hereby represents and warrants to PFPC Trust that (i) the terms of this Agreement, (ii) the fees and expenses associated with this Agreement, and (iii) any benefits accruing to PFPC Trust or to the adviser or sponsor to the Fund in connection with this Agreement, including but not limited to any fee waivers, conversion cost reimbursements, up front payments, signing payments or periodic payments made or to be made by PFPC Trust to such adviser or sponsor or any affiliate of the Fund relating to this Agreement have been fully disclosed to the board of directors of the Fund and that, if required by applicable law, such board of directors has approved or will approve the terms of this Agreement, any such fees and expenses, and any such benefits.

12. Indemnification. The Fund agrees to indemnify, defend and hold harmless PFPC Trust and its affiliates (other than the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC Trust) including their respective officers, directors, agents and employees (each, a "PFPC Trust Indemnified Party") from all taxes, charges, expenses, assessments, claims and liabilities (including, without limitation, reasonable attorneys' fees and disbursements and liabilities arising under applicable securities laws and any state and foreign securities and blue sky laws) (collectively, "Losses") arising directly or indirectly from any action or omission to act which PFPC Trust takes or omits to take in connection with the provision of services to the Fund hereunder. No PFPC Trust Indemnified Party shall be indemnified against any Losses caused by PFPC Trust's or such PFPC Trust Indemnified Party's own willful misfeasance, bad faith, negligence or reckless disregard in the performance of PFPC Trust's duties under this Agreement. The provisions of this Section 12 shall survive termination of this Agreement.

13. Responsibility of PFPC Trust.

(a) PFPC Trust shall be under no duty hereunder to take any action on behalf of the Fund except as specifically set forth herein or as may be specifically agreed to by PFPC Trust and the Fund in a written amendment hereto. In particular but without limiting the generality of the foregoing, PFPC Trust shall have no responsibility or obligation under Section 14 of this Agreement with respect to any loan documentation or with respect to any loan made or purchased by the Fund unless specific language in Section 14 of this Agreement states with

specificity that a particular provision of Section 14 of this Agreement relates to loan documentation or to loans made or purchased by the Fund. In no event will PFPC Trust have any duty to review or examine any loan documentation received by it hereunder, nor in any event will PFPC Trust have any responsibility for the content or sufficiency of any such loan documentation. PFPC Trust shall be obligated to exercise care and diligence in the performance of its duties hereunder and to act in good faith in performing services provided for under this Agreement. PFPC Trust shall be liable only for any Losses suffered by the Fund arising out of PFPC Trust's performance of or failure to perform its duties under this Agreement and only to the extent such Losses arise out of PFPC Trust's willful misfeasance, bad faith, negligence or reckless disregard of such duties.

(b) Notwithstanding anything in this Agreement to the contrary, (i) PFPC Trust shall not be liable for losses, delays, failure, errors, interruption or loss of data occurring directly or indirectly by reason of circumstances beyond its reasonable control, including without limitation acts of God; action or inaction of civil or military authority; public enemy; war; terrorism; riot; fire; flood; sabotage; epidemics; labor disputes; civil commotion; interruption, loss or malfunction of utilities, transportation, computer or communications capabilities; insurrection; elements of nature; or non-performance by a third party (other than employees, officers or affiliates of PFPC Trust (other than the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC Trust)); and (ii) PFPC Trust shall not be under any duty or obligation to inquire into and shall not be liable for the validity or invalidity, authority or lack thereof, or truthfulness or accuracy or lack thereof, of any instruction, direction, notice, instrument or other information which PFPC Trust reasonably believes to be genuine. Notwithstanding the foregoing, PFPC Trust shall use commercially reasonable efforts to mitigate the effect of events enumerated in clause (i) of the preceding sentence, although such efforts shall not impute any liability to PFPC Trust.

(c) Notwithstanding anything in this Agreement to the contrary, neither PFPC Trust nor its affiliates (not including the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC Trust) shall be liable for any consequential, special or indirect losses or damages, whether or not the likelihood of such losses or damages was known by PFPC Trust or its affiliates.

(d) Each party shall have a duty to mitigate damages for which the other party may become responsible.

(e) Notwithstanding anything in this Agreement to the contrary (other than as specifically provided in Section 14(h)(ii)(B)(4) and Section 14(h)(iii)(A) of this Agreement), the Fund shall be responsible for all filings, tax returns and reports on any transactions undertaken or amounts received pursuant to this Agreement, or in respect of the Property or any collections undertaken pursuant to this Agreement, which may be requested by any relevant authority. In addition, the Fund shall be responsible for the payment of all taxes and similar items (including without limitation penalties and interest related thereto).

(f) The provisions of this Section 13 shall survive termination of this Agreement.

14. Description of Services.

(a) Delivery of the Property. The Fund will deliver or arrange for delivery to PFPC Trust, all the Property owned by the Fund, including cash received as a result of the issuance of Shares, during the term of this Agreement. In addition, the Fund will deliver or arrange for delivery to PFPC Trust loan documentation relating to loans made or purchased by the Fund. PFPC Trust will safekeep loan documentation received by it hereunder and PFPC Trust will in accordance with Oral Instructions or Written Instructions transfer, release or dispose of loan documentation received by it hereunder, but notwithstanding anything in this Agreement to the contrary PFPC Trust will not otherwise have any responsibility with respect to any loan documentation received by it hereunder. PFPC Trust will not be responsible for any assets or loan documentation until actual receipt.

(b) Receipt and Disbursement of Money. PFPC Trust, acting upon Written Instructions, shall open and maintain a separate account for the Fund (the "Account") and shall maintain in the Account all cash and other assets received from or for the Fund. PFPC Trust will also in accordance with Oral Instructions or Written Instructions reflect on its books and records the loans made or purchased by the Fund (provided PFPC Trust has

been informed of such loans pursuant to Oral Instructions or Written Instructions).

PFPC Trust shall make cash payments from or for the Account only for:

(i) purchases of securities in the name of the Fund, PFPC Trust, PFPC Trust's nominee or a sub-custodian or nominee thereof as provided in sub-section (j) and for which PFPC Trust has received a copy of the broker's or dealer's confirmation or payee's invoice, as appropriate;

(ii) loans made or purchased by the Fund, upon receipt of Written Instructions;

(iii) purchase or redemption of Shares of the Fund delivered to PFPC Trust;

(iv) payment of, subject to Written Instructions, interest, taxes (provided that tax which PFPC Trust considers is required to be deducted or withheld "at source" will be governed by Section 14(h)(iii)(B) of this Agreement), and administration, accounting, distribution, advisory, management and other fees which are to be borne by the Fund;

(v) payment to, subject to receipt of Written Instructions, the Fund's transfer agent, as agent for the shareholders, of an amount equal to the amount of dividends and distributions stated in the Written Instructions to be distributed in cash by the transfer agent to shareholders, or, in lieu of paying the Fund's transfer agent, PFPC Trust may arrange for the direct payment of cash dividends and distributions to shareholders in accordance with procedures mutually agreed upon from time to time by and among the Fund, PFPC Trust and the Fund's transfer agent;

(vi) payments, upon receipt of Written Instructions, in connection with the conversion, exchange or surrender of securities owned or subscribed to by the Fund and held by or delivered to PFPC Trust;

(vii) payments of the amounts of dividends received with respect to securities sold short;

(viii) payments to PFPC Trust for its services hereunder;

(ix) payments made to a sub-custodian; and

(x) other payments, upon Written Instructions.

PFPC Trust is hereby authorized to endorse and collect all checks, drafts or other orders for the payment of money received as custodian for the Account.

(c) Receipt of Securities; Subcustodians.

PFPC Trust shall hold all securities received by it for the Account in a separate account that physically segregates such securities from those of any other persons, firms or corporations, except for securities held in a Book-Entry System or through a sub-custodian or depository. All such securities shall be held or disposed of only upon Written Instructions or otherwise pursuant to the terms of this Agreement. In addition, PFPC Trust will hold all loan documentation received by it for the Fund in a separate account that physically segregates such loan documentation from that relating to any other persons, firms or corporations. PFPC Trust shall have no power or authority to assign, hypothecate, pledge or otherwise dispose of any securities or other investments, except upon the express terms of this Agreement or upon Written Instructions authorizing the transaction. In no case may any member of the Fund's board of directors, or any officer, employee or agent of the Fund withdraw any securities.

At PFPC Trust's own expense and for its own convenience, PFPC Trust may enter into sub-custodian agreements with other banks or trust companies to perform duties with respect to domestic assets and with respect to loan documentation maintained within the U.S. Such bank or trust company shall have aggregate capital, surplus and undivided profits, according to its last published report, of at least one million dollars ($1,000,000), if it is a subsidiary or affiliate of PFPC Trust, or at least twenty million dollars ($20,000,000) if such bank or trust company is not a subsidiary or affiliate of PFPC Trust. Any such arrangement will not be entered into without prior written notice to the Fund (or as otherwise provided in the 1940 Act).

In addition, PFPC Trust may enter into arrangements with sub-custodians with respect to services regarding foreign assets and with respect to services regarding loan documentation maintained outside the U.S. Any such arrangement will not be entered into without prior written notice to the Fund (or as otherwise provided in the 1940 Act).

PFPC Trust shall remain responsible for the acts and omissions of any sub-custodian chosen by PFPC Trust under the terms of this sub-section (c) to the same extent that PFPC Trust is responsible for its own acts and omissions under this Agreement.

(d) Transactions Requiring Instructions. Upon receipt of Oral Instructions or Written Instructions and not otherwise, PFPC Trust shall:

(i) deliver any securities held for the Fund against the receipt of payment for the sale of such securities or otherwise in accordance with standard market practice;

(ii) execute and deliver to such persons as may be designated in such Oral Instructions or Written Instructions, proxies, consents, authorizations, and any other instruments whereby the authority of the Fund as owner of any securities may be exercised;

(iii) deliver any securities to the issuer thereof, or its agent, when such securities are called, redeemed, retired or otherwise become payable at the option of the holder; provided that, in any such case, the cash or other consideration is to be delivered to PFPC Trust;

(iv) deliver any securities held for the Fund against receipt of other securities or cash issued or paid in connection with the liquidation, reorganization, refinancing, tender offer, merger, consolidation or recapitalization of any corporation, or the exercise of any conversion privilege;

(v) deliver any securities held for the Fund to any protective committee, reorganization committee or other person in connection with the reorganization, refinancing, merger, consolidation, recapitalization or sale of assets of any corporation, and receive and hold under the terms of this Agreement such certificates of deposit, interim receipts or other instruments or documents as may be issued to it to evidence such delivery;

(vi) make such transfer or exchanges of the assets of the Fund and take such other steps as shall be stated in said Oral Instructions or Written Instructions to be for the purpose of effectuating a duly authorized plan of liquidation, reorganization, merger, consolidation or recapitalization of the Fund;

(vii) release securities belonging to the Fund to any bank or trust company for the purpose of a pledge or hypothecation to secure any loan incurred by the Fund; provided, however, that securities shall be released only upon payment to PFPC Trust of the monies borrowed, except that in cases where additional collateral is required to secure a borrowing already made, subject to proper prior authorization, further securities may be released for that purpose; and repay such loan upon redelivery to it of the securities pledged or hypothecated therefor and upon surrender of the note or notes evidencing the loan;

(viii) release and deliver securities owned by the Fund in connection with any repurchase agreement entered into by the Fund, but only on receipt of payment therefor; and pay out monies of the Fund in connection with such repurchase agreements, but only upon the delivery of the securities;

(ix) release and deliver or exchange securities owned by the Fund in connection with any conversion of such securities, pursuant to their terms, into other securities;

(x) release and deliver securities to a broker in connection with the broker's custody of margin collateral relating to futures and options transactions;

(xi) release and deliver securities owned by the Fund for the purpose of redeeming in kind Shares of the Fund upon delivery thereof to PFPC Trust; and

(xii) release and deliver or exchange securities or other assets (not including cash) owned by the Fund for other purposes.

(e) Use of Book-Entry System or Other Depository. PFPC Trust will deposit in Book-Entry Systems and other depositories all securities belonging to the Fund eligible for deposit therein and will utilize Book-Entry Systems and other depositories to the extent possible in connection with settlements of purchases

and sales of securities by the Fund, and deliveries and returns of securities loaned, subject to repurchase agreements or used as collateral in connection with borrowings. PFPC Trust shall continue to perform such duties until it receives Written Instructions or Oral Instructions authorizing contrary actions. Notwithstanding anything in this Agreement to the contrary, PFPC Trust's use of a Book-Entry System shall comply with the requirements of Rule 17f-4 under the 1940 Act.

PFPC Trust shall administer a Book-Entry System or other depository as follows:

(i) With respect to securities of the Fund which are maintained in a Book-Entry System or another depository, the records of PFPC Trust shall identify by book-entry or otherwise those securities as belonging to the Fund.

(ii) Assets of the Fund deposited in a Book-Entry System or another depository will (to the extent consistent with applicable law and standard practice) at all times be segregated from any assets and cash controlled by PFPC Trust in other than a fiduciary or custodian capacity but may be commingled with other assets held in such capacities.

PFPC Trust will provide the Fund with such reports on its own system of internal control as the Fund may reasonably request from time to time. In addition, if permitted to do so PFPC Trust will provide the Fund with copies of any report obtained by PFPC Trust regarding the system of internal accounting control of the Book-Entry System promptly after receipt of such a report by PFPC Trust.

(f) Registration of Securities. All securities held for the Fund which are issued or issuable only in bearer form, except such securities maintained in the Book-Entry System or in another depository, shall be held by PFPC Trust in bearer form; all other securities maintained for the Fund may be registered in the name of the Fund, PFPC Trust, a Book-Entry System, another depository, a sub-custodian, or any duly appointed nominee of the Fund, PFPC Trust, Book-Entry System, depository or sub-custodian. The Fund reserves the right to instruct PFPC Trust as to the method of registration and safekeeping of the securities of the Fund. The Fund agrees to furnish to PFPC Trust appropriate instruments to enable PFPC Trust to maintain or deliver in proper form for transfer, or to register in the name of its nominee or in the name of the Book-Entry System or in the name of another appropriate entity, any securities which it may maintain for the Account. With respect to uncertificated securities which are registered in the name of the Fund or a nominee thereof (for clarity, such reference is not intended to include loans made or purchased by the Fund), PFPC Trust will reflect such securities on its records based upon the holdings information provided to it by the issuer of such securities, but notwithstanding anything in this Agreement to the contrary PFPC Trust shall not be obligated to safekeep such securities or to perform other duties with respect to such securities other than to make payment for the purchase of such securities upon receipt of Oral or Written Instructions, accept in sale proceeds received by PFPC Trust upon the sale of such securities of which PFPC Trust is informed pursuant to Oral or Written Instructions, and accept in other distributions received by PFPC Trust with respect to such securities or reflect on its records any reinvested distributions with respect to such securities of which it is informed by the issuer of the securities.

(g) Voting and Other Action. Neither PFPC Trust nor its nominee shall vote any of the securities held pursuant to this Agreement by or for the account of the Fund, except in accordance with Written Instructions. PFPC Trust, directly or through the use of another entity, shall execute in blank and promptly deliver all notices, proxies and proxy soliciting materials received by PFPC Trust as custodian of the Property to the registered holder of such securities. If the registered holder is not the Fund, then Written Instructions or Oral Instructions must designate the person who owns such securities.

(h) Transactions Not Requiring Instructions. Notwithstanding anything in this Agreement requiring instructions in order to take a particular action, in the absence of a contrary Written Instruction, PFPC Trust is authorized to take the following actions without the need for instructions:

(i) Collection of Income and Other Payments.

(A) collect and receive for the account of the Fund, all income, dividends, distributions, coupons, option premiums, other payments and similar items, included or to be included in the Property, and, in addition, promptly advise the Fund of such receipt and credit such income to the Account;

(B) endorse and deposit for collection, in the name of the Fund, checks, drafts, or other orders for the payment of money;

(C) receive and hold for the account of the Fund all securities received as a distribution on the Fund's securities as a result of a stock dividend, share split-up or reorganization, recapitalization, readjustment or other rearrangement or distribution of rights or similar securities issued with respect to any securities belonging to the Fund and held by PFPC Trust hereunder;

(D) present for payment and collect the amount payable upon all securities which may mature or be called, redeemed, retired or otherwise become payable (on a mandatory basis) on the date such securities become payable; and

(E) take any action which may be necessary and proper in connection with the collection and receipt of such income and other payments and the endorsement for collection of checks, drafts, and other negotiable instruments.

(ii) Miscellaneous Transactions.

(A) PFPC Trust is authorized to deliver or cause to be delivered Property against payment or other consideration or written receipt therefor in the following cases:

(1) for examination by a broker or dealer selling for the account of the Fund in accordance with street delivery custom;

(2) for the exchange of interim receipts or temporary securities for definitive securities; and

(3) for transfer of securities into the name of the Fund or PFPC Trust or a sub-custodian or a nominee of one of the foregoing, or for exchange of securities for a different number of bonds, certificates, or other evidence, representing the same aggregate face amount or number of units bearing the same interest rate, maturity date and call provisions, if any; provided that, in any such case, the new securities are to be delivered to PFPC Trust.

(B) PFPC Trust shall:

(1) pay all income items held by it which call for payment upon presentation, and hold the cash received by it upon such payment for the account of the Fund;

(2) collect interest and cash dividends received, with notice to the Fund, to the account of the Fund;

(3) hold for the account of the Fund all stock dividends, rights and similar securities issued with respect to any securities held by PFPC Trust; and

(4) subject to receipt of such documentation and information as PFPC Trust may request, execute as agent on behalf of the Fund all necessary ownership certificates required by a national governmental taxing authority or under the laws of any U.S. state now or hereafter in effect, inserting the Fund's name on such certificate as the owner of the securities covered thereby, to the extent it may lawfully do so.

(iii) Other Matters.

(A) subject to receipt of such documentation and information as PFPC Trust may request, PFPC Trust will, in such jurisdictions as PFPC Trust may agree from time to time, seek to reclaim or obtain a reduction with respect to any

withholdings or other taxes relating to assets maintained hereunder (provided that PFPC Trust will not be liable for failure to obtain any particular relief in a particular jurisdiction); and

(B) PFPC Trust is authorized to deduct or withhold any sum in respect of tax which PFPC Trust considers is required to be deducted or withheld "at source" by any relevant law or practice.

(i) Segregated Accounts. PFPC Trust shall upon receipt of Written Instructions or Oral Instructions establish and maintain segregated accounts on its records for and on behalf of the Fund. Such accounts may, among other things, be used to transfer cash and other assets of the Fund.

(j) Purchases of Securities. PFPC Trust shall settle purchased securities upon receipt of Oral Instructions or Written Instructions that specify:

(i) the name of the issuer and the title of the securities, including CUSIP number if applicable;

(ii) the number of shares or the principal amount purchased and accrued interest, if any;

(iii) the date of purchase and settlement;

(iv) the purchase price per unit;

(v) the total amount payable upon such purchase; and

(vi) the name of the person from whom or the broker through whom the purchase was made. PFPC Trust shall upon receipt of securities purchased by or for the Fund (or otherwise in accordance with standard market practice) pay out of the monies held for the account of the Fund the total amount payable to the person from whom or the broker through whom the purchase was made, provided that the same conforms to the total amount payable as set forth in such Oral Instructions or Written Instructions.

(k) Sales of Securities. PFPC Trust shall settle sold securities upon receipt of Oral

Instructions or Written Instructions that specify:

(i) the name of the issuer and the title of the security, including CUSIP number if applicable;

(ii) the number of shares or principal amount sold, and accrued interest, if any;

(iii) the date of trade and settlement;

(iv) the sale price per unit;

(v) the total amount payable to the Fund upon such sale;

(vi) the name of the broker through whom or the person to whom the sale was made; and

(vii) the location to which the security must be delivered and delivery deadline, if any.

PFPC Trust shall deliver the securities upon receipt of the total amount payable to the Fund upon such sale, provided that the total amount payable is the same as was set forth in the Oral Instructions or Written Instructions. Notwithstanding anything to the contrary in this Agreement, PFPC Trust may accept payment in such form as is consistent with standard market practice and may deliver assets and arrange for payment in accordance with standard market practice.

(l) Reports; Proxy Materials.

(i) PFPC Trust shall furnish to the Fund the following reports:

(A) such periodic and special reports as the Fund may reasonably request;

(B) a monthly statement (1) summarizing the transactions and entries for the account of the Fund during such month (including cash disbursements and including loans made or purchased by the Fund (provided PFPC Trust has been informed of such loan transaction information pursuant to Oral Instructions or Written Instructions)) and (2) listing each portfolio security belonging to the Fund (with the corresponding security identification

number) held at the end of such month, the loans reflected on PFPC Trust's books and records as both made or purchased by the Fund and held by the Fund at the end of such month, and the cash balance of the Fund held at the end of such month;

(C) the reports required to be furnished to the Fund pursuant to Rule 17f-4 of the 1940 Act; and

(D) such other information as may be agreed upon from time to time between the Fund and PFPC Trust.

(ii) PFPC Trust shall transmit promptly to the Fund any proxy statement, proxy material, notice of a call or conversion or similar communication received by it as custodian of the Property. PFPC Trust shall be under no other obligation to inform the Fund as to such actions or events. For clarification, upon termination of this Agreement PFPC Trust shall have no responsibility to transmit such material or to inform the Fund or any other person of such actions or events.

(m) Crediting of the Account. PFPC Trust may in its sole discretion credit the Account with respect to income, dividends, distributions, coupons, option premiums, other payments or similar items prior to PFPC Trust's actual receipt thereof, and in addition PFPC Trust may in its sole discretion credit or debit the assets in the Account on a contractual settlement date with respect to any sale, exchange, purchase or other transaction applicable to the Fund; provided that nothing in this Agreement or otherwise shall require PFPC Trust to make any advances or to credit any amounts until PFPC Trust's actual receipt thereof. If PFPC Trust credits the Account with respect to (a) income, dividends, distributions, coupons, option premiums, other payments or similar items on a contractual payment date or otherwise in advance of PFPC Trust's actual receipt of the amount due, (b) the proceeds of any sale or other disposition of assets on the contractual settlement date or otherwise in advance of PFPC Trust's actual receipt of the amount due or (c) provisional crediting of any amounts due, and (i) PFPC Trust is subsequently unable to collect full and final payment for the amounts so credited within a reasonable time period using reasonable efforts or (ii) pursuant to standard industry practice, law or regulation PFPC Trust is required to repay to a third party such amounts so credited, or if any Property has been incorrectly credited, PFPC Trust shall have the absolute right in its sole discretion without demand to reverse any such credit or payment, to debit or deduct the amount of such credit or payment from the Account, and to otherwise pursue recovery of any such amounts so credited from the Fund. The Fund hereby grants to PFPC Trust and to each sub-custodian utilized by PFPC Trust in connection with providing services to the Fund a first priority contractual possessory security interest in and a right of setoff against the assets maintained in the Account in the amount necessary to secure the return and payment to PFPC Trust and to each such sub-custodian of any advance or credit made by PFPC Trust and/or by such sub-custodian (including charges related thereto) to the Account. Notwithstanding anything in this Agreement to the contrary, PFPC Trust shall be entitled to assign any rights it has under this sub-section (m) to any sub-custodian utilized by PFPC Trust in connection with providing services to the Fund which sub-custodian makes any credits or advances with respect to the Fund.

(n) Collections. All collections of monies or other property in respect, or which are to become part, of the Property (but not the safekeeping thereof upon receipt by PFPC Trust) shall be at the sole risk of the Fund. If payment is not received by PFPC Trust within a reasonable time after proper demands have been made by PFPC Trust, PFPC Trust shall notify the Fund in writing, including copies of all demand letters, any written responses and memoranda of all oral responses thereto and shall await instructions from the Fund. PFPC Trust shall not be obliged to take legal action for collection unless and until reasonably indemnified to its satisfaction. PFPC Trust shall also notify the Fund as soon as reasonably practicable whenever income due on securities is not collected in due course and shall provide the Fund with periodic status reports of such income collected after a reasonable time. Notwithstanding anything in this Agreement to the contrary, PFPC Trust shall have no duty to take any action (other than to transfer or release loan documentation in accordance with Oral or Written Instructions as set forth in Section 14(a) of this Agreement) to collect any principal, interest or other payments with respect to any loans made or purchased by the Fund; rather, upon receipt of such payments (and upon receipt of further documentation and clarification if required by PFPC Trust), PFPC Trust's only duty will be to post such payments to the Account and then to safekeep such amounts as provided herein.

(o) Excess Cash Sweep. PFPC Trust will, consistent with applicable law, sweep any net excess cash balances daily into an investment vehicle or other instrument designated in writing by the Fund, so long as the investment vehicle or instrument is acceptable to PFPC Trust, subject to a fee, paid to PFPC Trust for such service, to be agreed between the parties. Such investment vehicle or instrument may be offered by an affiliate of PFPC Trust or by a PFPC Trust client and PFPC Trust may receive compensation therefrom.

(p) Foreign Exchange. PFPC Trust and/or sub-custodians may enter into or arrange foreign exchange transactions (at such rates as they may consider appropriate) in order to facilitate transactions under this Agreement, and such entities and/or their affiliates may receive compensation in connection with such foreign exchange transactions. Any foreign exchange transactions with affiliates of the Fund shall be subject to the applicable requirements of the 1940 Act.

15. Duration and Termination. This Agreement shall continue until terminated by the

Fund or PFPC Trust on sixty (60) days' prior written notice to the other party. In the event this Agreement is terminated (pending appointment of a successor to PFPC Trust or vote of the shareholders of the Fund to dissolve or to function without a custodian of its cash, securities or other property), PFPC Trust shall not deliver cash, securities, other property or loan documentation to the Fund. It may deliver them to a bank or trust company of PFPC Trust's choice, having aggregate capital, surplus and undivided profits, as shown by its last published report, of not less than twenty million dollars ($20,000,000), as a custodian for the Fund to be held under terms similar to those of this Agreement. PFPC Trust shall not be required to make any delivery or payment of assets or loan documentation upon termination until full payment shall have been made to PFPC Trust of all of its fees, compensation, costs and expenses (including without limitation fees and expenses associated with conversion to another service provider and other trailing expenses incurred by PFPC Trust). PFPC Trust shall have a first priority contractual possessory security interest in and shall have a right of setoff against the Property and the loan documentation as security for the payment of such fees, compensation, costs and expenses.

16. Notices. Notices shall be addressed (a) if to PFPC Trust, at 8800 Tinicum Boulevard, 3rd Floor, Philadelphia, Pennsylvania 19153, Attention: Sam Sparhawk (or such other address as PFPC Trust may inform the Fund in writing); (b) if to the Fund, at c/o BlackRock Kelso Capital Advisors LLC, 40 East 52nd Street, new York, New York 10022, Attention: Frank Gordon; or (c) if to neither of the foregoing, at such other address as shall have been given by like notice to the sender of any such notice or other communication by the other party. If notice is sent by confirming facsimile sending device, it shall be deemed to have been given immediately. If notice is sent by first-class mail, it shall be deemed to have been given three days after it has been mailed. If notice is sent by messenger, it shall be deemed to have been given on the day it is delivered.

17. Amendments. This Agreement, or any term hereof, may be changed or waived only by written amendment, signed by the party against whom enforcement of such change or waiver is sought.

18. Assignment. PFPC Trust may assign this Agreement to any majority owned direct or indirect subsidiary of PFPC Trust or of The PNC Financial Services Group, Inc. (other than BlackRock, Inc. and its subsidiaries), provided that PFPC Trust gives the Fund 30 days' prior written notice of such assignment.

19. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

20. Miscellaneous.

(a) Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof, provided that the parties may embody in one or more separate documents their agreement, if any, with respect to delegated duties and compensation of PFPC Trust.

(b) No Representations or Warranties. Except as expressly provided in this Agreement, PFPC Trust hereby disclaims all representations and warranties, express or implied, made to the Fund or any other person, including, without limitation, any warranties regarding quality, suitability, merchantability, fitness for a particular purpose or otherwise (irrespective of any course of dealing, custom or usage of trade), of any services or any goods provided incidental to services provided under this Agreement. PFPC Trust disclaims any warranty of title or non-infringement except as otherwise set forth in this Agreement.

(c) No Changes that Materially Affect Obligations. Notwithstanding anything in this Agreement to the contrary, the Fund agrees not

to make any modifications to its offering document or registration statement or adopt any policies which would affect materially the obligations or responsibilities of PFPC Trust hereunder without the prior written approval of PFPC Trust, which approval shall not be unreasonably withheld or delayed.

(d) Captions. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.

(e) Information. The Fund will provide such information and documentation as PFPC Trust may reasonably request in connection with services provided by PFPC Trust to the Fund.

(f) Governing Law. This Agreement shall be deemed to be a contract made in Delaware and governed by Delaware law, without regard to principles of conflicts of law.

(g) Partial Invalidity. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.

(h) Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(i) Facsimile Signatures. The facsimile signature of any party to this Agreement shall constitute the valid and binding execution hereof by such party.

(j) Customer Identification Program Notice. To help the U.S. government fight the funding of terrorism and money laundering activities, U.S. Federal law requires each financial institution to obtain, verify, and record certain information that identifies each person who initially opens an account with that financial institution on or after October 1, 2003. Consistent with this requirement, PFPC Trust will request (or already has requested) the Fund's name, address and taxpayer identification number or other government-issued identification number, and, if such party is a natural person, that party's date of birth. PFPC Trust may also ask (and may have already asked) for additional identifying information, and PFPC Trust may take steps (and may have already taken steps) to verify the authenticity and accuracy of these data elements.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PFPC TRUST COMPANY

By: /s/ Edward A. Smith, III

Title: Vice President

BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ Frank Gordon

Title: Chief Financial Officer

EXHIBIT 10.5

TRANSFER AGENCY SERVICES AGREEMENT

THIS AGREEMENT is made as of July 18, 2005 by and between PFPC INC., a Massachusetts corporation ("PFPC"), and BLACKROCK KELSO CAPITAL CORPORATION, a Delaware corporation (the "Fund").

W I T N E S S E T H:

WHEREAS, the Fund wishes to retain PFPC to provide transfer agent, registrar, dividend disbursing agent and shareholder servicing agent services provided for herein, and PFPC wishes to furnish such services.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. As Used in this Agreement:

(a) "Authorized Person" means any officer of the Fund and any other person duly authorized by the Fund to give Oral Instructions or Written Instructions on behalf of the Fund. An Authorized Person's scope of authority may be limited by setting forth such limitation in a written document signed by both parties hereto.

(b) "Dividend Reinvestment Plan" means the Fund's Dividend Reinvestment Plan, as the details of such Plan (and any changes thereto) are provided by the Fund to PFPC from time to time in writing.

(c) "Oral Instructions" mean oral instructions received by PFPC from an Authorized Person or from a person reasonably believed by PFPC to be an Authorized Person. PFPC may, in its sole discretion in each separate instance, consider and rely upon instructions it receives from an Authorized Person via electronic mail as Oral Instructions.

(d) "Shares" mean the shares of beneficial interest of any series or class of the Fund.

(e) "Written Instructions" mean (i) written instructions signed by an Authorized Person (or a person reasonably believed by PFPC to be an Authorized Person) and received by PFPC or (ii) trade instructions transmitted (and received by PFPC) by means of an electronic transaction reporting system access to which requires use of a password or other authorized identifier.

(f) "1940 Act" means the Investment Company Act of 1940, as amended.

2. Appointment. The Fund hereby appoints PFPC to provide transfer agent, registrar, dividend disbursing agent and shareholder servicing agent services in accordance with the terms set forth in this Agreement. PFPC accepts such appointment and agrees to furnish such services.

3. Compliance with Rules and Regulations. PFPC will comply with the requirements of any laws, rules and regulations of governmental authorities that are applicable to the duties to be performed by PFPC under this Agreement. Except as specifically set forth in this Agreement, PFPC assumes no responsibility for compliance by the Fund with any laws, rules and regulations.

4. Instructions.

(a) Unless otherwise provided in this Agreement, PFPC shall act only upon Oral Instructions or Written Instructions.

(b) PFPC shall be entitled to rely upon any Oral Instruction or Written Instruction it receives from an Authorized Person (or from a person reasonably believed by PFPC to be an Authorized Person) pursuant to this Agreement. PFPC may assume that any Oral Instructions or Written Instructions received hereunder are not in any way inconsistent with the provisions of organizational documents of the Fund or of any vote, resolution or proceeding of the Fund's board of directors or shareholders, unless and until PFPC receives Written Instructions to the contrary.

(c) The Fund agrees to forward to PFPC Written Instructions confirming Oral Instructions so that PFPC receives the Written Instructions by the close of business on the same day that such Oral Instructions are received. The fact that such confirming Written Instructions are not received by PFPC or differ from the Oral Instructions shall in no way invalidate the transactions or enforceability of the transactions

authorized by the Oral Instructions or PFPC's ability to rely upon such Oral Instructions.

5. Right to Receive Advice.

(a) Advice of the Fund. If PFPC is in doubt as to any action it should or should not take, PFPC may request directions or advice, by way of Oral Instructions or Written Instructions.

(b) Advice of Counsel. If PFPC shall be in doubt as to any question of law pertaining to any action it should or should not take, PFPC may request advice from counsel of its own choosing (who may be counsel for the Fund, the Fund's sponsor or adviser or PFPC, at the option of PFPC).

(c) Conflicting Advice. In the event of a conflict between Oral Instructions or Written Instructions and the advice PFPC receives from counsel, PFPC may rely upon and follow the advice of counsel.

(d) Protection of PFPC. PFPC shall be indemnified by the Fund and without liability for any action PFPC takes or does not take in reliance upon Oral Instructions or Written Instructions PFPC receives from or on behalf of the Fund or advice from counsel and which PFPC believes, in good faith, to be consistent with those Oral Instructions or Written Instructions or that advice. Nothing in this section shall be construed so as to impose an obligation upon PFPC (i) to seek such advice or Oral Instructions or Written Instructions, or (ii) to act in accordance with such advice or Oral Instructions or Written Instructions. Nothing in this subsection shall excuse PFPC from liability for its acts or omissions in carrying out such Oral Instructions or Written Instructions to the extent such acts or omissions constitute willful misfeasance, bad faith, negligence or reckless disregard by PFPC of any duties, obligations or responsibilities set forth in this Agreement.

6. Records; Visits. The books and records pertaining to the Fund, which are in the possession or under the control of PFPC, shall be the property of the Fund. PFPC may house such books and records in a third party storage facility. Such books and records shall be prepared and maintained as required by the 1940 Act. The Fund and Authorized Persons, and such other persons the Fund by means of Written Instructions reasonably authorizes (including but not limited to the Fund's independent accountants), shall have access to such books and records at all times during PFPC's normal business hours; provided that the Fund shall not authorize access by individuals employed by PFPC's direct competitors. Upon the reasonable request of the Fund, copies of any such books and records shall be provided by PFPC to the Fund, an Authorized Person, or such other person, at the Fund's expense.

7. Confidentiality. Each party shall keep confidential any information it receives hereunder relating to the other party's business ("Confidential Information"). Confidential Information shall include (a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finances, operations, customer relationships, customer profiles and information, customer lists, sales estimates, business plans, and internal performance results relating to the past, present or future business activities of the Fund or PFPC; (b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Fund or PFPC a competitive advantage over its competitors; (c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, and trade secrets, whether or not patentable or copyrightable; and (d) anything designated as confidential. Notwithstanding the foregoing, information shall not be Confidential Information and shall not be subject to such confidentiality obligations if it: (a) is already known to the receiving party at the time it is obtained; (b) is or becomes publicly known or available through no wrongful act of the receiving party; (c) is rightfully received from a third party who, to the best of the receiving party's knowledge, is not under a duty of confidentiality; (d) is released by the protected party to a third party without restriction; (e) is requested or required to be disclosed by the receiving party pursuant to a court order, subpoena, governmental or regulatory agency request or law (provided the receiving party will provide the other party written notice of the same, to the extent such notice is permitted); (f) is relevant to the defense of any claim or cause of action asserted against the receiving party; (g) is necessary or desirable for PFPC to release such information in connection with the provision of services under this Agreement; or (g) has been or is independently developed or obtained by the receiving party.

8. Cooperation with Accountants. PFPC shall cooperate with the Fund's independent public accountants and shall take all reasonable action in the performance of its obligations under this Agreement to ensure that the necessary information is made available to such accountants for the expression of their opinion, as reasonably requested by the Fund.

9. PFPC System. PFPC shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by PFPC in connection with the services provided by PFPC to the Fund.

10. Disaster Recovery. PFPC shall enter into and shall maintain in effect with appropriate parties one or more agreements making reasonable provisions for emergency use of electronic data processing equipment to the extent appropriate equipment is available. In the event of equipment failures, PFPC shall, at no additional expense to the Fund, take reasonable steps to minimize service interruptions. PFPC shall have no liability with respect to the loss of data or service interruptions caused by equipment failure, provided such loss or interruption is not caused by PFPC's own willful misfeasance, bad faith, negligence or reckless disregard of its duties or obligations under this Agreement.

11. Compensation.

(a) As compensation for services set forth herein that are rendered by PFPC during the term of this Agreement, the Fund will pay to PFPC a fee or fees as may be agreed to in writing by the Fund and PFPC. In addition, the Fund agrees to pay, and will be billed separately in arrears for, reasonable expenses incurred by PFPC in the performance of its duties hereunder.

(b) PFPC shall establish certain cash management accounts ("Service Accounts") required to provide services under this Agreement. The Fund acknowledges (i) PFPC may receive investment earnings from sweeping the funds in such Service Accounts into investment accounts including, but not limited, investment accounts maintained at an affiliate or client of PFPC; (ii) balance credits earned with respect to the amounts in such Service Accounts ("Balance Credits") will be used to offset the banking service fees imposed by the cash management service provider (the "Banking Service Fees"); (iii) PFPC shall retain any excess Balance Credits for its own use; and (iv) Balance Credits will be calculated and applied toward the Fund's Banking Service Fees regardless of the Service Account balance sweep described in sub-section (i) of this Section 11 (b).

(c) The undersigned hereby represents and warrants to PFPC that (i) the terms of this Agreement, (ii) the fees and expenses associated with this Agreement, and (iii) any benefits accruing to PFPC or to the adviser or sponsor to the Fund in connection with this Agreement, including but not limited to any fee waivers, conversion cost reimbursements, up front payments, signing payments or periodic payments made or to be made by PFPC to such adviser or sponsor or any affiliate of the Fund relating to the Agreement have been fully disclosed to the board of directors of the Fund and that, if required by applicable law, such board of directors has approved or will approve the terms of this Agreement, any such fees and expenses, and any such benefits.

12. Indemnification. The Fund agrees to indemnify, defend and hold harmless PFPC and its affiliates (other than the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC) including their respective officers, directors, agents and employees (each a "PFPC Indemnified Person"), from all taxes, charges, expenses, assessments, claims and liabilities (including, without limitation, reasonable attorneys' fees and disbursements and liabilities arising under applicable securities laws and any state and foreign securities and blue sky laws) (collectively, "Losses") arising directly or indirectly from any action or omission to act which PFPC takes or omits to take in connection with the provision of services to the Fund hereunder. No PFPC Indemnified Party shall be indemnified against any Losses caused by PFPC's or such PFPC Indemnified Party's own willful misfeasance, bad faith, negligence or reckless disregard in the performance of PFPC's duties under this Agreement, provided that in the absence of a finding to the contrary the acceptance, processing and/or negotiation of a fraudulent payment for the purchase of Shares shall be presumed not to have been the result of PFPC's or its affiliates own willful misfeasance, bad faith, negligence or reckless disregard of such duties. The provisions of this Section 12 shall survive termination of this Agreement.

13. Responsibility of PFPC.

(a) PFPC shall be under no duty hereunder to take any action on behalf of the Fund except as specifically set forth herein or as may be specifically agreed to by PFPC and the Fund in a written amendment hereto. PFPC shall be obligated to exercise care and diligence in the performance of its duties hereunder and to act in good faith in performing services provided for under this Agreement. PFPC shall be liable only for any Losses suffered by the Fund arising out of PFPC's performance of or failure to perform its duties under this Agreement and only to the extent such Losses arise out of PFPC's willful misfeasance, bad faith, negligence or reckless disregard of such duties.

(b) Notwithstanding anything in this Agreement to the contrary, (i) PFPC shall not be liable for losses, delays, failure, errors, interruption or loss of data occurring directly or indirectly by reason of circumstances beyond its reasonable control, including without limitation acts of God; action or inaction of civil or military authority; public enemy; war; terrorism; riot; fire; flood; sabotage; epidemics; labor disputes; civil commotion; interruption, loss or malfunction of utilities, transportation, computer or communications capabilities; insurrection; elements of nature; or non-performance by a third party (other than employees, officers or affiliates of PFPC (other than the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC)); and (ii) PFPC shall not be under any duty or obligation to inquire into and shall not be liable for the validity or invalidity, authority or lack thereof, or truthfulness or accuracy or lack thereof, of any instruction, direction, notice, instrument or other information which PFPC reasonably believes to be genuine. Notwithstanding the foregoing, PFPC shall use commercially reasonable efforts to mitigate the effect of events enumerated in clause (i) of the preceding sentence, although such efforts shall not impute any liability to PFPC.

(c) Notwithstanding anything in this Agreement to the contrary, neither PFPC nor its affiliates (not including the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC) shall be liable for any consequential, special or indirect losses or damages, whether or not the likelihood of such losses or damages was known by PFPC or its affiliates.

(d) Each party shall have a duty to mitigate damages for which the other party may become responsible.

(e) The provisions of this Section 13 shall survive termination of this Agreement.

14. Description of Services.

(a) Services Provided on an Ongoing Basis, If Applicable.

(i) Maintain shareholder registrations;

(ii) Provide toll-free lines for shareholder and broker-dealer use;

(iii) Provide periodic shareholder lists and statistics;

(iv) Mailing of year-end tax information; and

(v) Periodic mailing of shareholder Dividend Reinvestment Plan account information and Fund financial reports.

(b) Dividends and Distributions. PFPC must receive a resolution of the Fund's board of directors authorizing the declaration and payment of dividends and distributions. Upon receipt of the resolution, PFPC shall issue the dividends and distributions in cash, or, if the resolution so provides, pay such dividends and distributions in Shares. Such issuance or payment shall be made after deduction and payment of the required amount of funds to be withheld in accordance with any applicable tax laws or other laws, rules or regulations. PFPC shall timely send to the Fund's shareholders tax forms and other information, or permissible substitute notice, relating to dividends and distributions, paid by the Fund as are required to be filed and mailed by applicable law, rule or regulation.

PFPC shall maintain and file with the U.S. Internal Revenue Service and other appropriate taxing authorities reports relating to all dividends above a stipulated amount (currently $10.00 accumulated yearly dividends) paid by the Fund to its shareholders as required by tax or other law, rule or regulation.

In accordance with such procedures and controls as are mutually agreed upon from time to time by and among the Fund, PFPC and the Fund's custodian, PFPC shall process applications from Fund shareholders relating to the Fund's Dividend Reinvestment Plan and will effect purchases of Shares in connection with the Dividend Reinvestment Plan. As the dividend disbursing agent, PFPC shall, on or before the payment date of any dividend or distribution by the Fund, notify the Fund's accounting agent or sub-accounting agent of the estimated amount required to pay any portion of said dividend or distribution which is payable in cash, and on or before the payment date of such dividend or distribution, the Fund shall instruct the Fund's custodian to make available to PFPC sufficient funds for the cash amount to be paid out. If a shareholder is entitled to receive additional Shares, by virtue of any dividend or distribution, appropriate credits will be made to the shareholder's account and/or certificates

delivered where requested, all in accordance with the Dividend Reinvestment Plan.

(c) Communications to Shareholders. Upon timely Written Instructions, PFPC shall mail all communications by the Fund to its shareholders, including:

(i) Reports to shareholders;

(ii) Monthly or quarterly (whichever is requested pursuant to Written Instructions) Dividend Reinvestment Plan statements;

(iii) Dividend and distribution notices;

(iv) Proxy material; and

(v) Tax form information.

PFPC will receive and tabulate the proxy cards for the meetings of the Fund's shareholders.

(d) Records. PFPC shall maintain records of the accounts for each shareholder showing the following information:

(i) Name, address and U.S. Tax Identification or Social Security number;

(ii) Number and class of shares held and number and class of Shares for which certificates, if any, have been issued, including certificate numbers and denominations;

(iii) Historical information regarding the account of each shareholder, including dividends and distributions paid and the date and price for all transactions on a shareholder's account;

(iv) Any stop or restraining order placed against a shareholder's account;

(v) Any correspondence relating to the current maintenance of a shareholder's account;

(vi) Information with respect to withholdings; and

(vii) Any information required in order for PFPC to perform any calculations contemplated or required by this Agreement.

(e) Shareholder Inspection of Stock Records. Upon request from a Fund shareholder to inspect stock records, PFPC will notify the Fund and require instructions granting or denying each such request. Unless PFPC has acted contrary to the Fund's instructions, the Fund agrees to release PFPC from any liability for refusal of permission for a particular shareholder to inspect the Fund's shareholder records.

15. Duration and Termination. This Agreement shall continue until terminated by the Fund or by PFPC on sixty (60) days' prior written notice to the other party. In the event the Fund gives notice of termination, all expenses associated with movement (or duplication) of records and materials and conversion thereof to a successor service provider (or each successive service provider), including expenses incurred after termination, will be borne by the Fund and paid by the Fund to PFPC.

16. Notices. Notices shall be addressed (a) if to PFPC, at 301 Bellevue Parkway, Wilmington, Delaware 19809, Attention: President (or such other address as PFPC may inform the Fund in writing); (b) if to the Fund, at 40 East 52nd Street, New York, New York 10022, Attention: Frank Gordon (or such other address as the Fund may inform PFPC in writing) or (c) if to neither of the foregoing, at such other address as shall have been given by like notice to the sender of any such notice or other communication by the other party. If notice is sent by confirming facsimile sending device, it shall be deemed to have been given immediately. If notice is sent by first-class mail, it shall be deemed to have been given three days after it has been mailed. If notice is sent by messenger, it shall be deemed to have been given on the day it is delivered.

17. Amendments. This Agreement, or any term thereof, may be changed or waived only by a written amendment, signed by the party against whom enforcement of such change or waiver is sought.

18. Assignment. PFPC may assign this Agreement to any majority owned direct or indirect subsidiary of PFPC or of The PNC Financial Services Group, Inc. (other than BlackRock, Inc. and its subsidiaries), provided that PFPC gives the Fund 30 days' prior written notice of such assignment.

19. Subcontractors. PFPC may, in its sole discretion, engage subcontractors to perform any of the obligations contained in this Agreement to be performed by PFPC; provided, however, PFPC shall remain responsible for the acts and omissions of any such sub-contractors to the same extent

that PFPC is responsible for its own acts and omissions under this Agreement.

20. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

21. Further Actions. Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof.

22. Miscellaneous.

(a) Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof, provided that the parties may embody in one or more separate documents their agreement, if any, with respect to delegated duties and compensation of PFPC.

(b) No Changes that Materially Affect Obligations. Notwithstanding anything in this Agreement to the contrary, the Fund agrees not to make any modifications to its offering document or registration statement or adopt any policies which would affect materially the obligations or responsibilities of PFPC hereunder without the prior written approval of PFPC, which approval shall not be unreasonably withheld or delayed.

(c) Captions. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.

(d) Information. The Fund will provide such information and documentation as PFPC may reasonably request in connection with services provided by PFPC to the Fund.

(e) Governing Law. This Agreement shall be deemed to be a contract made in Delaware and governed by Delaware law, without regard to principles of conflicts of law.

(f) Partial Invalidity. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.

(g) Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(h) No Representations or Warranties. Except as expressly provided in this Agreement, PFPC hereby disclaims all representations and warranties, express or implied, made to the Fund or any other person, including, without limitation, any warranties regarding quality, suitability, merchantability, fitness for a particular purpose or otherwise (irrespective of any course of dealing, custom or usage of trade), of any services or any goods provided incidental to services provided under this Agreement. PFPC disclaims any warranty of title or non-infringement except as otherwise set forth in this Agreement.

(i) Facsimile Signatures. The facsimile signature of any party to this Agreement shall constitute the valid and binding execution hereof by such party.

(j) Regulation S-P. PFPC agrees that, subject to the reuse and re-disclosure provisions of Regulation S-P, 17 CFR Part 248.11, it shall not disclose the non-public personal information of investors in the Fund obtained under this Agreement, except as necessary to carry out the services set forth in this Agreement or as otherwise permitted by law or regulation.

(k) Customer Identification Program Notice. To help the U.S. government fight the funding of terrorism and money laundering activities, U.S. Federal law requires each financial institution to obtain, verify, and record certain information that identifies each person who initially opens an account with that financial institution on or after October 1, 2003. Certain of PFPC's affiliates are financial institutions, and as a matter of policy PFPC will request (or already has requested) the Fund's name, address and taxpayer identification number or other government-issued identification number, and, if such party is a natural person, that party's date of birth. PFPC may also ask (and may have already asked) for additional identifying information, and PFPC may take steps (and may have already taken steps) to verify the authenticity and accuracy of these data elements.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PFPC INC.

By: /s/ James W. Pasman

Title: Sr. Vice President

BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ Frank Gordon

Title: CFO

EXHIBIT 10.6

SUB-ADMINISTRATION AND ACCOUNTING SERVICES AGREEMENT

THIS AGREEMENT is made as of July 18, 2005 by and among BLACKROCK KELSO CAPITAL CORPORATION, a Delaware corporation (the "Fund"), PFPC INC., a Massachusetts corporation ("PFPC") which is a subsidiary of The PNC Financial Services Group, Inc., and BLACKROCK FINANCIAL MANAGEMENT, INC., a Delaware corporation (the "Administrator") which is also a subsidiary of The PNC Financial Services Group, Inc.

W I T N E S S E T H :

WHEREAS, the Administrator serves as administrator of the Fund; and

WHEREAS, the Fund and the Administrator wish to retain PFPC to provide sub-administration and accounting services provided for herein with respect to the Fund, and PFPC wishes to furnish such services with respect to the Fund.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. As Used in this Agreement:

(a) "Authorized Person" means any officer of the Fund and any other person duly authorized by the Fund to give Oral Instructions or Written Instructions under this Agreement. An Authorized Person's scope of authority may be limited by setting forth such limitation in a written document signed by the Fund and PFPC.

(b) "Oral Instructions" means oral instructions received by PFPC from an Authorized Person or from a person reasonably believed by PFPC to be an Authorized Person. PFPC may, in its sole discretion in each separate instance, consider and rely upon instructions it receives from an Authorized Person via electronic mail as Oral Instructions.

(c) "Written Instructions" means (i) written instructions signed by an Authorized Person (or a person reasonably believed by PFPC to be an Authorized Person) and received by PFPC or (ii) trade instructions transmitted (and received by PFPC) by means of an electronic transaction reporting system access to which requires use of a password or other authorized identifier.

2. Appointment. The Fund and the Administrator hereby appoint PFPC to provide sub-administration and accounting services with respect to the Fund in accordance with the terms set forth in this Agreement. PFPC accepts such appointment and agrees to furnish such services.

3. Compliance with Rules and Regulations. PFPC will comply with the requirements of any laws, rules and regulations of governmental authorities that are applicable to the duties to be performed by PFPC under this Agreement. Except as specifically set forth in this Agreement, PFPC assumes no responsibility for compliance by the Administrator, the Fund or any other entity with any laws, rules and regulations.

4. Instructions.

(a) Unless otherwise provided in this Agreement, PFPC shall act only upon Oral Instructions or Written Instructions.

(b) PFPC shall be entitled to rely upon any Oral Instruction or Written Instruction it receives from an Authorized Person (or from a person reasonably believed by PFPC to be an Authorized Person) pursuant to this Agreement. PFPC may assume that any Oral Instructions or Written Instructions received hereunder are not in any way inconsistent with the Administrator's obligations to the Fund or with the provisions of organizational documents of the Fund or with any vote, resolution or proceeding of the Fund's board of directors or shareholders, unless and until PFPC receives Written Instructions to the contrary.

(c) The Fund agrees to forward to PFPC Written Instructions confirming Oral Instructions so that PFPC receives the Written Instructions by the close of business on the same day that such Oral Instructions are received. The fact that such confirming Written Instructions are not received by

PFPC or differ from the Oral Instructions shall in no way invalidate the transactions or enforceability of the transactions authorized by the Oral Instructions or PFPC's ability to rely upon such Oral Instructions.

5. Right to Receive Advice.

(a) Oral Instructions or Written Instructions. If PFPC is in doubt as to any action it should or should not take, PFPC may request directions or advice, by way of Oral Instructions or Written Instructions.

(b) Advice of Counsel. If PFPC shall be in doubt as to any question of law pertaining to any action it should or should not take, PFPC may request advice from counsel of its own choosing (who may be counsel for the Administrator, the Fund, the Fund's sponsor or adviser or PFPC, at the option of PFPC).

(c) Conflicting Advice. In the event of a conflict between Oral Instructions or Written Instructions and the advice PFPC receives from counsel, PFPC may rely upon and follow the advice of counsel.

(d) Protection of PFPC. PFPC shall be indemnified by the Fund and without liability for any action PFPC takes or does not take in reliance upon Oral Instructions or Written Instructions PFPC receives regarding or relating to the Fund or advice from counsel and which PFPC believes, in good faith, to be consistent with those Oral Instructions or Written Instructions or that advice. Nothing in this section shall be construed so as to impose an obligation upon PFPC (i) to seek such advice or Oral Instructions or Written Instructions, or (ii) to act in accordance with such advice or Oral Instructions or Written Instructions. Nothing in this subsection shall excuse PFPC from liability for its acts or omissions in carrying out such Oral Instructions or Written Instructions to the extent such acts or omissions constitute willful misfeasance, bad faith, negligence or reckless disregard by PFPC of any duties, obligations or responsibilities set forth in this Agreement.

6. Records; Visits. The books and records pertaining to the Fund, which are in the possession or under the control of PFPC, shall be the property of the Fund. PFPC may house such books and records in a third party storage facility. The Fund, the Administrator and Authorized Persons, and such other persons the Fund by means of Written Instructions reasonably authorizes (including but not limited to the Fund's independent accountants), shall have access to such books and records at all times during PFPC's normal business hours; provided that the Fund shall not authorize access by any individuals employed by PFPC's direct competitors. Upon the reasonable request of the Fund or the Administrator, copies of any such books and records shall be provided by PFPC to the Fund, the Administrator, an Authorized Person, or such other person, at the Fund's expense.

PFPC shall keep the following records:

(a) all books and records with respect to the Fund's books of account; and

(b) records of the Fund's securities transactions.

7. Confidentiality. Each of the Fund and the Administrator shall keep confidential any information it receives hereunder relating to PFPC's business and PFPC shall keep confidential any information it receives hereunder relating to the Fund's business. Confidential information shall include (a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finances, operations, customer relationships, customer profiles and information, customer lists, sales estimates, business plans, and internal performance results relating to the past, present or future business activities of the Fund or PFPC; (b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Fund or PFPC a competitive advantage over its competitors; (c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, and trade secrets, whether or not patentable or copyrightable; and (d) anything designated as confidential. Notwithstanding the foregoing, information shall not be confidential information and shall not be subject to the foregoing confidentiality obligations if it: (a) is already known to the receiving party at the time it is obtained; (b) is or becomes publicly known or available through no wrongful act of the receiving party; (c) is rightfully received from a third party who, to the best of the receiving party's knowledge, is not under a duty of confidentiality; (d) is released by the protected party to a third party without restriction; (e) is requested or required to be disclosed by the receiving party pursuant to a court order, subpoena, governmental or regulatory agency request or law (provided the receiving party will provide the other party (in

the case of disclosure by the Fund or the Administrator the "other party" will be PFPC, and in the case of disclosure by PFPC the "other party" will be the Fund) written notice of the same, to the extent such notice is permitted); (f) is relevant to the defense of any claim or cause of action asserted against the receiving party; (g) is necessary or desirable for PFPC to release such information in connection with the provision of services under this Agreement; or (h) has been or is independently developed or obtained by the receiving party.

PFPC agrees that, subject to the reuse and re-disclosure provisions of Regulation S-P, 17 CFR Part 248.11, it shall not disclose the non-public personal information of investors in the Fund obtained under this Agreement, except as necessary to carry out the services set forth in this Agreement or as otherwise permitted by law or regulation.

8. Liaison with Accountants. PFPC shall act as liaison with the Fund's independent public accountants and shall provide account analyses, fiscal year summaries, and other audit-related schedules with respect to the Fund. PFPC shall take all reasonable action in the performance of its duties under this Agreement to assure that the necessary or appropriate information is made available to such accountants for the expression of their opinion, as reasonably requested by the Fund.

9. PFPC System. PFPC shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by PFPC in connection with the services provided by PFPC with respect to the Fund.

10. Disaster Recovery. PFPC shall enter into and shall maintain in effect with appropriate parties one or more agreements making reasonable provisions for emergency use of electronic data processing equipment to the extent appropriate equipment is available. In the event of equipment failures, PFPC shall, at no additional expense to the Fund or the Administrator, take reasonable steps to minimize service interruptions. PFPC shall have no liability with respect to the loss of data or service interruptions caused by equipment failure, provided such loss or interruption is not caused by PFPC's own willful misfeasance, bad faith, negligence or reckless disregard of its duties or obligations under this Agreement.

11. Compensation.

(a) As compensation for services set forth herein that are rendered by PFPC during the term of this Agreement, the Fund will pay to PFPC a fee or fees as may be agreed to in writing by the Fund and PFPC.

(b) The Fund and the Administrator hereby represent and warrant to PFPC that (i) the terms of this Agreement, (ii) the fees and expenses associated with this Agreement, and (iii) any benefits accruing to PFPC or to the Administrator (or any affiliate thereof) or to the adviser or sponsor to the Fund in connection with this Agreement, including but not limited to any fee waivers, conversion cost reimbursements, up front payments, signing payments or periodic payments made or to be made by PFPC to the Administrator (or any affiliate thereof) or to such adviser or sponsor or to any affiliate of the Fund relating to this Agreement have been fully disclosed to the board of directors of the Fund and that, if required by applicable law, such board of directors has approved or will approve the terms of this Agreement, any such fees and expenses, and any such benefits.

12. Indemnification. The Fund agrees to indemnify, defend and hold harmless PFPC and its affiliates (other than the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC) including their respective officers, directors, agents and employees (each, a "PFPC Indemnified Party") from all taxes, charges, expenses, assessments, claims and liabilities (including, without limitation, reasonable attorneys' fees and disbursements and liabilities arising under applicable securities laws and any state and foreign securities and blue sky laws) (collectively, "Losses") arising directly or indirectly from any action or omission to act which PFPC takes or omits to take in connection with the provision of services under this Agreement. No PFPC Indemnified Party shall be indemnified against any Losses caused by PFPC's or such PFPC Indemnified Party's own willful misfeasance, bad faith, negligence or reckless disregard in the performance of PFPC's duties under this Agreement. The provisions of this Section 12 shall survive termination of this Agreement.

13. Responsibility of PFPC.

(a) PFPC shall be under no duty hereunder to take any action on behalf of the Fund or the Administrator except as specifically set forth herein or as may be specifically agreed to by PFPC, the Fund and the Administrator in a

written amendment hereto. PFPC shall be obligated to exercise care and diligence in the performance of its duties hereunder and to act in good faith in performing services provided for under this Agreement. PFPC shall be liable only for any Losses suffered by the Fund arising out of PFPC's performance of or failure to perform its duties under this Agreement and only to the extent such Losses arise out of PFPC's willful misfeasance, bad faith, negligence or reckless disregard of such duties.

(b) Notwithstanding anything in this Agreement to the contrary, (i) PFPC shall not be liable for losses, delays, failure, errors, interruption or loss of data occurring directly or indirectly by reason of circumstances beyond its reasonable control, including without limitation acts of God; action or inaction of civil or military authority; public enemy; war; terrorism; riot; fire; flood; sabotage; epidemics; labor disputes; civil commotion; interruption, loss or malfunction of utilities, transportation, computer or communications capabilities; insurrection; elements of nature; or non-performance by a third party (other than employees, officers or affiliates of PFPC (other than the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC)); and (ii) PFPC shall not be under any duty or obligation to inquire into and shall not be liable for the validity or invalidity, authority or lack thereof, or truthfulness or accuracy or lack thereof, of any instruction, direction, notice, instrument or other information which PFPC reasonably believes to be genuine. Notwithstanding the foregoing, PFPC shall use commercially reasonable efforts to mitigate the effect of the events enumerated in clause (i) of the preceding sentence, although such efforts shall not impute any liability to PFPC.

(c) Notwithstanding anything in this Agreement to the contrary, the Fund and the Administrator hereby acknowledge and agree that (i) PFPC, in the course of providing tax-related services or calculating and reporting portfolio performance hereunder, may rely upon PFPC's interpretation of tax positions or its interpretation of relevant circumstances (as determined by PFPC) in providing such tax services and in determining methods of calculating portfolio performance to be used, and that (ii) PFPC shall not be liable for losses or damages of any kind associated with such reliance except to the extent such loss or damage is substantially due to PFPC's willful misfeasance, bad faith, negligence or reckless disregard in the performance of its duties under this Agreement.

(d) Notwithstanding anything in this Agreement to the contrary, without limiting anything in the immediately preceding sub-section (c), the Fund and the Administrator hereby acknowledge and agree that PFPC shall not be found to have been negligent or to have acted with willful misfeasance, bad faith or reckless disregard with respect to losses or damages associated with areas of responsibility that the judiciary, regulators (or other governmental officials) or members of the investment fund industry determine would otherwise apply to PFPC (or similar service providers) and which, as of the date hereof, have yet to be identified by such parties as areas for which PFPC (or any similar service provider) is (or would be) responsible.

(e) Notwithstanding anything in this Agreement to the contrary neither PFPC nor its affiliates (not including the Fund, BlackRock Kelso Capital Advisors LLC and BlackRock, Inc. and its subsidiaries, to the extent any of the foregoing may be deemed to be affiliates of PFPC) shall be liable for any consequential, special or indirect losses or damages, whether or not the likelihood of such losses or damages was known by PFPC or its affiliates.

(f) Each party shall have a duty to mitigate damages for which any other party to this Agreement may become responsible.

(g) Notwithstanding anything in this Agreement to the contrary, the services provided by PFPC do not constitute, nor shall they be construed as constituting, legal advice or the provision of legal services for or on behalf of the Administrator, the Fund or any other person.

(h) The provisions of this Section 13 shall survive termination of this Agreement.

14. Description of Accounting Services on a Continuous Basis.

PFPC will perform the following accounting services if required with respect to the Fund:

(i) Journalize investment, capital share and income and expense activities;

(ii) Record investment buy/sell trade tickets when received from the Fund's investment adviser;

(iii) Maintain individual ledgers for investment securities;

(iv) Maintain historical tax lots for each security;

(v) Record and reconcile corporate action activity and all other capital changes;

(vi) Reconcile cash and investment balances of the Fund with the Fund's custodian and provide the Fund's investment adviser with the beginning cash balance available for investment purposes;

(vii) Calculate contractual expenses, including management fees and incentive allocation, as applicable, in accordance with the Fund's investment management agreement;

(viii) Monitor the expense accruals and notify an officer of the Fund of any proposed adjustments;

(ix) Control all disbursements and authorize such disbursements upon Written Instructions;

(x) Calculate capital gains and losses;

(xi) Determine net income;

(xii) Determine applicable foreign exchange gains and losses on payables and receivables;

(xiii) Obtain market quotes and currency exchange rates with respect to the Fund's investments from independent pricing services approved by the Fund's investment adviser, or if such quotes are unavailable, then obtain such prices from the Fund's investment adviser, and in either case calculate the market value of the Fund's investments on a monthly basis in accordance with applicable valuation policies or guidelines provided by the Fund to PFPC (provided PFPC does not inform the Fund that it is unable to comply with such policies or guidelines);

(xiv) Transmit or mail a copy of the portfolio valuation on a monthly basis to the Fund's investment adviser as agreed upon between the Fund and PFPC;

(xv) Arrange for the computation of the net asset value of the Fund on a monthly basis in accordance with the provisions of the Fund's offering memorandum; and

(xvi) As appropriate, compute yields, total return, expense ratios, portfolio turnover rate, and if required, portfolio average dollar-weighted maturity.

15. Description of Sub-Administration Services on a Continuous Basis.

PFPC will perform the following sub-administration services if required with respect to the Fund:

(i) Supply various normal and customary Fund statistical data to the Fund as requested on an ongoing basis;

(ii) Prepare for execution and file the Fund's Federal and state tax returns;

(iii) Coordinate the printing of the Fund's annual shareholder reports;

(iv) Prepare monthly security transaction listings;

(v) Supply certain financial statements, schedules, notes and related financial and supplementary data in connection with the filing of the Fund's annual and quarterly reports on Forms 10-K and 10-Q with the Securities and Exchange Commission, as agreed by PFPC from time to time; and (vi) Monitor the Fund's status as a regulated investment company under Sub-chapter M of the Internal Revenue Code of 1986, as amended.

16. Duration and Termination. This Agreement shall continue until terminated by the Fund, the Administrator or PFPC on sixty (60) days' prior written notice to the other parties. In the event the Fund or the Administrator gives notice of termination, all expenses

associated with movement (or duplication) of records and materials and conversion thereof to a successor service provider (or each successive service provider), including expenses incurred after termination, will be borne by the Fund and paid by the Fund to PFPC.

17. Notices. Notices shall be addressed (a) if to PFPC, at 301 Bellevue Parkway, Wilmington, Delaware 19809, Attention: President (or such other address as PFPC may inform the other parties in writing); (b) if to the Fund, at 40 East 52nd Street, New York, NY 10022; Attention: Frank Gordon (or such other address as the Fund may inform the other parties in writing); (c) if to the Administrator, at 40 East 52nd Street, New York, NY 10022; Attention: James Kong (or such other address as the Administrator may inform the other parties in writing); or (d) if to none of the foregoing, at such other address as shall have been provided by like notice to the sender of any such notice or other communication. If notice is sent by confirming facsimile sending device, it shall be deemed to have been given immediately. If notice is sent by first-class mail, it shall be deemed to have been given three days after it has been mailed. If notice is sent by messenger, it shall be deemed to have been given on the day it is delivered.

18. Amendments. This Agreement, or any term hereof, may be changed or waived only by written amendment, signed by the party against whom enforcement of such change or waiver is sought.

19. Assignment. PFPC may assign this Agreement to any majority owned direct or indirect subsidiary of PFPC or of The PNC Financial Services Group, Inc. (other than BlackRock, Inc. and its subsidiaries), provided that PFPC gives the Fund and the Administrator 30 days' prior written notice of such assignment.

20. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

21. Further Actions. Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof.

22. Miscellaneous.

(a) No Changes that Materially Affect Obligations. Notwithstanding anything in this Agreement to the contrary, PFPC shall have no responsibility under this Agreement with respect to any modifications made by the Fund to its offering memorandum, registration statement or policies which would affect materially the obligations or responsibilities of PFPC hereunder, without the prior written approval of PFPC (which approval shall not be unreasonably withheld or delayed).

(b) No Representations or Warranties. Except as expressly provided in this Agreement, PFPC hereby disclaims all representations and warranties, express or implied, made to the Fund, the Administrator or any other person, including, without limitation, any warranties regarding quality, suitability, merchantability, fitness for a particular purpose or otherwise (irrespective of any course of dealing, custom or usage of trade), of any services or any goods provided incidental to services provided under this Agreement. PFPC disclaims any warranty of title or non-infringement except as otherwise set forth in this Agreement.

(c) Entire Agreement. This Agreement embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to the subject matter hereof, provided that the parties (or, with respect to compensation of PFPC, the Fund and PFPC) may embody in one or more separate documents their agreement, if any, with respect to delegated duties, subsequently agreed upon services, and compensation of PFPC.

(d) Captions. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.

(e) Information. The Fund will provide such information and documentation as PFPC may reasonably request in connection with services provided by PFPC with respect to the Fund.

(f) Governing Law. This Agreement shall be deemed to be a contract made in Delaware and governed by Delaware law, without regard to principles of conflicts of law.

(g) Partial Invalidity. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.

(h) Successors and Assigns. This Agreement shall be binding

upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(i) Facsimile Signatures. The facsimile signature of any party to this Agreement shall constitute the valid and binding execution hereof by such party.

(j) Customer Identification Program Notice. To help the U.S. government fight the funding of terrorism and money laundering activities, U.S. Federal law requires each financial institution to obtain, verify, and record certain information that identifies each person who initially opens an account with that financial institution on or after October 1, 2003. Certain of PFPC's affiliates are financial institutions, and as a matter of policy PFPC will request (or already has requested) the Fund's name, address and taxpayer identification number or other government-issued identification number, and, if such party is a natural person, that party's date of birth. PFPC may also ask (and may have already asked) for additional identifying information, and PFPC may take steps (and may have already taken steps) to verify the authenticity and accuracy of these data elements.

(k) No Third Party Beneficiary. Notwithstanding anything in this Agreement to the contrary, (i) no other entity is intended to be, nor shall it be, a third party beneficiary of this Agreement (except as set forth in Section 12 and Section 13(e) of this Agreement) and (ii) PFPC shall have no liability under or as a result of this Agreement to any third party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PFPC INC.

By: /s/ Neal J. Andrews

Title: SVP

BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ Frank Gordon

Title: CFO

BLACKROCK FINANCIAL MANAGEMENT, INC.

By: /s/ James Kong

Title: Managing Director

EXHIBIT 10.7

BLACKROCK KELSO CAPITAL ADVISORS LLC
WAIVER RELIANCE LETTER

July 25, 2005

BlackRock Kelso Capital Corporation
40 East 52nd Street
New York, NY 10022

Ladies and Gentlemen:

BlackRock Kelso Capital Advisors LLC (the "Advisor") and BlackRock Kelso Capital Corporation (the "BDC") have entered into an Investment Management Agreement, dated July 25, 2005 (the "Management Agreement"), pursuant to which the Advisor has agreed to furnish investment advisory services to the BDC and the BDC has agreed to pay a management fee (the "Management Fee"), on the terms and subject to the conditions of the Management Agreement. Capitalized terms used but not defined herein shall have the meanings given to them in the Private Offering Memorandum of BlackRock Kelso Capital Holding LLC. The advisor hereby agrees with the BDC as follows:

1. The Advisor hereby waives its rights to receive 50% of the amount of the Management Fee the Advisor would otherwise be entitled to receive from the BDC until the first date on which 90% of the assets of the BDC are invested in portfolio companies in accordance with the BDC's investment objective, excluding investments in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, or the Ramp-Up Date, whichever is sooner.

2. Thereafter, the Advisor hereby waives, until such time as the BDC has completed an initial public offering of its common shares registered under the Securities Act and listed such common shares on a national securities exchange (collectively, the "Public Market Event"), 25% of the amount of the Management Fee the Advisor would otherwise be entitled to receive from the BDC.

3. In addition, the Advisor hereby

   (a) waives Management Fees for any calendar year in excess of $11.936224 million until the earlier of (i) such time as the BDC has completed the Public Market Event or (ii) the fourth anniversary of the commencement of operations of the BDC and

   (b) waives its Management Fee in excess of $5.570238 million during the fifth year of the BDC's existence unless the BDC has completed the Public Market Event.

   Supporting calculations with respect to the waiver thresholds are contained in the attached spreadsheet.

Please acknowledge the foregoing by signing the enclosed copy of this letter in the space provided below and returning the executed copy to the Advisor.

Sincerely,
BLACKROCK KELSO CAPITAL
ADVISORS LLC

By: /s/ Michael B. Lazar

Name: Michael B. Lazar
Title: Chief Operating Officer

CONFIRMED AND ACCEPTED:
BLACKROCK KELSO CAPITAL CORPORATION

By: /s/ Frank Gordon

Name: Frank Gordon
Title: Chief Financial Officer

BlackRock Kelso Capital Corporation
BlackRock Kelso Capital Advisors LLC

Adjusted Fee Waiver Threshold Calculations
(in millions)

Fee Waiver Threshold per Offering Memorandum*:		
Earlier of completion of Public Market Event or fourth anniversary of commencement of BDC	$ 11.25	A
During fifth year of existence	5.25	B
Based upon assumed gross proceeds of	500.0	C

Fee Waiver Threshold Adjusted to Reflect Actual Gross Proceeds:		
Actual gross proceeds	530.498845	D
Actual gross proceeds divided by assumed gross proceeds	1.06099769	E = D / C
Adjusted Fee Waiver:		
Earlier of completion of Public Market Event or fourth anniversary of commencement of BDC	11.936224	A x E
During fifth year of existence	5.570238	B x E

* Confidential Private Offering Memorandum of BlackRock Kelso Capital Holding LLC, dated June 2005, relating to its Membership Interests (related excerpt attached)

Excerpt from Confidential Private Offering Memorandum of BlackRock Kelso Capital Holding LLC, dated June 2005, relating to its Membership Interests.

In any event and assuming gross proceeds from this offering of $500 million, the Advisor has agreed (A) to waive Management Fees for any calendar year in excess of $11.25 million until the earlier of (i) such time as the BDC has completed the Public Market Event or (ii) the fourth anniversary of the commencement of the BDC and (B) to waive its Management Fee in excess of $5.25 million during the fifth year of the BDC's existence unless the BDC has completed the Public Market Event. If there is no Public Market Event, the BDC will begin the process of winding down its assets in the beginning of the sixth year of the BDC's existence. The BDC would need to have greater than $750 million in total assets during the initial waiver period for the $11.25 million cap to be operative and greater than $350 million in total assets during the fifth year for the $5.25 million cap to be operative. The foregoing amounts assume gross proceeds from this offering of $500 million. To the extent that such gross proceeds differ from $500 million, the fee cap and total asset thresholds described above will change in direct proportion to the ratio of the actual gross proceeds to $500 million. For example, if the gross proceeds from this offering were $520 million, the $11.25 million and $5.25 million fee caps described above would increase to $11.70 million and $5.46 million, respectively, and the total asset thresholds of $750 million and $350 million described above would increase to $780 million and $364 million, respectively. Although it is anticipated that the Carried Interest will be paid through distributions on the Series S Share (as defined below under "Description of Shares of the BDC - Series S Preferred Shares; Carried Interest), the Carried Interest (as defined below) is also provided for in the Management Agreement.

EXHIBIT 11.1

STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

The following information sets forth the computation of basic and diluted net investment income per share and the net increase in net assets per share resulting from operations for the period July 25, 2005 (inception of operations) through December 31, 2005:

Numerator for net investment income per share:	$ 6,202,991
Numerator for net increase in net assets per share:	$ 6,444,368
Denominator for basic and diluted weighted average shares:	35,366,589
Basic and diluted net investment income per share:	$ 0.17
Basic and diluted net increase in net assets per share resulting from operations:	$ 0.18

EXHIBIT 14.1

BLACKROCK KELSO CAPITAL CORPORATION
CODE OF ETHICS

I. Introduction.

The purpose of this Code of Ethics is to prevent Access Persons (as defined below) of BlackRock Kelso Capital Corporation (the "BDC") from engaging in any act, practice or course of business prohibited by paragraph (b) of Rule 17j-1 (the "Rule") under the Investment Company Act of 1940, as amended (the "Act"). This Code of Ethics is required by paragraph (c) of the Rule.

Access Persons of the BDC, in conducting their personal securities transactions, owe a fiduciary duty to the shareholders of the BDC. The fundamental standard to be followed in personal securities transactions is that Access Persons may not take inappropriate advantage of their positions. All personal securities transactions by Access Persons must be conducted in such a manner as to avoid any actual or potential conflict of interest between the Access Person's interest and the interests of the BDC, or any abuse of an Access Person's position of trust and responsibility. Potential conflicts arising from personal investment activities could include buying or selling securities based on knowledge of the BDC's trading position or plans (sometimes referred to as front-running), and acceptance of personal favors that could influence trading judgments on behalf of the BDC. While this Code of Ethics is designed to address identified conflicts and potential conflicts, it cannot possibly be written broadly enough to cover all potential situations and, in this regard, Access Persons are expected to adhere not only to the letter, but also the spirit, of the policies contained herein.

II. Definitions.

In order to understand how this Code of Ethics applies to particular persons and transactions, familiarity with the key terms and concepts used in this Code of Ethics is necessary. Those key terms and concepts are:

1. "Access Person" means any director, officer or "advisory person" of the BDC. A list of the BDC's Access Persons who are officers and directors of the BDC is attached as Appendix 1 to this Code of Ethics and will be updated from time to time.

2. "Advisory person" means (a) any employee of the BDC or of any company in a control relationship to the BDC, who, in connection with his regular functions or duties, makes, participates in, or obtains information regarding the purchase or sale of a "Covered Security" by the BDC, or whose functions relate to the making of any recommendations with respect to such purchases or sales; and (b) any natural person in a control relationship to the BDC who obtains information concerning recommendations made to the BDC with regard to the purchase or sale of "Covered Securities".

3. "Beneficial ownership" has the meaning set forth in Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended. The determination of direct or indirect beneficial ownership shall apply to all securities which an Access Person has or acquires."Advisor" means BlackRock Kelso Capital Advisors LLC the investment advisor of the BDC.

4. "Advisor" means BlockRock Kelso Capital Advisors LLC the investment advisor of the BDC.

5. "Advisor Code" means the Employee Investment Transaction Policy adopted by the Advisor and approved by the Board.

6. "Control" has the meaning set forth in Section 2(a)(9) of the Act.

7. "Covered Security" has the meaning set forth in Section 2(a)(36) of the Act, except that it shall not include: direct obligations of the Government of the United States; bankers' acceptances, bank certificates of deposit, commercial paper, and high-quality short-term debt instruments, including repurchase agreements; and shares issued by registered open-end investment companies. A high-quality short-term debt instrument is one with a maturity at issuance of less than 366 days and that is rated in one of the two highest rating categories by a nationally recognized statistical rating organization.

8. "Independent director" means a director of the BDC who is not an "interested person" of the BDC within the meaning of Section 2(a)(19) of the Act.

9. "Investment Committee Participant" means a member of the Investment Committee of the Advisor who is not an Access Person of the BDC. A list of the BDC's Investment Committee Participants is attached as Appendix 1 to this Code of Ethics and will be updated from time to time.

10. "Investment Personnel" of the BDC means (a) any employee of the BDC (or of any company in a control relationship to the BDC) who, in connection with his or her regular functions or duties, makes or participates in making recommendations regarding the purchase or sale of securities by the BDC and (b) any natural person who controls the BDC and who obtains information concerning

recommendations made to the BDC regarding the purchase or sale of securities by the BDC.

11. "IPO" means an offering of securities registered under the Securities Act of 1933, the issuer or which, immediately before the registration, was not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act.

12. "Limited Offering" means an offering exempt from registration under the Securities Act of 1933 pursuant to Section 4(2), 4(6) or Rule 504, 505 or 506 under the Securities Act of 1933.

13. "Purchase or sale of a Covered Security" includes, among other things, the writing of an option to purchase or sell a Covered Security.

III. Restrictions Applicable to Directors, Officers and Employees of the Advisor.

1. All directors, officers and employees of the Advisor's investment advisory companies shall be subject to the restrictions, limitations and reporting responsibilities set forth in the Advisor Code, respectively, as if fully set forth herein.

2. Persons subject to this Section III shall not be subject to the restrictions, limitations and reporting responsibilities set forth in Sections IV and V below.

IV. Prohibitions; Exemptions.

1. Prohibited Purchases and Sales.

A. No Access Person may purchase or sell, directly or indirectly, any Covered Security in which that Access Person has, or by reason of the transaction would acquire, any direct or indirect beneficial ownership and which to the actual knowledge of that Access Person at the time of such purchase or sale:

(1) is being considered for purchase or sale by the BDC; or

(2) is being purchased or sold by the BDC.

B. No Investment Committee Participant may purchase or sell, directly or indirectly, any security or other instrument which, to the knowledge of that Investment Committee Participant, at the time of such purchase or sale was, is or is about to be brought before the Investment Committee for investment consideration within six months prior to or following such purchase or sale.

2. Exemptions From Certain Prohibitions.

A. The prohibited purchase and sale transactions described in paragraph IV.1 above do not apply to the following personal securities transactions:

(1) purchases or sales effected in any account over which the Access Person or the Investment Committee Participant has no direct or indirect influence or control;

(2) purchases or sales which are non-volitional on the part of either the Access Person, the Investment Committee Participant or the BDC;

(3) purchases which are part of an automatic dividend reinvestment plan (other than pursuant to a cash purchase plan option);

(4) purchases effected upon the exercise of rights issued by an issuer pro rata to all holders of a class of its securities, to the extent the rights were acquired from that issuer, and sales of the rights so acquired; or

(5) any purchase or sale which the Compliance Officer of the Advisor (as defined in the Advisor Code) approves on the grounds that its potential harm to the BDC is remote.

3. Prohibited Recommendations.

An Access Person or Investment Committee Participant may not recommend the purchase or sale of any Covered Security to or for the BDC without having disclosed his or her interest, if any, in such security or the issuer thereof, including without limitation:

A. any direct or indirect beneficial ownership of any Covered Security of such issuer, including any Covered Security received in a private securities transaction;

B. any contemplated purchase or sale by such person of a Covered Security;

C. any position with such issuer or its affiliates; or

D. any present or proposed business relationship between such issuer or its affiliates and such person or any party in which such person has a significant interest.

4. Pre-approval of Investments in Initial Public Offerings or Limited

Offerings.

A. No Investment Personnel shall purchase any security (including, but not limited to, any Covered Security) issued in an initial public offering ("IPO") or a Limited Offering unless an officer of the BDC approves the transaction in advance. The Secretary shall maintain a written record of any decisions to permit these transactions, along with the reasons supporting the decision.

V. Reporting.

1. Initial Holdings Reports.

No later than ten (10) days after a person becomes an Access Person, he or she must report to the BDC the following information:

(i) the title, number of shares and principal amount of each Covered Security in which the Access Person had any direct or indirect beneficial ownership when the person became an Access Person;

(ii) the name of any broker, dealer or bank with whom the Access Person maintained an account in which any securities were held for the direct or indirect benefit of the Access Person as of the date the person became an Access Person; and

(iii) the date that the report is submitted by the Access Person.

2. Quarterly Reporting.

A. Every Access Person shall either report to the BDC the information described in paragraphs B and C below with respect to transactions in any Covered Security in which the Access Person has, or by reason of the transaction acquires, any direct or indirect beneficial ownership in the security or, in the alternative, make the representation in paragraph D below.
B. Every report shall be made not later than 10 days after the end of the calendar quarter in which the transaction to which the report relates was effected and shall contain the following information:

(1) the date of the transaction, the title, the interest rate and maturity date (if applicable), the number of shares and the principal amount of each Covered Security involved;

(2) the nature of the transaction (i.e., purchase, sale or any other type of acquisition or disposition);

(3) the price at which the transaction was effected;

(4) the name of the broker, dealer or bank with or through whom the transaction was effected;

(5) the date that the report is submitted by the Access Person; and

(6) a description of any factors potentially relevant to an analysis of whether the Access Person may have a conflict of interest with respect to the transaction, including the existence of any substantial economic relationship between the transaction and securities held or to be acquired by the BDC.

C. With respect to any account established by the Access Person in which any securities were held during the quarter for the direct or indirect benefit of the Access Person, no later than 10 days after the end of a calendar quarter, an Access Person shall provide a report to the BDC containing the following information:

(1) the name of the broker, dealer or bank with whom the Access Person established the account;

(2) the date the account was established; and

(3) the date that the report is submitted by the Access Person.

D. If no transactions were conducted by an Access Person during a calendar quarter that are subject to the reporting requirements described above, such Access Person shall, not later than 10 days after the end of that calendar quarter, provide a written representation to that effect to the BDC.

3. Annual Reporting.

A. Every Access Person shall report to the BDC the information described in paragraph B below with respect to transactions in any Covered Security in which the Access Person has, or by reason of the transaction acquires, any direct or indirect beneficial ownership in the security.

B. Annually, within 30 days of the end of each calendar year, the following information (which information must be current as of a date no more than 30 days before the report is submitted):

(1) The title, number of shares and principal amount of each Covered Security in which the Access Person had any direct or indirect beneficial ownership;

(2) The name of any broker, dealer or bank with whom the Access Person maintains an account in which any securities are held for the direct or

indirect benefit of the Access Person; and

(3) The date that the report is submitted by the Access Person.

C. An Investment Committee Participant is not required to make a report pursuant to paragraph 1, 2 or 3 above solely by reason of being an Investment Committee Participant but shall be required to annually certify that such Investment Committee Participant has not purchased or sold, directly or indirectly, any security or other instrument the purchase of which is prohibited by Section IV.1.B above or, if permission was granted pursuant to Section IV.2 above, the details of any purchase or sale. Such certification shall be included in the certification form discussed in Section V.5 below.

4. Exceptions to Reporting Requirements.

A. An Access Person is not required to make a report otherwise required under paragraphs 1, 2 or 3 above with respect to any transaction effected for any account over which the Access Person does not have any direct or indirect influence or control; provided, (however, that if the Access Person is relying upon the provisions of this paragraph 4(A) to avoid making such a report, the Access Person shall, not later than 10 days after the end of each calendar quarter, identify any such account in writing and certify in writing that he or she had no direct or indirect influence over any such account.

B. An independent director of the BDC who would be required to make a report pursuant to paragraphs 1, 2 or 3 above solely by reason of being a director of the BDC is not required to make an initial holdings report under paragraph 1 above and an annual report under paragraph 3 above, and is only required to make a quarterly report under paragraph 2 above if the independent director, at the time of the transaction, knew or, in the ordinary course of fulfilling the independent director's official duties as a director of the BDC, should have known that (a) the BDC has engaged in a transaction in the same security within the last 15 days or is engaging or going to engage in a transaction in the same security within the next 15 days, or (b) the BDC or the Advisor has within the last 15 days considered a transaction in the same security or is considering a transaction in the same security or within the next 15 days is going to consider a transaction in the same security.

5. Annual Certification.

A. All Access Persons and Investment Committee Participants are required to certify that they have read and understand this Code of Ethics and recognize that they are subject to the provisions hereof and will comply with the policy and procedures stated herein. Further, all Access Persons and Investment Committee Participants are required to certify annually that they have complied with the requirements of this Code of Ethics and that they have reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of such policies. A copy of the certification form to be used by Access Persons and Investment Committee Participants in complying with this paragraph A is attached to this Code of Ethics as Appendix 2-A and 2-B, respectively.

B. The BDC and the Advisor shall prepare an annual report to the Board of Directors of the BDC to be presented at the first regular meeting of the Board after March 31 of each year and which shall:

(1) Summarize existing procedures concerning personal investing, including pre-clearance policies and the monitoring of personal investment activity after pre-clearance has been granted, and any changes in the procedures during the past year;

(2) describe any issues arising under the Code of Ethics or procedures since the last report to the Board including, but not limited to, information about any material violations of the Code of Ethics or procedures and the sanctions imposed during the past year;

(3) identify any recommended changes in existing restrictions or procedures based upon experience under this Code of Ethics, evolving industry practice or developments in applicable laws and regulations;

(4) contain such other information, observations and recommendations as deemed relevant by the BDC or the Advisor; and

(5) certify that the BDC and the Advisor have adopted Codes of Ethics with procedures reasonably necessary to prevent Access Persons from violating the provisions of Rule 17j-1(b) or this Code.

6. Notification of Reporting Obligation and Review of Reports.

The officers of the BDC are authorized to identify all Access Persons. Each Access Person shall receive a copy of this Code of Ethics and be notified of his or her reporting obligations. All reports shall be promptly submitted upon completion to the BDC's Secretary who shall review such reports.

7. Miscellaneous.

A. Any report under this Code of Ethics may contain a statement that the report shall not be construed as an admission by the person making the report that the person has any direct or indirect beneficial ownership in the securities to which the report relates.

VI. Confidentiality.

No Access Person shall reveal to any other person (except in the normal course of his or her duties on behalf of the BDC) any information regarding securities transactions by the BDC or consideration by the BDC or the Advisor of any such securities transaction.

All information obtained from any Access Person hereunder shall be kept in strict confidence, except that reports of securities transactions hereunder will be made available to the Securities and Exchange Commission or any other regulatory or self-regulatory organization to the extent required by law or regulation.

VII. Sanctions.

Upon discovering a violation of this Code of Ethics, the Board of Directors of the BDC may impose any sanctions it deems appropriate, including a letter of censure, the suspension or termination of any director, officer or employee of the BDC, or the recommendation to the employer of the violator of the suspension or termination of the employment of the violator.

Dated: May 2005

Revised: March 2006

Appendix 1

The following are "Access Persons" for purposes of the foregoing Code of Ethics:

Name	Title
Directors	
James R. Maher	Chairman of the Board and Chief Executive Officer
Jerrold B. Harris	Director
William E. Mayer	Director
France de Saint Phalle	Director
Maureen K. Usifer	Director
Officers	
Frank D. Gordon	Chief Financial Officer and Treasurer
Vincent B. Tritto	Chief Compliance Officer and Secretary
Michael B. Lazar	Chief Operating Officer and Managing Director

The following are "Investment Committee Participants" for purposes of the foregoing Code of Ethics:

Sacha Bacro
Ralph Schlosstein
Keith Anderson
Jeff Gary
Laurence Fink
Mark Williams
Robert Kapito
Michael Goldberg
Frank Nickell
George Matelich

All employees of the BDC Adviser.

Appendix 2

CERTIFICATION FORM

This is to certify that I have read and understand the Code of Ethics of BlackRock Kelso Capital Corporation dated March 2006, and that I recognize that I am subject to the provisions thereof and will comply with the policy and procedures stated therein.

This is to further certify that I have complied with the requirements of such Code of Ethics and that I have reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of such Code of Ethics.

Please sign your name here: _____

Please print your name here: _____

Please date here: _____

Please sign two copies of this Certification Form, return one copy to Vincent Tritto, Chief Compliance Officer, BlackRock Kelso Capital Advisors LLC, 40 East 52nd Street, New York, NY 10022, and retain the other copy, together with a copy of the Code of Ethics, for your records.

Appendix 2-B

CERTIFICATION FORM OF INVESTMENT COMMITTEE PARTICIPANTS

This is to certify that I have read and understand the Code of Ethics of BlackRock Kelso Capital Corporation dated [March 2006], and that I recognize that I am subject to the provisions thereof and will comply with the policy and procedures stated therein.

This is to further certify that I have complied with the requirements of such Code of Ethics, including Sections IV.1.B., IV.3., and V.4. of such Code of Ethics.

Please sign your name here: _____

Please print your name here: _____

Please date here: _____

Please sign two copies of this Certification Form, return one copy to Vincent Tritto, Chief Compliance Officer, BlackRock Kelso Capital Advisors LLC, 40 East 52nd Street, New York, NY 10022, and retain the other copy, together with a copy of the Code of Ethics, for your records.

EXHIBIT 31.1

CEO CERTIFICATION

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

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

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

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

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

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

b) Not applicable (until the first fiscal year ending after July 15, 2007); and

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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;

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 29, 2006

By: /s/ James R. Maher

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

EXHIBIT 31.2

CFO CERTIFICATION

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

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

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

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

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

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

b) Not applicable (until the first fiscal year ending after July 15, 2007); and

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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;

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 29, 2006

By: /s/ Frank D. Gordon

Frank D. Gordon
Chief Financial Officer and
Treasurer

EXHIBIT 32.1

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 (the "Company") for the annual period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), James R. Maher, as Chief Executive Officer of the Company, and Frank D. Gordon, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James R. Maher
- ------------------------------
Name: James R. Maher
Title: Chief Executive Officer
Date: March 29, 2006

/s/ Frank D. Gordon
- ------------------------------
Name: Frank D. Gordon
Title: Chief Financial Officer
Date: March 29, 2006