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As filed with the Securities and Exchange Commission on March 28, 2008

Registration No. 333-149121

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

☐ **REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

☒ **Pre-Effective Amendment No. 2**

☐ **Post-Effective Amendment No.**

KOHLBERG CAPITAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

295 Madison Avenue, 6th Floor
New York, New York 10017
(212) 455-8300
(Address and Telephone Number of Principal Executive Offices)

Dayl W. Pearson
President and Chief Executive Officer
Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017
(Name and Address of Agent for Service)

Copy to:

Craig E. Marcus, Esq. **Ropes & Gray LLP** **One International Place** **Boston, Massachusetts 02110** **Telephone: (617) 951-7000** **Facsimile: (617) 951-7050**	**Jay L. Bernstein, Esq.** **Clifford Chance US LLP** **31 West 52nd Street** **New York, New York 10019** **Telephone: (212) 878-8000** **Facsimile: (212) 878-8375**

Approximate Date of Proposed Public Offering:
As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. ☐

It is proposed that this filing will become effective (check appropriate box):

☐ When declared effective pursuant to Section 8(c).

If appropriate, check the following box:

☐ This amendment designates a new effective date for a previously filed registration statement.

☐ This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Subject to Completion
Preliminary Prospectus dated March 28, 2008

PROSPECTUS

KOHLBERG
CAPITAL CORPORATION

Up to 3,100,000 Shares of Common Stock
Issuable Upon Exercise of Rights to Subscribe for Such Shares

We are issuing transferable rights to our stockholders of record, or record date stockholders, as of 5:00 p.m., New York City time, on March 31, 2008, or the record date. The rights entitle any holders of rights (including holders of rights acquired during the subscription period), or rights holders, to subscribe for an aggregate of up to approximately 3,100,000 shares of our common stock. Record date stockholders will receive one right for every six outstanding shares of common stock owned on the record date. The rights entitle the holders to purchase one new share of common stock for every right held, which we refer to as the basic subscription right. In addition, both record date stockholders who fully exercise their rights and holders of rights acquired during the subscription period will be entitled to subscribe for additional shares that remain unsubscribed as a result of any unexercised rights. This over-subscription privilege is subject to a number of limitations, and record date stockholders will have the first priority right to subscribe for such additional shares.

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended. We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, L.L.C. ("Katonah Debt Advisors") manages collateralized loan obligation funds ("CLO Funds") that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments, and had approximately $2.1 billion of assets under management as of December 31, 2007. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering, from affiliates of Kohlberg & Co., L.L.C. ("Kohlberg & Co."), a leading private equity firm focused on middle market investing. We maintain a strategic relationship with Kohlberg & Co, which includes access to the expertise of certain executives of Kohlberg & Co. in middle market leveraged investing and a royalty-free license to use the "Kohlberg" name.

Our investment objective is to generate current income and capital appreciation from our investments. We also expect to continue to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may invest up to 30% of our capital in other investments such as loans to larger, publicly-traded companies, high-yield bonds, distressed debt securities and debt and equity securities issued by CLO Funds managed by Katonah Debt Advisors or by other asset managers. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. For a discussion of recent developments in the financial and credit markets affecting our business, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

Our common stock is traded on The Nasdaq Global Select Market under the symbol "KCAP." The rights are transferable and will be listed on The Nasdaq Global Select Market under the symbol "KCAPR." See "The Rights Offering" for a complete discussion of the terms of this offer.

The subscription price per share will be % of the volume-weighted average of the sales prices of our common stock on The Nasdaq Global Select Market for the consecutive trading days ending on the expiration date of the offering. Because the subscription price will be determined on the expiration date, stockholders who elect to exercise their rights will not know the subscription price per share at the time they exercise such rights. The rights will expire if they are not exercised by 5:00 p.m., New York City time, on April 28, 2008, the expiration date of the offering, unless extended. We, in our sole discretion, may extend the period for exercising the rights. You will have no right to rescind your purchase after receipt of your payment of the estimated subscription price for each share subscribed for under your subscription rights except as described in this prospectus. We reserve the right to amend the terms and conditions of the offering, whether the amended terms are more or less favorable to you. We also reserve the right to terminate the offering prior to delivery of the common stock if the subscription price is less than 70% of the net asset value attributable to a share of our common stock disclosed in the most recent periodic report we filed with the Securities and Exchange Commission (the "SEC") by giving oral or written notice thereof to the subscription agent and making a public announcement thereof.

The offering will dilute the ownership interest and voting power of the common stock owned by stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their basic subscription rights should expect, upon completion of the offering, to own a smaller proportional interest in us than before the offering.

The net asset value per share of our common stock as of December 31, 2007 was $14.38, based on net assets of approximately $259 million as of December 31, 2007. **Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risks of loss for purchasers in this public offering. See "Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following the offer" on page 30 for more information. Further, if the net proceeds per share from the offering are at a discount to our net asset value per share, the offering will reduce our net asset value per share. See "Your interest in us may be diluted" on page 31 for more information.** On March 27, 2008 the last reported sale price of a share of our common stock on The Nasdaq Global Select Market was $10.33.

Investing in our common stock involves significant risks. See " Risk Factors" beginning on page 17.

	Per Share	Total(4)
Estimated subscription price(1)	$ 10.30	$ 31,930,000
Estimated sales load(1)(2)	$ 0.412	$ 1,277,200
Estimated proceeds, before expenses, to Kohlberg Capital Corporation(1)(3)	$ 9.888	$ 30,652,800

(1) Estimated using the volume-weighted average of the sales prices of our common stock on The Nasdaq Global Select Market for the 10 consecutive trading days ending on March 27, 2008.
(2) In connection with the offer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated, the dealer managers for this offer, will receive a fee for financial advisory, marketing and soliciting services equal to 4.0% of the subscription price per share for each share issued pursuant to the exercise of rights. We have also agreed to reimburse the dealer managers an aggregate of up to $100,000 for their expenses incurred in connection with the offer.
(3) Before deduction of the offering expenses incurred by us, estimated to be $1 million, including an aggregate of up to $100,000 to be paid to the dealer managers as partial reimbursement for their expenses as discussed in note 2 above.
(4) Assumes all rights are exercised at the estimated subscription price.

This prospectus concisely sets forth important information about us that you should know before investing in our common stock. Please read it before making an investment decision and keep it for future reference. As a public company, we file annual, quarterly and current reports, proxy statements and other information about us with the SEC. This information is available free of charge by writing to Kohlberg Capital Corporation, 295 Madison Avenue, 6th Floor, New York, New York 10017, by telephone by calling collect at (212) 455-8300 or by visiting our website at *http://www.kohlbergcap.com*. Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. The above telephone number may also be used to make stockholder inquiries. You may also obtain information about us from the SEC's website (*http://www.sec.gov*), which maintains the materials we file with the SEC.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Merrill Lynch & Co.

JMP Securities   Stifel Nicolaus

The date of this prospectus is , 2008.

As a result of the terms of this offer, stockholders who do not fully exercise their basic subscription rights should expect to own, upon completion of this offer, a smaller proportional interest in us than they owned prior to the offer. In addition, if the net proceeds per share from the offering are less than the net asset value per share, the offer may result in an immediate dilution of net asset value per share for all of our stockholders. Such dilution is not currently determinable because it is not known how many shares will be subscribed for, what the net asset value of our common stock will be on the expiration date for the offer or what the subscription price will be. If the net proceeds per share from the offering are substantially less than the current net asset value per share, such dilution could be substantial. Any such dilution will disproportionately affect non-participating stockholders. If the net proceeds per share from the offering are less than our net asset value per share, then all stockholders will experience a decrease in the net asset value per share held by them, irrespective of whether they exercise all or any portion of their rights. See "Risk Factors—Risks Related to an Investment in Our Shares—Your interest in us may be diluted" in this prospectus for more information.

You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any shares of common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any common stock imply that the information in this prospectus is accurate as of any later date or that the affairs of Kohlberg Capital Corporation have not changed since the date hereof. We will update the information in this prospectus to reflect any material changes occurring prior to the completion of this offering.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus and may not contain all of the information that is important to you. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. In this prospectus, unless the context otherwise requires, "Company," "Kohlberg Capital," "we," "us" and "our" refer to Kohlberg Capital Corporation (or Kohlberg Capital, LLC prior to the conversion described under "—Our Corporate Information"), in each case together with our wholly-owned portfolio company Katonah Debt Advisors, and "Katonah Debt Advisors" refers to Katonah Debt Advisors, L.L.C., together with any additional direct or indirect wholly-owned subsidiaries that we organize in connection with the business of Katonah Debt Advisors.

OVERVIEW

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization, which we refer to as "EBITDA," of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages collateralized loan obligation funds ("CLO Funds") that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., L.L.C. ("Kohlberg & Co."), a leading private equity firm focused on middle market investing. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

Our investment objective is to generate current income and capital appreciation from our investments. We also expect to continue to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

Including employees of Katonah Debt Advisors, some of whom also serve as officers of the Company, we employ an experienced team of 20 investment professionals and 31 total staff members. Dayl W. Pearson, our President and Chief Executive Officer ("CEO"), has been in the financial services industry for over 30 years. During the past 16 years, Mr. Pearson has focused almost exclusively in the middle market and has originated, structured and underwritten over $5 billion of debt and equity securities. R. Jon Corless, our Chief Investment Officer ("CIO"), has managed investment portfolios in excess of $4 billion at several institutions and has been responsible for managing portfolios of leveraged loans, high-yield bonds, mezzanine securities and middle market loans. E.A. Kratzman, our Vice President and the President of Katonah Debt Advisors, has more than 30 years of credit and investment experience and has participated in fundraising for 19 funds investing in loans, high-yield bonds and credit derivatives with an aggregate value of approximately $7 billion. Michael I. Wirth, our Chief Financial Officer ("CFO") and Chief Compliance Officer ("CCO"), has over 19 years of experience in the structured finance industry and has advised, originated and/or managed portfolios with an aggregate value of $15 billion. The Chairman of our Board of Directors and Investment Committee, Christopher Lacovara, is one of the two co-managing partners of Kohlberg & Co. and has completed more than 25 leveraged buyouts and add-on acquisitions with an aggregate value of approximately $3.5 billion and has served on the boards of directors of numerous private and publicly-traded middle market companies.

Recent Developments

Recent Market Developments. Recent events in the subprime mortgage sector have impacted the broader financial and credit markets and have reduced the availability of capital for both broadly syndicated loans (including capital available to invest through CLO Funds) and middle market loans. Even though we have no direct exposure to commercial or residential mortgage debt (subprime or otherwise) or other consumer borrowings, we believe that the recent reduction in liquidity may affect both our middle market investment business and the asset management business of Katonah Debt Advisors in several ways:

- We believe that the decrease in debt capital available to both corporate borrowers and private equity firms will increase our future interest income available for distributions to our stockholders and to investors in CLO Funds because of higher interest spreads on loans.
- We expect that greater structural protection that lenders require for new loans, such as lower overall financial leverage and maintenance financial covenants, will increase the opportunities for us to invest, since we have generally decided not to invest in highly leveraged or "covenant light" credit facilities.
- We expect that the interest spread on debt issued by future CLO Funds managed by Katonah Debt Advisors will need to be higher than that on debt of its existing CLO Funds, and that Katonah Debt Advisors may need to evaluate other fund structures to continue the growth in its assets under management and fee income. Current CLO market conditions delayed the completion of several CLO Funds which Katonah Debt Advisors had expected to complete during 2007 and may delay the completion of CLO Funds scheduled to be completed during 2008.

Recent Company Developments. On December 20, 2007, we committed to make an investment in a new distressed investment platform organized by Steven Panagos and Jonathan Katz and named Panagos/Katz Situational Investing ("PKSI"). Mr. Panagos was most recently national practice leader of Kroll Zolfo Cooper's Corporate Advisory and Restructuring Practice, and Mr. Katz was the founding partner of Special Situations Investing, a distressed investing vehicle of JPMorgan Chase & Co. ("JPMorgan"). We expect that funds managed by PKSI will invest in the debt and equity securities of companies that are restructuring due to financial or operational distress. We also expect that PKSI may selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. We committed to invest up to $2.5 million directly in PKSI through an investment in its Class A securities. We have a 35% economic interest in PKSI through our investment in its Class B securities on which we will receive our pro rata share of its operating income and may make an investment of up to $25 million in funds managed by PKSI, on which we will receive our pro rata share of such funds' investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of December 31, 2007, we had funded approximately $72,000 of our $2.5 million commitment to PKSI, which is an investment in PKSI's Class A securities.

On January 2, 2008, we acquired substantially all of the assets of Scott's Cove Capital Management LLC ("Scott's Cove"), an asset manager focused on an event-driven credit long short investment strategy. As a result of the acquisition, we acquired approximately $60 million of fee paying assets under management. We plan to integrate the Scott's Cove business within the Katonah Debt Advisors asset management platform. In connection with the acquisition, Katonah Debt Advisors entered into employment agreements with three Scott's Cove investment professionals, and we expect these individuals will assist us in structuring, raising and investing new funds to be managed by Katonah Debt Advisors.

On January 23, 2008, our wholly-owned asset management company, Katonah Debt Advisors, closed Katonah 2007-I CLO Ltd. ("Katonah 2007"), a new $315 million CLO Fund. Katonah Debt Advisors received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in the CLO Fund. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of this latest CLO Fund.

OUR PORTFOLIO

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other companies if we are presented with attractive opportunities. Our portfolio investments at fair value increased from $249 million at December 31, 2006 to $505 million as of December 31, 2007. The net increase in portfolio size was funded primarily with borrowings under our new credit facility and with the proceeds of the over-allotment option exercised in connection with our December 2006 initial public offering. During the year ended December 31, 2007, we also sold some of our initial portfolio of primarily first lien loans that were accumulated prior to completion of our initial public offering in order to move towards our targeted portfolio mix of first and second lien loans, mezzanine finance and equity securities. First lien loan balances at fair value increased to $260 million at December 31, 2007 from $163 million at December 31, 2006. Second lien, mezzanine loan and bond positions increased to $151 million at December 31, 2007 from $27 million at December 31, 2006. We had equity securities, other than CLO equity securities, totaling $5 million and investments in CLO Fund securities of $31 million at fair value as of December 31, 2007. The increase in investment positions is primarily a result of increased secured borrowings which finance such investment purchases. As of December 31, 2007, our investments in loans and debt securities had an annual weighted average interest rate of approximately 9.5%. For additional information regarding our investment portfolio and estimated net asset value as of December 31, 2007 see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Investment Securities.”

Investment in CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. As of December 31, 2007, we had $31 million invested in CLO Fund securities, including those issued by funds managed by Katonah Debt Advisors. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor’s most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. The CLO Funds managed by Katonah Debt Advisors invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or “excess spread” (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund’s subordinated securities or preferred stock. As of December 31, 2007, all of the CLO Funds in which we hold investments maintained the original issue credit ratings on all classes of their securities and were continuing to make cash payments to all classes of investors. As of December 31, 2007, our CLO Fund securities had an average annual cash yield of 28%.

Investment in Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. As a manager of the CLO Funds, Katonah Debt Advisors expects to receive contractual and recurring management fees and any subsequent incentive management fees from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock. Katonah Debt Advisors also typically receives one-time structuring fees upon the creation of a new CLO Fund. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by residential mortgages or other consumer borrowings. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management, and our 100% equity interest in the company was valued at approximately $59 million.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of December 31, 2007, approximately 63% of our investments were investments for which either market quotations were readily available ("marked to market") or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a market existed for such investments or from the values that would have been placed on such assets by other market participants, and the differences could be material. See "Risk Factors—Risks Related to Our Investments—Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments" and "Determination of Net Asset Value."

OUR STRATEGIC RELATIONSHIP WITH KOHLBERG & CO.

We believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co. The Chairman and co-managing partners of Kohlberg & Co., each of whom is a member of our Board of Directors, and, in the case of the co-managing partners, also members of our Investment Committee, each possesses on average more than 20 years of investment banking and middle market investing experience. Christopher Lacovara, one of the firm's two co-managing partners, serves as the Chairman of our Board of Directors and of our Investment Committee. Through such participation, we have access to the expertise of these individuals in the middle market and leveraged investing, which we believe enhances our capital raising, due diligence, investment selection and credit analysis activities. Affiliates of Kohlberg & Co., including those who serve on our Board of Directors and on our Investment Committee, will own, in the aggregate, approximately 14% of our outstanding common stock immediately following the completion of this offering, assuming that 3,100,000 shares of our common stock are sold. Kohlberg & Co. is a leading U.S. private equity firm which manages investment funds that acquire middle market companies. Since its founding in 1987, Kohlberg & Co. has organized six private equity funds, through which it has raised approximately $3.5 billion of committed capital and completed more than 80 platform and add-on acquisitions with an aggregate value of approximately $7 billion.

Because we are an internally managed BDC, we do not pay any fees to Kohlberg & Co. or any of its affiliates. Under the 1940 Act, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior approval of the Securities and Exchange Commission (the "SEC"). In addition, we may co-invest on a concurrent basis with Kohlberg & Co. or any of our affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

COMPETITIVE ADVANTAGES

We believe that we can successfully compete with other providers of capital in the markets in which we compete for the following reasons:

- **Internally managed structure and significant management resources**. We are internally managed by our executive officers under the supervision of our Board of Directors and do not depend on a third party investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs and to make distributions to our stockholders.
- **Multiple sourcing capabilities for assets**. We have multiple sources of loans, mezzanine investments and equity investments through our industry relationships, Katonah Debt Advisors and our strategic relationship with Kohlberg & Co. From January 1, 2007 through December 31, 2007, we reviewed 595 investment opportunities, which resulted in 50 completed transactions and a total gross investment of $374 million.
- **Disciplined investment process**. We employ a rigorous credit review process and due diligence intensive investment strategy which our senior management has developed over more than 20 years of lending. For each analyzed company, we develop our own underwriting case and multiple stress case scenarios and an event-specific financial model reflecting company, industry and market variables. Generally, both we and the CLO Funds managed by Katonah Debt Advisors have decided not to invest in highly leveraged or "covenant light" credit facilities.
- **Katonah Debt Advisors' credit platform**. Katonah Debt Advisors serves as a source of our direct investment opportunities and cash flow, and certain credit analysts employed by Katonah Debt Advisors who also serve as officers of the Company serve as a resource for credit analysis.
- **Investments in a wide variety of portfolio companies in a number of different industries with no exposure to mortgage-backed securities**. Our investment portfolio (excluding our investments in Katonah Debt Advisors and CLO Fund securities) is spread across 26 different industries and 91 different entities with an average balance per investment of approximately $5 million. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.
- **Strategic relationship with Kohlberg & Co**. We believe that Kohlberg & Co. is one of the oldest and most well-known private equity firms focused on the middle market, and we expect to continue to derive substantial benefits from our strategic relationship with Kohlberg & Co.
- **Significant equity ownership and alignment of incentives**. Our senior management team, the senior management team of Katonah Debt Advisors and affiliates of Kohlberg & Co. together have a significant equity interest in the Company, ensuring that their incentives are strongly aligned with those of our stockholders.

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RISK FACTORS

Investing in this offering involves significant risks. The following is a summary of certain risks that you should carefully consider before investing in our common stock. For a further discussion of these risk factors, please see “Risk Factors” beginning on page 17.

Risks Related to Our Business

- We have a limited operating history.
- We are dependent upon senior management for our future success, and if we are unable to hire and retain qualified personnel or if we lose any member of our senior management team, our ability to achieve our investment objective could be significantly harmed.
- We operate in a highly competitive market for investment opportunities.
- If we are unable to source investments effectively, we may be unable to achieve our investment objective.
- There is a risk that we may not make distributions.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash equal to such income.
- We may incur losses as a result of “first loss” agreements, including Katonah Debt Advisors’ agreement with Bear Stearns & Co. Inc. (“Bear Stearns”), into which we or Katonah Debt Advisors may enter in connection with warehousing credit arrangements which we put in place prior to raising a CLO Fund and pursuant to which we agree to reimburse credit providers for a portion of losses (if any) on warehouse investments.
- Any unrealized losses we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution.
- We may experience fluctuations in our quarterly and annual operating results and credit spreads.
- We are exposed to risks associated with changes in interest rates and spreads.
- The debt we incur could increase the risk of investing in our Company.
- Because we have outstanding indebtedness, we are exposed to additional risks, including the typical risks associated with leverage.
- The agreements governing our securitized revolving credit facility (“credit facility”) contain various covenants that limit our discretion in operating our business and also include certain financial covenants.
- Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, we will need additional capital to finance our growth.
- Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.

Risks Related to Our Investments

- Our investments may be risky, and you could lose all or part of your investment.
- Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments.

- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers, which subjects us to a risk of significant loss if any of these issuers defaults on its obligations under any of its debt instruments or as a result of a downturn in the particular industry.
- Economic recessions or downturns could negatively impact our portfolio companies and harm our operating results.
- Defaults by our portfolio companies could harm our operating results.
- When we are a debt or minority equity investor in a portfolio company, which generally is the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Prepayments of our debt investments by our portfolio companies could negatively impact our operating results.
- Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Our investments in equity securities involve a substantial degree of risk.
- The lack of liquidity in our investments may adversely affect our business.
- We may not receive all or a portion of the income we expect to continue to receive from Katonah Debt Advisors.
- We may not receive any return on our investment in the CLO Funds in which we have invested and we may be unable to raise additional CLO Funds.

Risks Related to Our Operation as a BDC

- Our management team has limited experience managing a BDC.
- Our ability to enter into transactions with our affiliates is restricted.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.
- If we do not invest a sufficient portion of our assets in “qualifying assets,” we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.
- If we are unable to qualify as a Regulated Investment Company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”), we will be subject to corporate-level U.S. federal income tax, which will adversely affect our results of operations and financial condition.

Risks Related to an Investment in Our Shares

- Investing in shares of our common stock may involve an above average degree of risk.
- Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following the offer.

- We may allocate the net proceeds from this offer, to the extent it is successful, in ways with which you may not agree.
- Our share price may be volatile and may fluctuate substantially.
- There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.
- Your interest in us may be diluted.
- If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our common stock could decline.
- Our principal stockholders will continue to have substantial ownership in us after this offering, which could limit your ability to influence the outcome of key transactions, including a change of control. In addition, some of our stockholders may have interests in Kohlberg Capital that differ from yours.
- Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

OUR QUALIFICATION AS A REGULATED INVESTMENT COMPANY

As a RIC under Subchapter M of the Code, we intend to distribute to our stockholders (i) substantially all of our net investment income and the excess, if any, of realized net short-term capital gains over realized net long-term capital losses (together referred to in this prospectus as “net investment company income”), plus (ii) any net capital gains (the excess, if any, of realized long-term capital gains over short-term capital losses). We intend to do so because to qualify for treatment as a RIC eligible for pass-through treatment, we must, among other things, meet certain source-of-income, asset diversification and distribution requirements. As a RIC eligible for pass-through tax treatment, we generally will not have to pay corporate-level taxes on any of our income and gains that we distribute to our stockholders. See “Certain U.S. Federal Income Tax Considerations—Taxation as a Regulated Investment Company.” On March 13, 2007 we declared a dividend in the amount of $0.29 per share, on June 8, 2007 we declared a dividend in the amount of $0.35 per share, on September 24, 2007 we declared a dividend in the amount of $0.37 per share, on December 14, 2007 we declared a dividend in the amount of $0.39 per share and on March 14, 2008 we declared a dividend in the amount of $0.41 per share. These dividends represented our estimated net investment company income for the quarters ended March 31, 2007, June 30, 2007, September 30, 2007, December 31, 2007 and March 31, 2008, plus a portion of our undistributed 2006 net investment company income.

OUR CORPORATE INFORMATION

We were organized in August 2006 as a Delaware limited liability company under the name Kohlberg Capital, LLC. Prior to the completion of our initial public offering, we acquired 100% of the equity interests in Katonah Debt Advisors, an entity through which Kohlberg & Co. historically conducted its middle market lending and asset management business, made an election to be regulated as a BDC, and converted to a Delaware corporation. Upon the completion of our initial public offering, we used approximately $185 million of the net proceeds to acquire a portfolio of senior secured term loans from an entity organized by Katonah Debt Advisors. We have elected to be treated as a RIC under Subchapter M of the Code, commencing with our taxable year ended December 31, 2006.

Our principal executive offices are located at 295 Madison Avenue, 6th Floor, New York, New York 10017, and our telephone number is (212) 455-8300. We maintain a website on the Internet at *http://www.kohlbergcap.com.* Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

THE RIGHTS OFFERING

The Offer	We are issuing to stockholders of record, or record date stockholders, on March 31, 2008, the record date, one transferable right for each six shares of our common stock held on the record date (1 for 6). Each holder of the rights, or rights holder, is entitled to subscribe for one share of our common stock for every right held, which we refer to as the basic subscription right. We will not issue fractional rights; we will round up the rights issuable to you to the next whole right. Rights may be exercised at any time during the subscription period, which commences on March 31, 2008, the record date, and ends at 5:00 p.m., New York City time, on April 28, 2008, the expiration date, unless extended by us in our sole discretion. The rights will expire on the expiration date of the offer and may not be exercised thereafter. You will have no right to rescind your purchase after receipt of your payment of the estimated subscription price for each share subscribed for under your subscription rights except as described in this prospectus. The rights are transferable and will be listed on The Nasdaq Global Select Market under the symbol “KCAPR.” See “The Rights Offering.”
Subscription Price	The subscription price per share will be % of the volume-weighted average of the sales prices of our common stock on The Nasdaq Global Select Market for the consecutive trading days ending on the expiration date of the offering.
Estimated Subscription Price	The estimated subscription price is $10.30 per share. Because the subscription price will be determined on the expiration date, rights holders who decide to acquire shares pursuant to their basic subscription rights or pursuant to the over-subscription privilege will not know the actual purchase price of those shares when they make that decision. If the actual subscription price is lower, excess payments will be refunded (without interest), and if the actual subscription price is higher, rights holders exercising their rights must make an additional payment by May 26, 2008. See “The Rights Offering—The Subscription Price.”
Over-Subscription Privilege	Record date stockholders who fully exercise all rights issued to them are entitled to subscribe for additional shares of our common stock which were not subscribed for by other stockholders, which we refer to as the remaining shares. If sufficient remaining shares of our common stock are available, all record date stockholders’ over-subscription requests will be honored in full. In addition, any non-record date rights holder who exercises rights is entitled to subscribe for remaining shares that are not otherwise subscribed for by record date stockholders. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and allocation. See “The Rights Offering—Over-Subscription Privilege.”

Purpose of the Offer	Our Board of Directors has determined in good faith that the offer would result in a net benefit to the existing stockholders because it increases the equity capital available for making additional investments, and may also be available to pay operating expenses or to repay debt. In order to continue to execute our investment objective, we must have sufficient liquidity available to make additional investments. At our currently anticipated pace of investment activity, and given our current capital commitments, we believe that we will have limited capital available for new investments in the remainder of 2008 unless we increase our capital resources. The offer gives existing stockholders the right to purchase additional shares at a price that is expected to be below the then- current trading price, while providing us access to additional capital resources. In connection with the approval of this offer, our Board of Directors considered, among other things, the following factors: • the subscription price relative to the market price and to our net asset value per share; • the increased equity capital to be available upon completion of the offer for making additional investments consistent with our investment objective; • the net asset value and ownership dilution to be experienced by non-participating stockholders; • the terms and expenses in connection with the offer relative to other alternatives for raising capital, including fees payable to the dealer managers; • the size of the offer in relation to the number of shares outstanding; • the market price of our common stock; and • the general condition of the securities markets. We can provide no assurance that the current offer will be successful, or that by increasing the size of our available equity capital our expense ratio or debt ratio will be lowered.
Dilutive Effects	This offer will dilute the ownership interest and voting power of stockholders who do not fully exercise their basic subscription rights. Further, because the net proceeds per share from the offering may be at a discount to our net asset value per share, the offer may reduce our net asset value per share. The amount of dilution that a stockholder will experience could be substantial. Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset values. This characteristic of investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below our net asset value.

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	The transferable feature of the rights will afford non-participating stockholders the potential of receiving cash payment upon the sale of the rights, receipt of which may be viewed (from a non-tax perspective) as partial compensation for the dilution of their interests.
Use of Proceeds	We intend to use approximately 100% of the net proceeds of this offering to reduce existing indebtedness under our credit facility. Any reduction of our indebtedness through the use of proceeds of this offering is expected to be only temporary, and we expect to utilize our credit facility for additional borrowings in accordance with our investment objective and strategy and relevant legal rules applicable to BDCs. See "Use of Proceeds."
How to Obtain Subscription Information	• Contact your broker-dealer, trust company, bank or other nominee where your rights are held; or • Contact the subscription agent, American Stock Transfer & Trust Company, toll-free at (877) 248-6417.
How to Subscribe	• Deliver a completed subscription certificate and full payment of the estimated subscription price for each share subscribed for under your subscription rights (including shares subscribed for through the exercise of the over-subscription privilege) to the subscription agent by the expiration date of the offer; or • If your shares are held in an account with your broker-dealer, trust company, bank or other nominee, which qualifies as an "Eligible Guarantor Institution" under Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), instruct your Eligible Guarantor Institution to deliver a notice of guaranteed delivery to the subscription agent by the expiration date of the offer.
Distribution Arrangements	Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated will act as dealer managers for the offering. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer managers will provide financial advisory and marketing services in connection with the offering and will solicit the acquisition and/or exercise of rights by our stockholders and others and participation in the over-subscription privilege by our stockholders and others. The offering is not contingent upon any number of rights being exercised. We have agreed to pay the dealer managers a fee for their financial advisory, marketing and soliciting services equal to 4.0% of the aggregate subscription price for shares issued pursuant to the exercise of rights, including pursuant to the over-subscription privilege. The dealer managers will reallow a portion of their fees to other broker-dealers that have assisted in soliciting the exercise of rights. In addition, we have agreed to reimburse the dealer managers for up to $100,000 for their expenses incurred in connection with the offering. We have also agreed to indemnify the dealer managers for, or contribute to losses arising out of, certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

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Subscription Agent	American Stock Transfer & Trust Company, which we call the subscription agent, will act as the subscription agent in connection with this offer.
Information Agent	The Altman Group, Inc., which we call the information agent, will act as the information agent in connection with this offer.
Important Dates to Remember	

Record Date	March 31, 2008
Subscription Period from	March 31, 2008
to	April 28, 2008(1)
Last Day Rights May Be Traded	April 25, 2008(1)
Expiration Date	April 28, 2008(1)
Deadline for Delivery of Subscription Certificates and Payment for Shares	April 28, 2008(1)
Deadline for Delivery of Notice of Guaranteed Delivery(2)	April 28, 2008(1)
Confirmations Mailed to Participants	May 12, 2008(1)
Final Payment for Over-Subscription Shares	May 26, 2008(1)

(1) Unless the offer is extended.
(2) Participating rights holders must, by the expiration date of the offer (unless the offer is extended), either (i) deliver a subscription certificate and payment of the estimated subscription price for each share subscribed for under their subscription rights (including shares subscribed for through the exercise of the over-subscription privilege) or (ii) cause to be delivered on their behalf a notice of guaranteed delivery.

Amendments; Termination	We reserve the right to amend the terms and conditions of the offering, whether the amended terms are more or less favorable to you. We also reserve the right to terminate the offering prior to delivery of the common stock if the subscription price is less than 70% of the net asset value attributable to a share of our common stock disclosed in the most recent periodic report we filed with the SEC by giving oral or written notice thereof to the subscription agent and making a public announcement thereof. See “The Rights Offering—Amendments; Termination.”
Listing	Our common stock is traded on The Nasdaq Global Select Market under the symbol “KCAP.”
Distributions	We intend to continue to pay quarterly dividends to our stockholders. Our quarterly dividends are determined by our Board of Directors. On March 13, 2007 we declared a dividend in the amount of $0.29 per share, which was paid on April 17, 2007 to stockholders of record on April 6, 2007, on June 8, 2007 we declared a dividend in the amount of $0.35, which was paid on July 23, 2007 to stockholders of record on July 9, 2007, on September 24, 2007 we declared a dividend in the amount of $0.37 per share, which was paid on October 26, 2007 to stockholders of record on October 10, 2007, on December 14, 2007 we declared a dividend in the amount of $0.39 per share, which was paid on January 24, 2008 to stockholders of record on December 24,

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	2007, and on March 14, 2008 we declared a dividend in the amount of $0.41 per share, which is payable on April 28, 2008 to stockholders of record on April 8, 2008. See “Distributions.”
Dividend Reinvestment Plan	We have adopted a dividend reinvestment plan through which cash dividends are automatically reinvested in additional shares of our common stock, unless a stockholder opts out of the plan and elects to receive cash. Stockholders who receive distributions in the form of stock generally are subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election. See “Dividend Reinvestment Plan.”
Leverage	We borrow funds under our credit facility to make additional investments. This practice, which is known as “leverage,” allows us to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See “Risk Factors—Risks Related to Our Business—The debt we incur could increase the risk of investing in our Company.” As a BDC, we generally are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.
Risk Factors	Investing in our common stock involves certain significant risks relating to our structure and our investment objective that you should consider before deciding whether to invest in our common stock. See “Risk Factors” for a discussion of factors you should carefully consider before deciding whether to invest in our common stock.
Certain Anti-Takeover Measures	Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. This could delay or prevent a transaction that could give our stockholders the opportunity to realize a premium over the price for their securities. See “Description of Capital Stock.”
Where You Can Find Additional Information	We have filed with the SEC a registration statement on Form N-2, which includes related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus.

Our common stock is registered under the Exchange Act, and we are required to file reports, proxy statements and other information with the SEC. The materials we file are available at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC’s public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, at *http://www.sec.gov*, that contains reports, proxy and information statements, and other information regarding issuers, including us, that file documents electronically with the SEC.

FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "us" or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in the Company. The discussion below assumes full exercise of all rights issued in this offering.

STOCKHOLDER TRANSACTION EXPENSES (as a percentage of the offering price)

Sales Load	4.0%(1)
Offering Expenses Borne by Us	3.0%(2)
Dividend Reinvestment Plan Fees	—%(3)
Total Stockholder Transaction Expenses	7.0%

ANNUAL EXPENSES (as a percentage of net assets attributable to common stock)(4)

Operating Expenses	2.6%(5)
Interest Payments on Borrowed Funds	3.8%(6)
Total Annual Expenses	6.4%(7)

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in the Company. These amounts are based upon payment by the Company of operating expenses at the levels set forth in the table above which, except as indicated above, does not include leverage or related expenses.

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 133	$ 260	$ 387	$ 705

(1) We have agreed to pay the dealer managers a fee for their financial advisory, marketing and soliciting services equal to 4.0% of the aggregate subscription price for the shares issues pursuant to the offer. See "The Rights Offering—Distribution Arrangements."

(2) The percentage reflects estimated offering expenses of approximately $1 million.

(3) The expenses associated with the administration of our dividend reinvestment plan are included in "Other Expenses." The participants in the dividend reinvestment plan pay a pro rata share of brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see "Dividend Reinvestment Plan."

(4) "Net assets attributable to common stock" equals net assets (*i.e.*, total assets less total liabilities), which was approximately $259 million as of December 31, 2007, is estimated to be approximately $289 million immediately following the completion of this offering.

(5) "Operating Expenses" represents an estimate of our annual operating expense. We do not have an investment adviser. We are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees. Instead we pay the operating costs associated with employing investment management professionals.

(6) "Interest Payments on Borrowed Funds" represents an estimate of our annual interest expense based on

(footnotes continued on following page)

payments assumed to be made under our credit facility. This estimate assumes that we borrow for investment purposes an amount equal to 47% of our total assets at a per annum interest rate of approximately 4%. Actual interest payments may differ from the amount shown.

(7) “Total Annual Expenses” is the sum of “Operating Expenses” and “Interest Payments on Borrowed Funds.”

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. Moreover, while the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See “Dividend Reinvestment Plan” for additional information regarding our dividend reinvestment plan.

SELECTED FINANCIAL AND OTHER DATA

The selected financial and other data beginning on page 50 of this prospectus should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto located elsewhere in this prospectus.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you invest in shares of our common stock, you should be aware of various significant risks, including those described below. You should carefully consider these risks, together with all of the other information included in this prospectus, before you decide whether to make an investment in our common stock. The risks set forth below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of our operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We have a limited operating history.

We were organized in August 2006 to continue the middle market investment business and asset management business of Katonah Debt Advisors, which was organized in 2005 by Kohlberg & Co. Katonah Debt Advisors commenced its asset management operations with the hiring of E.A. Kratzman, its President (who also serves as our Vice President and a member of our Investment Committee), in June 2005 and began its middle market lending operations in February 2006 with the hiring of Dayl W. Pearson, who serves as our President and CEO, and R. Jon Corless, who serves as our CIO. In December 2006, we completed an initial public offering of our common stock and our common stock was listed on The Nasdaq Global Select Market. We have a limited operating history. As a result, we have limited operating results which demonstrate our ability to manage our business. We are subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that we will not achieve our investment objective and that the value of your investment in us could decline substantially.

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

We depend on the members of our senior management as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships that we rely on to implement our business plan. Our future success depends on the continued service of our senior management team and our Board of Directors. The departure of any of the members of our senior management or a significant number of our senior personnel could have a material adverse effect on our ability to achieve our investment objective. As a result, we may not be able to operate our business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer.

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with other BDCs, as well as a large number of investment funds, investment banks and other sources of financing, including traditional financial services companies, such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other 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. This may enable some of our competitors to make commercial loans with interest rates that are comparable to or lower than the rates we typically offer. We may lose prospective portfolio investments if we do not match our competitors’ pricing, terms and structure. If we do match our competitors’ pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. 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, establish more relationships and build their market shares. Furthermore, many of our potential competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities or that we will be able to fully invest our available capital. If we are not able to compete effectively, our business and financial condition and results of operations will be adversely affected. Although Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but do not fit the investment profile of Kohlberg & Co. or its affiliates, no such referral to date has resulted in an investment by us or Katonah Debt Advisors.

If we are unable to source investments effectively, we may be unable to achieve our investment objective.

Our ability to achieve our investment objective depends on our senior management team's ability to identify, evaluate, finance and invest in suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our marketing capabilities, our management of the investment process, our ability to provide efficient services and our access to financing sources on acceptable terms. In addition to monitoring the performance of our existing investments, members of our management team and our investment professionals may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time may distract them or slow the rate of investment. To grow, we need to continue to hire, train, supervise and manage new employees and to implement computer and other systems capable of effectively accommodating our growth. However, we cannot assure you that any such employees will contribute to the success of our business or that we will implement such systems effectively. Failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

There is a risk that we may not make distributions.

We intend to continue to make distributions on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at historical or any specific levels or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. See "Distributions." Also, restrictions and provisions in our credit facility may limit our ability to make distributions. See "Obligations and Indebtedness." If we do not distribute a certain percentage of our income annually, we could fail to qualify for tax treatment as a RIC and we would be subject to corporate level U.S. federal income tax. See "Certain U.S. Federal Income Tax Considerations." We cannot ensure that we will make distributions at historical or any other specified levels or at all.

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

In accordance with accounting principles generally accepted in the United States ("GAAP") and the Code, we include in income certain amounts that we have not yet received in cash, such as contracted payment-in-kind ("PIK") interest, which represents contractual interest added to the loan balance and due at the end of the loan term. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end of term payments, exit fees, balloon payment fees or prepayment fees. The increases in loan balances as a result of contracted PIK arrangements are included in income for the period in which such PIK interest was received, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income certain other amounts that we will not receive in cash. Any warrants that we receive in connection with our debt investments generally are valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants is allocated to the warrants that we receive. This generally results in "original issue discount" for tax purposes, which we must recognize as ordinary income, increasing the amounts we are required to distribute to qualify as a RIC eligible for pass-through tax treatment.

Because such original issue discount income might exceed the amount of cash received in a given year with respect to such investment, we might need to obtain cash from other sources to satisfy such distribution requirements. Other features of the debt instruments that we hold may also cause such instruments to generate original issue discount, resulting in a dividend distribution requirement in excess of current cash received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. If we are unable to meet these distribution requirements, we will not qualify for tax treatment as a RIC or, even if such distribution requirement is satisfied, we may be subject to tax on the amount that is undistributed. Accordingly, we may have to sell some of our assets, raise additional debt or equity securities or reduce new investment originations to meet these distribution requirements and avoid tax. See “Certain U.S. Federal Income Tax Considerations.”

We may incur losses as a result of “first loss” agreements, including Katonah Debt Advisors’ agreement with Bear Stearns, into which we or Katonah Debt Advisors may enter in connection with warehousing credit arrangements which we put in place prior to raising a CLO Fund and pursuant to which we agree to reimburse credit providers for a portion of losses (if any) on warehouse investments.

We and Katonah Debt Advisors have entered into “first loss” agreements in connection with warehouse credit lines established by Katonah Debt Advisors to fund the initial accumulation of loan investments for future CLO Funds that Katonah Debt Advisors will manage, and may enter into similar agreements in the future. Such agreements (referred to as “first loss agreements” or “first loss obligations” in this prospectus) relate to (i) losses as a result of individual loan investments being ineligible for purchase by the CLO Fund (typically due to a payment default on such loan) when such fund formation is completed or, (ii) if the CLO Fund has not been completed before the expiration of the warehouse credit line, the loss (if any, and net of any accumulated interest income) on the resale of such loans funded by the warehouse credit line. As a result, we may incur losses if loans and debt obligations that had been purchased in the warehouse facility become ineligible for inclusion in the CLO Fund or if a planned CLO Fund does not close. In connection with the closing of Katonah 2007 in January 2008, Katonah Debt Advisors’ maximum first loss guarantee amount under its commitment letter with Bear Stearns & Co. Inc. (“Bear Stearns”) was reduced from $22.5 million to $18 million. If the portfolio of remaining warehoused assets accumulated under the Bear Stearns warehouse credit facility had been liquidated on February 29, 2008, Katonah Debt Advisors’ first loss obligation would have been $18 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Commitments and Off-Balance Sheet Arrangements.”

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

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at the fair value as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized losses. Any unrealized losses in our loan portfolio could be an indication of a portfolio company’s inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods.

We may experience fluctuations in our quarterly and annual operating results and credit spreads.

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

We are exposed to risks associated with changes in interest rates and spreads.

Changes in interest rates may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest spreads on new investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including mezzanine securities and high-yield bonds, and also could increase our interest expense, thereby decreasing our net income. An increase in interest rates due to an increase in credit spreads, regardless of general interest rate fluctuations, could also negatively impact the value of any investments we hold in our portfolio. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

The debt we incur could increase the risk of investing in our Company.

As of December 31, 2007, we had $255 million of outstanding indebtedness, with available additional borrowing capacity of $20 million under our credit facility, which accrues interest based on prevailing commercial paper rates plus 0.85% (or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread) and matures on October 1, 2012. We expect to continue to borrow from, and issue senior debt securities to, banks, insurance companies and other lenders, including pursuant to our credit facility. See “Obligations and Indebtedness.” Lenders have fixed dollar claims on our assets that are superior to the claims of our stockholders, and we may grant a security interest in our assets in connection with our borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leverage would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not used leverage. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures.

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

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

Assumed Return on our Portfolio (Net of Expenses)	–10%	–5%	0%	5%	10%
Corresponding Return to Common Stockholder(1)	–24%	–14%	–4%	6%	16%

(1) Assumes (i) that we borrow an amount equal to 47% of our total assets which is estimated to be approximately $533 million immediately following the completion of this offering, (ii) approximately $225 million in debt outstanding, (iii) approximately $289 million in stockholders’ equity and (iv) an average cost of funds of approximately 4%. Actual interest payments may be different.

Because we have outstanding indebtedness, we are exposed to additional risks, including the typical risks associated with leverage.

We borrow funds or may issue senior securities, pursuant to our existing credit facility or other agreements, to make additional investments. With certain limited exceptions, we are only allowed to borrow amounts or issue senior securities such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing or issuance. The amount of leverage that we employ will depend on our management's and our Board of Directors' assessment of market and other factors at the time of any proposed borrowing. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations of stockholders, including:

- a likelihood of greater volatility of net asset value and market price of our common stock than a comparable portfolio without leverage;
- exposure to increased risk of loss if we incur debt or issue senior securities to finance investments because a decrease in the value of our investments would have a greater negative impact on our returns and therefore the value of our common stock than if we did not use leverage;
- that the covenants contained in the documents governing the credit facility or other debt instruments could restrict our operating flexibility. Such covenants may impose asset coverage or investment portfolio composition requirements that are more stringent than those imposed by the 1940 Act and could require us to liquidate investments at an inopportune time; and
- that we, and indirectly our stockholders, will bear the cost of leverage, including issuance and servicing costs (*i.e.*, interest).

Any requirement that we sell assets at a loss to redeem or pay interest or dividends on any leverage, or for other reasons, would reduce our net asset value and also make it difficult for the net asset value to recover. Our Board of Directors, in their judgment, nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

The agreements governing our credit facility contain various covenants that limit our discretion in operating our business and also include certain financial covenants.

We have entered into a credit facility that is backed by a revolving pool of loans. Under the credit facility, we are subject to limitations as to how borrowed funds may be used, including restrictions on geographic and industry concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings, as well as regulatory restrictions on leverage which may affect the amount of funding that may be obtained. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, a violation of which could result in the early amortization of the credit facility, limit further advances and, in some cases, result in an event of default. An event of default under the credit facility would result, among other things, in the termination of the availability of further funds under the credit facility and an accelerated maturity date for all amounts outstanding under the credit facility, which would likely disrupt our business and, potentially, the portfolio companies whose loans we financed through the credit facility. This could reduce our revenues and, by delaying any cash payment allowed to us under the credit facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our qualification as a RIC. If we default under certain provisions of the credit facility, the remedies available to the lender may limit our ability to declare dividends. Moreover, we cannot assure you that we will be able to borrow funds under the credit facility at any particular time or at all. For a more detailed discussion of the credit facility, see "Obligations and Indebtedness."

Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, we will need additional capital to finance our growth.

In order to qualify as a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our stockholders). As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our loan and investment portfolio, this limitation may prevent us from incurring debt and require us to issue additional equity at a time when it may be disadvantageous to do so. While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline. On March 13, 2007, June 8, 2007, September 24, 2007, December 14, 2007 and March 14, 2008 we declared dividends in the amount of $0.29 per share, $0.35 per share, $0.37 per share, $0.39 per share and $0.41 per share, respectively. These dividends represented our estimated distributable income for the quarters ended March 31, 2007, June 30, 2007, September 30, 2007, December 31, 2007 and March 31, 2008, plus a portion of our undistributed 2006 distributable income.

Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.

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

Risks Related to Our Investments

Our investments may be risky, and you could lose all or part of your investment.

We invest primarily in senior secured term loans, mezzanine debt and selected equity investments issued by middle market companies.

Secured Loans. When we extend secured term loans, we generally take a security interest (either as a first lien position or as a second lien position) in the available assets of these portfolio companies, including the equity interests of their subsidiaries, which we expect to assist in mitigating the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to exercise our remedies.

Mezzanine Debt. Our mezzanine debt investments generally are subordinated to senior loans and generally are unsecured. This may result in an above average amount of risk and volatility or loss of principal.

These investments may entail additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt is subject to greater fluctuations in value based on changes in interest rates and such debt could subject us to phantom income. Since we generally do not receive any cash prior to maturity of the debt, the investment is of greater risk.

Equity Investments. We expect to make selected equity investments. In addition, when we invest in senior secured loans or mezzanine debt, we may acquire warrants. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Risks Associated with Middle Market Companies. Investments in middle market companies also involve a number of significant risks, including:

- limited financial resources and inability to meet their obligations, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing the value of any guarantees we may have obtained in connection with our investment;
- 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;
- dependence on management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- less predictable operating results, being parties to litigation from time to time, engaging in rapidly changing businesses with products subject to a substantial risk of obsolescence, and requiring substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- difficulty accessing the capital markets to meet future capital needs; and
- generally less publicly available information about their businesses, operations and financial condition.

Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments.

Our investments consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value. We value these securities at fair value as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. These valuations are initially prepared by our management and reviewed by our Valuation Committee which utilizes its best judgment in arriving at the fair value of these securities. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Where appropriate, our Board of Directors utilizes the services of an independent valuation firm to aid it in determining fair value, particularly in the case of our investments in CLO Funds and in Katonah Debt Advisors, which are valued quarterly, and investments in mezzanine and equity securities, which are valued regularly. The independent valuation firm provides third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. The types of factors that may be considered in valuing our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly-traded companies, discounted cash flow and other relevant factors. The value of our investment in Katonah Debt Advisors is determined based on a percentage of the assets under management and a multiple of its operating income, both of which are based, in part, on an analysis of the valuation of comparable asset management companies. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed or from the valuations that would be placed on our assets by other market participants. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers, which subjects us to a risk of significant loss if any of these issuers defaults on its obligations under any of its debt instruments or as a result of a downturn in the particular industry.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers in a limited number of industries. As of December 31, 2007, our largest investment, our 100% equity interest in Katonah Debt Advisors, equaled approximately 12% of the fair value of our investments. Beyond the asset diversification requirements associated with our qualification as a RIC (as described further in "Certain U.S. Federal Income Tax Considerations"), we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may become significantly represented among our investments. In accordance with our current policy, we will not "concentrate" our investments, that is, invest 25% or more of our assets in any particular industry (determined at the time of investment). However, to the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer or a downturn in any particular industry. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company.

Economic recessions or downturns could negatively impact our portfolio companies and harm our operating results.

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

Defaults by our portfolio companies could harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other debt holders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets. Such events could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

When we are a debt or minority equity investor in a portfolio company, which generally is the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

Most of our investments are either debt or minority equity investments in our portfolio companies. Therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings. In addition, we generally are not in a position to control any portfolio company by investing in its debt securities.

Prepayments of our debt investments by our portfolio companies could negatively impact our operating results.

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

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

We invest primarily in debt securities issued by our portfolio companies. In some cases portfolio companies are permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders thereof are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we may have structured certain of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the size of our investment and the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower’s business or exercise control over the borrower. It is possible that we could become subject to a lender’s liability claim, including as a result of actions taken if we actually render significant managerial assistance.

Our investments in equity securities involve a substantial degree of risk.

We may purchase common stock and other equity securities, including warrants. Although equity securities have historically generated higher average total returns than fixed-income securities over the long term, equity securities have also experienced significantly more volatility in those returns. The equity securities we acquire may fail to appreciate and may decline in value or become worthless, and our ability to recover our investment depends on our portfolio company's success. Investments in equity securities involve a number of significant risks, including the risk of further dilution as a result of additional issuances, inability to access additional capital and failure to pay current distributions. Investments in preferred securities involve special risks, such as the risk of deferred distributions, credit risk, illiquidity and limited voting rights.

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

We invest in securities issued by private companies. These securities may be subject to legal and other restrictions on resale or otherwise be less liquid than publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. 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 these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. Our investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

We may not receive all or a portion of the income we expect to continue to receive from Katonah Debt Advisors.

We expect to continue to receive distributions of recurring fee income, after the payment of its expenses, from the asset management activities of Katonah Debt Advisors. However, the existing asset management agreements pursuant to which Katonah Debt Advisors receives such fee income from the CLO Funds for which it serves as manager may be terminated for "cause" by the holders of a majority of the most senior class of securities issued by such CLO Funds and the holders of a majority of the subordinated securities issued by such CLO Funds. "Cause" is defined in the asset management agreements to include a material breach by Katonah Debt Advisors of the indenture governing the applicable CLO Fund, breaches by Katonah Debt Advisors of certain specified provisions of the indenture, material breaches of representations or warranties made by Katonah Debt Advisors, bankruptcy or insolvency of Katonah Debt Advisors, fraud or criminal activity on the part of Katonah Debt Advisors or an event of default under the indenture governing the CLO Funds. We expect that future asset management agreements will contain comparable provisions. Further, a significant portion of the asset management fees payable to Katonah Debt Advisors under the asset management agreements are subordinated to the prior payments of interest on the senior securities issued by the CLO Funds. If the asset management agreements are terminated or the CLO Funds do not generate enough income to pay the subordinated management fees, we will not receive the fee income that we expect to continue to receive from Katonah Debt Advisors, which will reduce income available to make distributions to our stockholders.

We may not receive any return on our investment in the CLO Funds in which we have invested and we may be unable to raise additional CLO Funds.

As of December 31, 2007, we had $31 million invested in the subordinated securities or preferred shares issued by CLO Funds managed by Katonah Debt Advisors and certain other third party asset managers. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. We expect to continue to acquire subordinated securities in the future in CLO Funds managed by Katonah Debt Advisors and/or third party managers. These subordinated securities are the most junior class of securities issued by the CLO Funds and are subordinated in priority of payment to each other class of securities issued by these CLO Funds. Therefore, they only receive cash distributions if the CLO Funds have made all cash interest payments to all other debt securities issued by the CLO Fund. The subordinated securities are also unsecured and rank behind all of the secured creditors, known or unknown, of the CLO Fund, including the holders of the senior securities issued by the CLO Fund. Consequently, to the extent that the value of a CLO Fund's loan investments has been reduced as a result of conditions in the credit markets, or as a result of default loans or individual fund assets, the value of the subordinated securities at their redemption could be reduced. Additionally, we may not be able to continue to complete new CLO Funds due to CLO market conditions or other factors. On March 16, 2008, JPMorgan announced that, subject to the receipt by Bear Stearns of stockholder approval and the satisfaction or waiver of other specified closing conditions, it has agreed to acquire Bear Stearns. There can be no assurance that the proposed acquisition will take place on the terms disclosed or at all. However, regardless of whether the transaction between JPMorgan and Bear Stearns is consummated, Katonah Debt Advisors' commitment letter from Bear Stearns will remain in effect in accordance with its terms. Katonah Debt Advisors is currently in discussions with Bear Stearns regarding the timing and structure of the remaining CLO Funds, and its ability to access the warehouse credit line contemplated by the Bear Stearns commitment letter.

Risks Related to Our Operation as a BDC

Our management team has limited experience managing a BDC.

The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. See "Regulation." Our management team's limited experience in managing a portfolio of assets under such constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. If we do not remain a BDC, we might be regulated as a closed-end investment management company under the 1940 Act, which would further decrease our operating flexibility and may prevent us from operating our business as described in this prospectus. See "Election to be Regulated as a Business Development Company and a Regulated Investment Company."

Furthermore, our management team's limited experience in managing a BDC that qualifies as a RIC, which is subject to operating limitations under the Code, may hinder our ability to invest in certain assets that might otherwise be part of our investment strategy, thus reducing the return on your investment. For a description of the requirements to maintain RIC pass-through tax treatment, please see "Certain U.S. Federal Income Tax Considerations."

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

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we generally are prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior approval of the SEC. In addition, we may co-invest on a concurrent basis with Kohlberg & Co. or any of our affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

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

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

- *Senior Securities.* As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities they would rank "senior" to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stock. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.
- *Additional Common Stock.* Our Board of Directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our independent directors. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our Board of Directors, closely approximates the market value of such securities (less any commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to the 1940 Act. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.
- *Securitization.* In addition to issuing securities to raise capital as described above, we securitize a portion our loans to generate cash for funding new investments through our credit facility. To securitize loans, we have created a wholly-owned subsidiary and contributed a pool of loans to the subsidiary. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of our loan portfolio might expose us to losses, as the residual loans in which we do not sell interests tend to be those that are riskier and more apt to generate losses.

Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

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

As a BDC, we may not acquire any assets other than "qualifying assets" for purposes of the 1940 Act unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are "qualifying assets." See "Regulation."

We believe that most of the senior loans and mezzanine investments that we acquire constitute "qualifying assets." However, investments in the equity securities of CLO Funds generally do not qualify as "qualifying assets," and we may invest in other assets that are not "qualifying assets." If we do not invest a sufficient portion of our assets in "qualifying assets," we may be precluded from investing in what we believe are attractive investments or could lose our status as a BDC, which would have a material adverse effect on our business, financial condition and results of operations. These restrictions could also prevent us from making investments in the equity securities of CLO Funds, which could limit Katonah Debt Advisors' ability to organize new CLO Funds. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

If we are unable to qualify as a RIC under Subchapter M of the Code, we will be subject to corporate-level U.S. federal income tax, which will adversely affect our results of operations and financial condition.

Provided we qualify as a RIC, we will generally not be subject to corporate-level U.S. federal income taxes on income distributed to our stockholders as dividends. We will not qualify for pass-through tax treatment as a RIC, and thus will be subject to corporate-level U.S. federal income taxes, if we are unable to comply with the source-of-income, asset diversification and distribution requirements contained in the Code, or if we fail to maintain our election to be regulated as a BDC under the 1940 Act. Failure to meet the requirements for tax treatment as a RIC would subject us to taxes, which would reduce the return on your investment. As such, our failure to qualify for tax treatment as a RIC would have a material adverse effect on us, the net asset value of our common stock and the total return obtainable from your investment in our common stock. We may, from time to time, organize and conduct the business of our wholly-owned portfolio company, Katonah Debt Advisors, through additional direct or indirect wholly-owned subsidiaries which may, in some cases, be taxable as corporations. For additional information see "Regulation" and "Certain U.S. Federal Income Tax Considerations."

Risks Related to an Investment in Our Shares

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

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

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following the offer.

We cannot predict the price at which our common stock or rights will trade. Shares of closed-end investment companies frequently trade at a discount to their net asset value and our stock may also be discounted in the market. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. The risk of loss associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of common stock purchased in this offer soon after the offer. In addition, if our common stock trades below its net asset value, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval of our stockholders and our independent directors.

We may allocate the net proceeds from this offer, to the extent it is successful, in ways with which you may not agree.

We will have significant flexibility in investing the net proceeds of this offer and may use the net proceeds from this offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering. In addition, we can provide you with no assurance that the current offer will be successful or that by increasing the size of our available equity capital our expense ratio or debt ratio will be lowered.

Our share price may be volatile and may fluctuate substantially.

The trading price of our common stock following this offering may fluctuate substantially. The price of the common stock that will prevail in the market after this offering may be higher or lower than the price you pay and the liquidity of our common stock may be limited, in each case depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- our inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- changes in regulatory policies or tax rules, particularly with respect to RICs or BDCs;

- inability to qualify as a RIC for U.S. federal income tax purposes;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio;
- general economic conditions and trends; and
- departure of key personnel.

There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.

There can be no assurances that an active public market for the rights will develop as a result of the offer of the rights by any selling holder or that, if such a market develops, it will be maintained. The rights will be listed on The Nasdaq Global Select Market under the symbol "KCAPR." Future trading prices of the rights will depend on many factors, including our operating results, the market for similar securities and the performance of our common stock.

Your interest in us may be diluted.

Stockholders who do not fully exercise their rights should expect that they will, at the completion of the offer, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. Such dilution is not currently determinable because it is not known how many shares will be subscribed for, what the net asset value of our common stock will be on the expiration date or what the subscription price will be. Any such dilution will disproportionately affect nonexercising stockholders. If the subscription price per share is substantially less than the current net asset value per share, this dilution could be substantial. For example, assuming 3,100,000 shares are sold at the estimated subscription price of $10.30 per share and after deducting all expenses related to the issuance of the shares, our current net asset value per share would be reduced by approximately $0.70, or 4.9%.

In addition, if the subscription price is less than our net asset value per share, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offer. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the offer or what proportion of the shares will be purchased as a result of the offer. Such dilution could be substantial.

The fact that the rights are transferable may reduce the effects of any dilution as a result of the offer. Rights holders can transfer or sell their rights. The cash received from the sale of rights is partial compensation for any possible dilution. There can be no assurances, however, that a market for the rights will develop or the rights will have any value in that market.

If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our common stock could decline.

As of February 29, 2008, we had 18,094,306 shares of common stock outstanding. Sales of substantial amounts of our common stock, or the availability of shares for sale, including those offered hereby, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

Our principal stockholders will continue to have substantial ownership in us after this offering, which could limit your ability to influence the outcome of key transactions, including a change of control. In addition, some of our stockholders may have interests in Kohlberg Capital that differ from yours.

Individuals and entities affiliated with Kohlberg & Co. will beneficially own, in the aggregate, approximately 14% of the outstanding shares of our common stock immediately following the completion of this offering, assuming that 3,100,000 shares of our common stock are sold. James A. Kohlberg, the Vice-Chairman of our Board of Directors, is a founder and the Chairman of Kohlberg & Co. Christopher Lacovara, who serves as the Chairman of our Board of Directors and Investment Committee, and Samuel P. Frieder, who serves as a member of our Board of Directors and our Investment Committee, are co-managing partners of Kohlberg & Co. Our Board of Directors and our Investment Committee must approve of the acquisition and disposition of our investments. As a result, these individuals may be able to exert influence over our management and policies. Affiliates of Kohlberg & Co. may also acquire additional shares of our equity securities in the future. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our Company, deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company or may ultimately affect the market price of our common stock. Mr. Kratzman, who serves on our Investment Committee, is also employed by Katonah Debt Advisors and is compensated, in part, based upon the performance of Katonah Debt Advisors. As a result, Mr. Kratzman may have interests in Katonah Debt Advisors that differ from yours as a stockholder of Kohlberg Capital.

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

The Delaware General Corporation Law, our certificate of incorporation and our bylaws contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti- takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See “Description of Capital Stock—Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions; Anti-Takeover Measures.”

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The matters discussed in this prospectus, as well as in future oral and written statements by management of Kohlberg Capital Corporation, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Important assumptions include our ability to acquire or originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this prospectus include statements as to:

- our future operating results;
- our business prospects and the prospects of our existing and prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- our ability to operate and to qualify as a BDC and a RIC;
- the adequacy of our cash resources and working capital;
- the impact of volatility in credit markets generally and in the CLO market in particular; and
- the timing of cash flows, if any, from the operations of our portfolio companies, including Katonah Debt Advisors.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus, please see the discussion under "Risk Factors." You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

THE RIGHTS OFFERING

Purpose of the Offer

Our Board of Directors has determined in good faith that the offer would result in a net benefit to the existing stockholders because it increases the equity capital available for making additional investments, and may also be available to pay operating expenses and to repay debt. The offer gives existing stockholders the right to purchase additional shares at a price that is expected to be below the then-current trading price without paying any commission or sales charges (although, if you exercise your rights through a financial institution, you are responsible for paying any fees which that institution may charge). The offer will increase the equity capital available for making additional investments. In order to continue to execute our investment objective, we must have sufficient liquidity available to make additional investments. At our currently anticipated pace of investment activity, and given our current capital commitments, we believe that we will have limited capital available for new investments in the remainder of 2008 unless we increase our capital resources. In connection with the approval of this offer, our Board of Directors considered, among other things, the following factors:

- the subscription price relative to the market price and to our net asset value per share;
- the increased equity capital to be available upon completion of the offer for making additional investments consistent with our investment objective;
- the ownership dilution to be experienced by partially or non-participating stockholders and possible net asset value dilution to be experienced by all stockholders;
- the terms and expenses in connection with the offer relative to other alternatives for raising capital, including fees payable to the dealer managers;
- the size of the offer in relation to the number of shares outstanding;
- the market price of our common stock; and
- the general condition of the securities markets.

In determining that this offer is in our best interest and in the best interests of our stockholders, we have retained Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated as the dealer managers for this offer to provide us with financial advisory, marketing and soliciting services relating to this offer, including advice with respect to the structure, timing and terms of the offer. In this regard, our Board of Directors considered, among other things, using a fixed pricing versus a variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable offer, the effect on us if this offer is not fully subscribed and the experience of the dealer managers in conducting offers.

We can provide no assurance that the current offer will be successful, or that by increasing the size of our available equity capital, our expense ratio or debt ratio will be lowered.

Although we have no present intention to do so, we may, in the future and in our discretion, choose to make additional offers from time to time for a number of shares and on terms which may or may not be similar to this offer. Any such future offer will be made in accordance with the 1940 Act.

Terms of the Offer

We are issuing to record date stockholders transferable rights to subscribe for up to approximately 3,100,000 shares of our common stock. Each record date stockholder is being issued one transferable right for each six shares of our common stock owned on the record date (1 for 6). The rights entitle each holder to acquire at the subscription price one share of our common stock for every right held, which we refer to as the basic subscription right. Rights may be exercised at any time during the subscription period, which commences on March 31, 2008, the record date, and ends at 5:00 p.m., New York City time, on April 28, 2008, the expiration date, unless extended by us.

The rights will be evidenced by subscription certificates which will be mailed to stockholders, except as discussed below under "—Foreign Stockholders." We will not issue fractional rights; we will round up the rights issued to you to the next whole right.

The rights are transferable and will be listed on The Nasdaq Global Select Market under the symbol "KCAPR." Rights holders who are not record date stockholders may purchase shares as described above, which we refer to as the basic subscription right, and may be entitled to subscribe for shares pursuant to the over-subscription privilege (as described below). Rights holders who purchase shares through the exercise of the basic subscription right or pursuant to the over-subscription privilege are hereinafter referred to as participating rights holders.

Shares for which there is no subscription through the basic subscription right will be offered, by means of the over-subscription privilege, first to record date stockholders who fully exercise the rights issued to them pursuant to this offer and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the exercise of their rights. In addition, any non-record date rights holder who exercises rights is entitled to subscribe for remaining shares that are not otherwise subscribed for by record date stockholders. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and allocation. See "—Over-Subscription Privilege" below.

For purposes of determining the number of shares a record date stockholder may acquire pursuant to the offer, broker-dealers, trust companies, banks or others whose shares are held of record by any depository or nominee will be deemed to be the holders of the rights that are issued to the depository or nominee on their behalf.

There is no minimum number of rights which must be exercised in order for the offer to close.

Over-Subscription Privilege

Shares not subscribed for by rights holders, which we refer to as remaining shares, will be offered, by means of the over-subscription privilege, first to record date stockholders who have fully exercised the rights issued to them and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the basic subscription right. Rights holders should indicate on the subscription certificate that they submit with respect to the exercise of the rights issued to them how many additional shares they are willing to acquire pursuant to the over-subscription privilege. If there are sufficient remaining shares, all record date stockholders' over-subscription requests will be honored in full. If record date stockholders' requests for shares pursuant to the over-subscription privilege exceed the remaining shares available, the available remaining shares will be allocated pro-rata among stockholders who over-subscribe based on the number of shares held on the record date. The percentage of remaining shares each over-subscribing stockholder may acquire will be rounded down to result in delivery of whole shares. The allocation process may involve a series of allocations to assure that the total number of remaining shares available for over-subscriptions is distributed on a pro-rata basis. The formula to be used in allocating the available excess shares is as follows:

$$\frac{\text{Stockholder's Record Date Position}}{\text{Total Record Date Position of All Over-Subscribers}} \times \text{Excess Shares Remaining}$$

Any rights holder other than a record date stockholder who exercises rights is entitled to subscribe for remaining shares that are not otherwise over-subscribed for by record date stockholders. These non-record date rights holders should indicate, in the subscription certificate submitted with respect to the exercise of any rights, how many shares they are willing to acquire pursuant to the over-subscription privilege. There can be no assurance that non-record date rights holders will receive shares pursuant to the over-subscription privilege.

If sufficient remaining shares are available after the over-subscription privilege shares for the record date stockholders have been allotted, then all over-subscriptions by non-record date rights holders will be honored in full. If the remaining shares are insufficient to permit such allocation, the remaining shares will be allocated pro-rata among the non-record date rights holders who wish to exercise their over-subscription privilege, based on the number of rights held by such rights holders on the expiration date; *provided*, *however*, that if this pro-rata allocation results in any holder being allocated a greater number of shares than the holder subscribed for pursuant to the exercise of the over-subscription privilege, then such holder will be allocated only such number of shares pursuant to the over-subscription privilege as such holder subscribed for. The formula to be used in allocating the shares available to non-record date rights holders exercising their over-subscription privilege is as follows:

$$\frac{\text{Non-Record Date Rights Holder's Rights Ownership as of the Expiration Date}}{\text{Total Rights Ownership as of the Expiration Date of Non-Record Date Rights Holders Exercising Their Over-Subscription Privilege}} \times \text{Shares Available for Non-Record Date Rights Holders Exercising Their Over-Subscription Privilege}$$

Banks, brokers, trustees and other nominee holders of rights will be required to certify to the subscription agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of rights exercised pursuant to the basic subscription right and the number of shares subscribed for pursuant to the over-subscription privilege by such beneficial owner.

We will not offer or sell in connection with the offer any shares that are not subscribed for pursuant to the basic subscription right or the over-subscription privilege.

The Subscription Price

The subscription price per share will be   % of the volume-weighted average of the sales prices of our common stock on The Nasdaq Global Select Market for the   consecutive trading days ending on the expiration date of the offering. Since the expiration date will be April 28, 2008 (unless we extend the offer), and the subscription price will be determined on the expiration date, rights holders will not know the subscription price at the time of exercise and will be required initially to pay for both the shares subscribed for pursuant to their basic subscription rights and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege at the estimated subscription price of $10.30 per share. The estimated subscription price is determined using the volume-weighted average of the sales prices of our common stock on The Nasdaq Global Select Market for the 10 consecutive trading days ending on March 27, 2008, and may be more or less than the actual subscription price per share. If the actual subscription price is lower, excess payments will be refunded (without interest), and if the actual subscription price is higher, rights holders exercising their rights must make an additional payment by May 26, 2008. Rights holders who exercise their rights will have no right to rescind a purchase after receipt of their completed subscription certificates together with payment of the estimated subscription price for each share subscribed for under their subscription rights by the subscription agent except as described below under "—Notice of Net Asset Value Decline." We do not have the right to withdraw the rights or cancel this offer after the rights have been distributed.

Expiration of the Offer

The offer will expire at 5:00 p.m., New York City time, on April 28, 2008, unless extended by us. The rights will expire on the expiration date of the offer and may not be exercised thereafter.

Any extension of the offer will be followed as promptly as practicable by announcement thereof, and in no event later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date. Without limiting the manner in which we may choose to make such announcement, we will not, unless otherwise required by law, have any obligation to publish, advertise or otherwise communicate any such announcement other than by issuing a press release or such other means of announcement as we deem appropriate.

Dilutive Effects

Any stockholder who chooses not to participate in this offer should expect to own a smaller interest in us upon completion of this offer. This offer will dilute the ownership interest and voting power of stockholders who do not fully exercise their basic subscription rights. The amount of dilution that a stockholder will experience could be substantial. Further, because the net proceeds per share from the offering may be lower than our net asset value per share, the offer may reduce our net asset value per share.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below our net asset value.

The transferable feature of the rights will afford non-participating stockholders the potential of receiving cash payment upon the sale of rights, receipt of which may be viewed (from a non-tax perspective) as partial compensation for the dilution of their interests.

Notice of Net Asset Value Decline

As required by the SEC’s registration form, we will suspend the offer until we amend this prospectus if, subsequent to the effective date of the registration statement of which this prospectus forms a part, our net asset value declines more than 10% from our net asset value as of that date. Accordingly, the expiration date would be extended and we would notify record date stockholders of the decline and permit participating rights holders to cancel their exercise of rights.

Information Agent

The Altman Group, Inc., which we call the information agent, will act as the information agent in connection with this offer. The Altman Group can be contacted at the below address:

The Altman Group
1200 Wall Street West, 3rd Fl.
Lyndhurst, New Jersey 07071
Toll free: (800) 499-6260

Subscription Agent

American Stock Transfer & Trust Company will act as the subscription agent in connection with this offer. The subscription agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately $30,000, plus reimbursement for all out-of-pocket expenses related to the offer.

Completed subscription certificates must be sent together with full payment of the estimated subscription price for all shares subscribed for through the exercise of the basic subscription right and pursuant to the over-subscription privilege to the subscription agent by one of the methods described below. Alternatively, an Eligible Guarantor Institution may send notices of guaranteed delivery by facsimile to (718) 234-5001, which must be received by the subscription agent at or prior to 5:00 p.m., New York City time, on the expiration date of the offer or, if the offer is extended, by the close of business two business days prior to the extended expiration date. Facsimiles should be confirmed by telephone at (877) 248-6417 or (718) 921-8317. We will accept only properly completed and duly executed subscription certificates actually received at any of the addresses listed below, at or prior to 5:00 p.m., New York City time, on the expiration date of the offer or by the close of business on the third business day after the expiration date of the offer following timely receipt of a notice of guaranteed delivery. See "—Payment for Shares" below. In this prospectus, close of business means 5:00 p.m., New York City time, on the relevant date.

Subscription Certificate Delivery Method	Address/Number
By Notice of Guaranteed Delivery:	Contact an Eligible Guarantor Institution, which may include a commercial bank or trust company, a member firm of a domestic stock exchange or a savings bank or credit union, to notify us of your intent to exercise the rights.
By Hand or Overnight Courier:	American Stock Transfer & Trust Company Operations Center Attn: Reorganization Department 6201 15th Avenue Brooklyn, New York 11219
By Regular Mail:	American Stock Transfer & Trust Company Attn: Reorganization Department 59 Maiden Lane New York, New York 10038

Delivery to an address other than one of the addresses listed above will not constitute valid delivery.

Any questions or requests for assistance concerning the method of subscribing for shares or for additional copies of this prospectus or subscription certificates or notices of guaranteed delivery may be directed to the subscription agent at its telephone number and address listed below:

American Stock Transfer & Trust Company
Attn: Domenick Apisa
6201 15th Avenue
Brooklyn, New York 11219
(877) 248-6417

Stockholders may also contact their broker-dealers or nominees for information with respect to the offer.

Methods For Exercising Rights

Rights are evidenced by subscription certificates that, except as described below under "—Foreign Stockholders," will be mailed to record date stockholders or, if a record date stockholder's shares are held by a depository or nominee on their behalf, to such depository or nominee. Rights may be exercised by completing and signing the subscription certificate that accompanies this prospectus and mailing it in the envelope provided, or otherwise delivering the completed and duly executed subscription certificate to the subscription agent, together with payment in full for the shares at the estimated subscription price by the expiration date of the offer. Rights may also be exercised by contacting your broker, trustee or other nominee, who can arrange, on your behalf, to guarantee delivery of payment and delivery of a properly completed and duly executed subscription certificate pursuant to a notice of guaranteed delivery by the close of business on the third business day after the expiration date. A fee may be charged for this service. Completed subscription certificates and related payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on or before the expiration date (unless payment is effected by means of a notice of guaranteed delivery as described below under "—Payment for Shares") at the offices of the subscription agent at the address set forth above.

Record date stockholders who fully exercise all rights issued to them and rights holders other than record date stockholders may both participate in the over-subscription privilege by indicating on their subscription certificate the number of shares they are willing to acquire. If sufficient remaining shares are available after the initial subscription, all over-subscriptions will be honored in full; otherwise remaining shares will be allocated first to record date stockholders and then (if any remaining shares are still available) to non-record date rights holders, and the number of remaining shares issued to some or all exercising rights holders participating in the over-subscription privilege may be reduced as described under "—Over-Subscription Privilege" above.

Record Date Stockholders Whose Shares are Held by a Nominee

Record date stockholders whose shares are held by a nominee, such as a bank, broker-dealer or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription certificate on behalf of the record date stockholder and arrange for proper payment by one of the methods set forth under "—Payment for Shares" below.

Nominees

Nominees, such as brokers, trustees or depositories for securities, who hold shares for the account of others should notify the respective beneficial owners of the shares as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the rights. If the beneficial owner so instructs, the nominee should complete the subscription certificate and submit it to the subscription agent with the proper payment as described under "—Payment for Shares" below.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the subscription price will be determined by us, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

Foreign Stockholders

Subscription certificates will not be mailed to foreign stockholders. Foreign stockholders will receive written notice of this offer. The subscription agent will hold the rights to which those subscription certificates relate for these stockholders' accounts until instructions are received to exercise the rights, subject to applicable law. If no instructions have been received by 5:00 p.m., New York City time, on April 23, 2008, three business days prior to the expiration date (or, if the offer is extended, on or before three business days prior to the extended expiration date), the subscription agent will transfer the rights of these stockholders to the dealer managers, who will either purchase the rights or use their best efforts to sell them. The net proceeds, if any, from sale of those rights will be remitted to these stockholders.

Payment For Shares

Participating rights holders may choose between the following methods of payment:

(1) A participating rights holder may send the subscription certificate together with payment for the shares acquired upon the exercise of the basic subscription right and any additional shares subscribed for pursuant to the over-subscription privilege to the subscription agent based on the estimated subscription price of

$10.30. To be accepted, the payment, together with a properly completed and executed subscription certificate, must be received by the subscription agent at one of the subscription agent's offices set forth above, at or prior to 5:00 p.m., New York City time, on the expiration date.

(2) A participating rights holder may request a Eligible Guarantor Institution as that term is defined in Rule 17Ad-15 under the Exchange Act to send a notice of guaranteed delivery by facsimile or otherwise guaranteeing delivery of (i) payment of the full estimated subscription price of $10.30 per share for the shares subscribed for through the exercise of the basic subscription right and any additional shares subscribed for pursuant to the over-subscription privilege and (ii) a properly completed and duly executed subscription certificate. The subscription agent will not honor a notice of guaranteed delivery unless a properly completed and duly executed subscription certificate and full payment for the shares is received by the subscription agent at or prior to 5:00 p.m., New York City time, on May 1, 2008 (or, if the offer is extended, by the close of business three business days prior to the extended expiration date).

Participating rights holders will have no right to rescind their subscription after receipt of their payment of the estimated subscription price for each share subscribed for under their subscription rights by the subscription agent, except as provided above under "—Notice of Net Asset Value Decline."

All payments by a participating rights holder must be in U.S. dollars by money order or check or bank draft drawn on a bank or branch located in the United States and payable to Kohlberg Capital Corporation. The subscription agent will hold all funds received by it prior to the final payment date pending pro-ration and distribution of the shares.

The method of delivery of subscription certificates and payment of the estimated subscription price for each share subscribed for under their subscription rights to us will be at the election and risk of the participating rights holders, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent and clearance of payment prior to 5:00 p.m., New York City time, on the expiration date or the date guaranteed payments are due under a notice of guaranteed delivery (as applicable). Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier's check or money order.

On a date within ten business days following the expiration date, the subscription agent will send to each participating rights holder (or, if rights are held by a depository or nominee, to such depository or nominee) a confirmation showing (i) the number of shares purchased pursuant to the basic subscription right; (ii) the number of shares, if any, acquired pursuant to the over-subscription privilege; (iii) the per share and total purchase price for the shares; and (iv) any additional amount payable to us by the participating rights holder or any excess to be refunded by us to the participating rights holder, in each case based on the subscription price as determined on the expiration date. If any participating rights holder, if eligible, exercises his or her right to acquire shares pursuant to the over-subscription privilege, any excess payment which would otherwise be refunded to him or her will be applied by us toward payment for shares acquired pursuant to the exercise of the over-subscription privilege. Any additional payment required from a participating rights holder must be received by the subscription agent within ten business days after the confirmation date. Any excess payment to be refunded by us to a participating rights holder will be mailed by the subscription agent to the rights holder as promptly as practicable. No interest will be payable on any excess payments.

Whichever of the two methods described above is used, issuance of the shares purchased is subject to collection of checks and actual payment. If a participating rights holder who subscribes for shares pursuant to the basic subscription right or over-subscription privilege does not make payment of any amounts due by the expiration date, the date guaranteed payments are due under a notice of guaranteed delivery or within ten business days of the confirmation date, as applicable, the subscription agent reserves the right to take any or all of the following actions: (i) find other participating rights holders who wish to subscribe for such subscribed and unpaid for shares; (ii) apply any payment actually received by it from the participating rights holder toward the purchase of the greatest whole number of shares which could be acquired by such participating rights holder upon exercise of the basic subscription right and/or the over-subscription privilege; and/or (iii) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed for shares.

All questions concerning the timeliness, validity, form and eligibility of any exercise of rights will be determined by us, whose determinations will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. The subscription agent will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

Sale of Rights

The Rights are Transferable until the Day Immediately Preceding the Expiration Date

The rights will be listed on The Nasdaq Global Select Market under the symbol "KCAPR." While the Company and the dealer managers will use their best efforts to ensure that an adequate trading market for the rights will exist, no assurance can be given that a market for the rights will develop. Trading in the rights on The Nasdaq Global Select Market is expected to be conducted beginning on or about April 1, 2008, and continuing until and including April 25, 2008 (or if the offer is extended, until the day immediately prior to the extended expiration date). Rights holders are encouraged to contact their broker-dealer, bank, trustee or other nominees for more information about trading of the rights.

Other Transfers

The rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the accompanying instructions. A portion of the rights evidenced by a single subscription certificate may be transferred by delivering to the subscription agent a subscription certificate properly endorsed for transfer, with instructions to register such portion of the rights evidenced thereby in the name of the transferee and to issue a new subscription certificate to the transferee evidencing such transferred rights. In such event, a new subscription certificate evidencing the balance of the rights, if any, will be issued to the stockholder or, if the stockholder so instructs, to an additional transferee. The signature on the subscription certificate must correspond to the name as written upon the face of the subscription certificate, without alteration or enlargement, or any change. A signature guarantee must be provided by an Eligible Guarantor Institution as that term is defined in Rule 17Ad-15 under the Exchange Act, subject to the standards and procedures adopted by us.

Stockholders wishing to transfer all or a portion of their rights should allow at least five business days prior to the expiration date of the offer for (i) the transfer instructions to be received and processed by the subscription agent; (ii) a new subscription certificate to be issued and transmitted to the transferee or transferees with respect to transferred rights, and to the transferor with respect to retained rights, if any; and (iii) the rights evidenced by such new subscription certificate to be exercised or sold by the recipients thereof. Neither we nor the subscription agent or the dealer managers shall have any liability to a transferee or transferor of rights if subscription certificates are not received in time for exercise prior to the expiration date of the offer or sale prior to the day immediately preceding the expiration date of the offer (or, if the offer is extended, the extended expiration date).

Except for the fees charged by the subscription agent and the dealer managers, which will be paid by us, all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred or charged in connection with the purchase, sale or exercise of rights will be for the account of the transferor of the rights, and none of those commissions, fees or expenses will be paid by us, the subscription agent or the dealer managers.

We anticipate that the rights will be eligible for transfer through, and that the exercise of the basic subscription right and the over-subscription privilege may be effected through, the facilities of the Depository Trust Company, or DTC. Holders of DTC exercised rights may exercise the over-subscription privilege in respect of such DTC exercised rights by properly completing and duly executing and delivering to the subscription agent, at or prior to 5:00 p.m., New York City time, on the expiration date of the offer, a nominee holder over-subscription certificate or a substantially similar form satisfactory to the subscription agent, together with payment of the estimated subscription price for the number of shares for which the over-subscription privilege is to be exercised.

Delivery of Stock Certificates

Participants in our dividend reinvestment plan will have any shares that they acquire pursuant to the offer credited to their stockholder dividend reinvestment accounts in the plan. Stockholders whose shares are held of record by a depository or nominee on their behalf or their broker-dealers' behalf will have any shares that they acquire credited to the account the depository or nominee. With respect to all other stockholders, stock certificates for all shares acquired will be mailed after payment for all the shares subscribed for has cleared, which may take up to 15 calendar days from the date of receipt of the payment.

Amendments; Termination

We reserve the right to amend the terms and conditions of the offering, whether the amended terms are more or less favorable to you. We also reserve the right to terminate the offering prior to delivery of the common stock if the subscription price is less than 70% of the net asset value attributable to a share of our common stock disclosed in the most recent periodic report we filed with the SEC by giving oral or written notice thereof to the subscription agent and making a public announcement thereof. If the offering is terminated, all rights will expire without value and we will promptly arrange for the refund, without interest, of all funds received from holders of rights. All monies received by the subscription agent in connection with the offering will be held by the subscription agent, on our behalf, in a segregated interest-bearing account at a negotiated rate. All such interest shall be payable to us even if we determine to terminate the offering and return your subscription payment. In addition, no amounts paid to acquire rights on The Nasdaq Global Select Market or otherwise will be returned.

U.S. Federal Income Tax Consequences of the Offer

The following is a general summary of the material U.S. federal income tax consequences of the offer under the provisions of the Code and U.S. Treasury regulations promulgated under the Code ("Treasury regulations") in effect as of the date of this prospectus that are generally applicable to record date stockholders who are United States persons within the meaning of the Code, and does not address any non-U.S., state or local tax consequences. The Code and Treasury regulations are subject to change or differing interpretations by legislative or administrative action, which may be effective on a retroactive basis. Participating rights holders should consult their tax advisors regarding specific questions as to non-U.S., federal, state or local taxes.

1. The value of a right will not be includible in the income of a stockholder at the time the right is issued.
2. The basis of a right issued to a stockholder will be zero, and the basis of the share with respect to which the right was issued (the old share) will remain unchanged, except if (i) either (a) the fair market value of the right on the date of distribution is at least 15% of the fair market value of the old share, or (b) the stockholder affirmatively elects (in the manner set out in Treasury regulations under the Code) to allocate to the right a portion of the basis of the old share and (ii) the right does not expire unexercised in the hands of the stockholder, then the stockholder must allocate basis between the old share and the right in proportion to their fair market values on the date of distribution.

3. If a right distributed to a stockholder expires unexercised in the hands of the stockholder, no loss will generally be recognized by the stockholder because the basis of the old share may be allocated to a right only if the right is exercised or sold.
4. The basis of a right purchased in the market will generally be its purchase price.
5. If a right that has been purchased in the market expires unexercised, there will be a recognized loss equal to the basis of the right.
6. Any gain or loss on the sale of a right will be a capital gain or loss if the right is held as a capital asset (which in the case of rights issued to stockholders will normally depend on whether the old share is held as a capital asset) and will be a long-term capital gain or loss if the holding period exceeds one year. The holding period of a right issued to a stockholder will include the holding period of the old share.
7. No gain or loss will be recognized by a stockholder upon the exercise of a right, and the basis of any share acquired upon exercise (the new share) will equal the sum of the basis, if any, of the right and the subscription price for the new share. The holding period for the new share will begin on the date when the right is exercised.

ERISA Considerations

Stockholders who are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, which we refer to as ERISA (including corporate defined benefit and 401(k) plans), Keogh or H.R. 10 plans of self-employed individuals and individual retirement accounts subject to Section 4975 of the Code should be aware that additional contributions of cash to a retirement plan (other than rollover contributions or trustee-to-trustee transfers from other retirement plans) in order to exercise rights would be treated as contributions to the retirement plan and, when taken together with contributions previously made, may result in, among other things, excise taxes for excess or nondeductible contributions. In the case of retirement plans qualified under Section 401(a) of the Code and certain other retirement plans, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. It may also be a reportable distribution and there may be other adverse tax and ERISA consequences if rights are sold or transferred by a retirement plan.

Retirement plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of rights, they may become subject to the tax on unrelated business taxable income under Section 511 of the Code. If any portion of an individual retirement account is used as security for a loan, the portion so used may also be treated as distributed to the IRA depositor.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules that may impact the exercise of rights. Due to the complexity of these rules and the penalties for noncompliance, retirement plans should consult with their counsel and other advisers regarding the consequences of their exercise of rights under ERISA and the Code and any similar applicable law.

Distribution Arrangements

Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated, each a broker-dealer and member of the Financial Industry Regulatory Authority, will act as dealer managers for the offering. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer managers will provide financial advisory and marketing services in connection with the offering and will solicit the acquisition and/or exercise of rights by stockholders and others and participation in the over-subscription privilege. The dealer managers may use this prospectus for any or all of such activities. The offering is not contingent upon any number of rights being exercised. We have agreed to pay the dealer managers a fee for their financial advisory, marketing and soliciting services equal to 4.0% of the aggregate subscription price for shares issued pursuant to the offering. The dealer managers will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of rights, solicitation fees of up to 4% of the subscription price per share for each share issued pursuant to the exercise of rights and the over-subscription privilege as a result of their soliciting efforts.

In addition, we have agreed to reimburse the dealer managers an aggregate amount up to $100,000 for their expenses incurred in connection with the offering. We have also agreed to indemnify the dealer managers for, or contribute to losses arising out of, certain liabilities, including liabilities under the Securities Act. The dealer manager agreement also provides that the dealer managers will not be subject to any liability to us in rendering the services contemplated by the dealer manager agreement except for any act of bad faith, willful misfeasance, or gross negligence of such dealer manager or reckless disregard by such dealer manager of its obligations and duties under the dealer manager agreement.

The principal business address of Merrill Lynch, Pierce, Fenner & Smith Incorporated is 4 World Financial Center, New York, New York 10080. The principal business address of JMP Securities LLC is 600 Montgomery Street, Suite 1100, San Francisco, California 94111. The principal business address of Stifel, Nicolaus & Company, Incorporated is One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102.

We have agreed, with certain exceptions, with the dealer managers that, for a period of 60 days following the date of this prospectus, we will not offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable for shares of our common stock without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated. In addition, our executive officers, directors, members of our investment committee, Katonah Debt Advisors and certain of its affiliates have agreed, with certain exceptions, with the dealer managers that, for a period of 60 days following the date of this prospectus, that they will not offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable for shares of our common stock without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated. However, the dealer managers may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to these agreements.

The dealer managers and their affiliates have provided in the past and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to us, Katonah Debt Advisors and/or our portfolio companies, for which they will be entitled to receive separate fees. In addition, the dealer managers or their affiliates may act as arrangers, underwriters or placement agents for companies whose securities are sold to or whose loans are syndicated to us or Katonah Debt Advisors. The dealer managers or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to us, Katonah Debt Advisors or any of the portfolio companies.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Stifel, Nicolaus & Company, Incorporated were underwriters of our December 2006 initial public offering, for which they received customary fees.

Prior to the expiration of the offering, the dealer managers may independently offer for sale shares, including shares to be acquired through purchasing and exercising the rights, at prices they set. The dealer managers may realize profits or losses independent of any fees described in this prospectus.

ELECTION TO BE REGULATED AS A BUSINESS DEVELOPMENT COMPANY AND A REGULATED INVESTMENT COMPANY

Our elections to be regulated as a BDC and to be treated as a RIC have a significant impact on our future operations:

We report our investments at market value or fair value with changes in value reported through our statement of operations.

We report all of our investments, including debt investments, at market value or, for investments that do not have a readily available market value, at their "fair value" as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Changes in these values are reported through our statement of operations under the caption of "net unrealized appreciation (depreciation) on investments." See "Determination of Net Asset Value."

Our ability to use leverage as a means of financing our portfolio of investments is limited.

As a BDC, we are required to meet a coverage ratio of total assets to total senior securities of at least 200%. For this purpose, senior securities generally include all borrowings, guarantees of borrowings and any preferred stock we may issue in the future. Our ability to utilize leverage as a means of financing our portfolio of investments is limited by this asset coverage test.

We intend to distribute substantially all of our net taxable income to our stockholders. We generally will be required to pay U.S. federal income taxes only on the portion of our net taxable income and gains that we do not distribute to stockholders.

We have elected to be treated as a RIC for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2006. As a RIC, we intend to distribute to our stockholders substantially all of our net investment company income. In addition, we may retain certain net long-term capital gains and elect to treat such net capital gains as distributed to our stockholders. If this happens, you will be treated as if you received an actual distribution of the capital gains and reinvested the net after-tax proceeds in us. You also may be eligible to claim a tax credit against your U.S. federal income tax liability (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we pay on the deemed distribution. See "Certain U.S. Federal Income Tax Considerations."

Provided we qualify as a RIC, we generally are required to pay U.S. federal income taxes only on the portion of our net taxable income and gains that we do not distribute (actually or constructively). Katonah Debt Advisors, our wholly-owned taxable portfolio company, receives fee income earned with respect to its management services. We expect that Katonah Debt Advisors will form additional direct or indirect subsidiaries which will receive similar fee income. Some of these subsidiaries may be treated as corporations for U.S. federal income tax purposes, and as a result, such subsidiaries will be subject to income tax at regular corporate rates, for U.S. federal and state purposes, although, as a RIC, dividends and distributions that are a return of capital received by us from our taxable subsidiaries and distributed to our stockholders will not subject us to U.S. federal income taxes. As a result, the net return to us on such investments held by such subsidiaries will be reduced to the extent that the subsidiaries are subject to income taxes.

In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. See "Distributions." Also, restrictions and provisions in our credit facility may limit our ability to make distributions. See "Obligations and Indebtedness."

We are required to comply with the provisions of the 1940 Act applicable to BDCs.

As a BDC, we are required to have a majority of directors who are not "interested" persons under the 1940 Act. In addition, we are required to comply with other applicable provisions of the 1940 Act, including those requiring the adoption of a code of ethics, fidelity bond and custody arrangements. See also "Regulation."

USE OF PROCEEDS

Assuming 3,100,000 shares of our common stock are sold at the estimated subscription price of $10.30, the net proceeds of this offering are estimated to be approximately $29.7 million, after deducting dealer manager fees of approximately $1.3 million and other expenses related to this offer payable by us estimated at approximately $1 million, including an aggregate of up to $100,000 to be paid to the dealer managers for their expenses incurred in connection with the offer.

We intend to use approximately 100% of the net proceeds of this offering to reduce existing indebtedness under our credit facility, which had an outstanding principal balance of $255 million as of December 31, 2007 and available additional borrowing capacity of $20 million, accrues interest based on prevailing commercial paper rates plus 0.85% (or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread), and matures on October 1, 2012.

Any reduction of our indebtedness through the use of proceeds of this offering is expected to be only temporary, and we expect to utilize our credit facility for additional borrowings in accordance with our investment objective and strategy and relevant legal rules applicable to BDCs following completion of this offering. Pending the uses described above, we intend to invest the net proceeds of this offering in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. Assuming full exercise of all rights issued in this offering, we expect to substantially invest the net proceeds of this offering within 12 months of the closing of this rights offering.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on The Nasdaq Global Select Market under the symbol "KCAP." We completed the initial public offering of our common stock in December 2006 at an initial public offering price of $15.00 per share. Prior to such initial public offering, there was no public market for our common stock. On March 27, 2008, the last reported closing price of our stock was $10.33 per share. As of February 29, 2008, we had 16 stockholders of record.

The following table sets forth the range of high and low closing prices of our common stock as reported on The Nasdaq Global Select Market since our initial public offering. The stock quotations are inter-dealer quotations and do not include markups, markdowns or commissions and as such do not necessarily represent actual transactions.

		Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV
	NAV(1)	High	Low		
2006					
Fourth Quarter (December 11, 2006 through December 31, 2006)	$14.29	$17.45	$15.79	122.1%	110.5%
2007					
First quarter (January 1, 2007 through March 31, 2007)	$14.78	$18.00	$15.05	121.8%	101.8%
Second quarter (April 1, 2007 through June 30, 2007)	$15.39	$19.68	$15.75	127.9%	102.3%
Third quarter (July 1, 2007 through September 30, 2007)	$14.77	$19.10	$13.65	129.3%	92.4%
Fourth quarter (October 1, 2007 through December 31, 2007)	$14.38	$15.49	$10.00	107.7%	69.5%
2008					
First quarter (January 1, 2008 through March 27, 2008)	(2)	$12.99	$ 9.56	(2)	(2)

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset value shown is based on outstanding shares at the end of the applicable period.

(2) Net asset value has not yet been calculated for this period. We generally determine the net asset value per share of our common stock on a quarterly basis. See "Determination of Net Asset Value."

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Our common stock has traded in excess of net asset. However, there can be no assurance that our shares will continue to trade at a premium to net asset value. It is not possible to predict whether our shares, including the shares being offered hereby, will trade at, above or below net asset value.

DISTRIBUTIONS

We intend to continue to distribute quarterly dividends to our stockholders. 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:

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

We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained realized net long-term capital gains in excess of net short-term capital losses, or “net capital gains”). In order to qualify as a RIC, we are required to distribute to our stockholders with respect to each taxable year at least 90% of the sum of our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. As a RIC, we intend to distribute to our stockholders substantially all of our net taxable income. In addition, we may retain for investment net capital gains and elect to treat such net capital gains as a deemed distribution. If this happens, you will be treated as if you received an actual distribution of the capital gains we retain and then reinvested the net after-tax proceeds in our common stock. You would be eligible to claim a tax credit against your U.S. federal income tax liability (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. Please refer to “Certain U.S. Federal Income Tax Considerations” for further information regarding the consequences of our possible retention of net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if we fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See “Regulation.”

The following table sets forth the dividends declared by us since our initial public offering, which represent an amount equal to our estimated net investment company income for the specified quarter plus a portion of the undistributed amount of 2006 net investment company income:

	Cash Dividend per share(1)	
First quarter 2008	$	0.41(2)
Fourth quarter 2007	$	0.39(3)
Third quarter 2007	$	0.37(4)
Second quarter 2007	$	0.35(5)
First quarter 2007	$	0.29(6)

(1) Reflects the dividend declared in the specified quarter.
(2) Declared on March 14, 2008 and payable on April 28, 2008 to stockholders of record on April 8, 2008.
(3) Declared on December 14, 2007 and paid on January 24, 2008 to stockholders of record on December 24, 2007.
(4) Declared on September 24, 2007 and paid on October 26, 2007 to stockholders of record on October 10, 2007.
(5) Declared on June 8, 2007 and paid on July 23, 2007 to stockholders of record on July 9, 2007.
(6) Declared on March 13, 2007 and paid on April 17, 2007 to stockholders of record on April 6, 2007.

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, when we declare a dividend, cash dividends will be automatically reinvested in additional shares of our common stock unless the stockholder specifically “opts out” of the dividend reinvestment plan and chooses to receive cash dividends. See “Dividend Reinvestment Plan.”

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2007 on an actual basis and an as adjusted basis to give effect to the sale of 3,100,000 shares of our common stock at an estimated subscription price of $10.30 after deducting the fee paid to the dealer managers and the estimated expenses of the offering payable by us and the application of the estimated net proceeds as described in "Use of Proceeds."

This table should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements included elsewhere in this prospectus.

	As of December 31, 2007 (in thousands)	
	Actual	As adjusted
Cash and cash equivalents	$ 12,089	$ 12,089
Debt:		
Credit facility	255,000	225,297
Equity:		
Preferred Stock, $0.01 par value per share; 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock, $0.01 par value per share; 100,000,000 shares authorized; 18,017,699 shares issued and outstanding	180	211
Additional paid-in capital	253,253	282,925
Distribution in excess of net investment income	(1,662)	(1,662)
Undistributed net realized gains	—	—
Net unrealized appreciation on investments	7,297	7,297
Total stockholders' equity	259,068	288,771
Total capitalization	$ 526,157	$ 526,157

SELECTED FINANCIAL DATA

The following selected financial and other data is derived from our financial statements and financial highlights which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm whose report thereon is included within this prospectus. The data should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in this prospectus. The historical data is not necessarily indicative of results to be expected for any future period.

	Year Ended December 31, 2007	December 11, 2006 (inception) through December 31, 2006 (1)
Income Statement Data		
Dividends from affiliate asset manager	500,000	—
Total investment income	$ 38,479,014	$ 1,151,903
Net realized and unrealized gain on investments	3,383,036	4,181,077
Total expenses	(15,720,065)	(641,278)
Excise taxes	—	(21,162)
Net increase in stockholders' equity resulting from operations	$ 26,141,985	$ 4,670,540
Per Common Share Data		
Net investment income—Basic and Diluted	$ 1.27	$ 0.03
Net investment income and net realized gains—Basic and Diluted	$ 1.28	$ 0.03
Cash dividend declared	$ 1.40	$ —
Net increase in stockholder's equity resulting from operations (Basic and Diluted)	$ 1.45	$ 0.26
Net asset value per common share	$ 14.38	$ 14.29

	December 31, 2007	December 31, 2006
Select Period-End Balances		
Total assets	$ 533,141,959	$ 282,375,847
Total debt	$ 255,000,000	$ —
Total stockholders' equity	$ 259,068,164	$ 256,400,423
Other Data		
Number of investments at period end	145	86
Number of portfolio companies at period end	91	66
Principal amount of investments purchased	$ 373,852,286	$ 191,706,724
Principal amount of investments sold and repayments	$ 104,037,559	$ 533,315
Weighted average yield of income producing debt investments(2)	9.5%	9.0%
Fair value of CLO equity investments	$ 31,020,000	$ 20,870,000
Fair value of investment in wholly-owned asset management company, Katonah Debt Advisors	$ 58,585,000	$ 37,575,000
Assets under management of Katonah Debt Advisors	$ 2,127,649,000	$ 1,366,376,000
Total return based on market value	(22.5)%	15.3%

(1) Certain amounts relating to the period from December 11, 2006 (inception) through December 31, 2006 have been reclassified to conform to current year presentation.

(2) Weighted average yield of income producing debt investments is calculated as the average yield to par outstanding balances for investments in loans and mezzanine debt. The yield on CLO equities and investment in our wholly-owned portfolio manager, Katonah Debt Advisors, are excluded.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Forward-Looking Statements" appearing elsewhere in this prospectus.

OVERVIEW

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with EBITDA of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages CLO Funds that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., a leading private equity firm focused on middle market investing. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

Our investment objective is to generate current income and capital appreciation from our investments. We also expect to continue to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

As a RIC, we intend to distribute to our stockholders substantially all of our net investment company income, because to maintain our qualification as a RIC, we must, among other things, meet certain source-of-income, asset diversification and distribution requirements. Provided we qualify as a RIC, we generally will not have to pay corporate-level taxes on any of our income and gain that we distribute to our stockholders.

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other companies if we are presented with attractive opportunities. Our portfolio investments at fair value increased from $249 million at December 31, 2006 to $505 million as of December 31, 2007. The net increase in portfolio size was funded primarily with borrowings under our new credit facility and with the proceeds of the over-allotment option exercised in connection with our December 2006 initial public offering. During the year ended December 31, 2007, we also sold some of our initial portfolio of primarily first lien loans that were accumulated prior to completion of our initial public offering in order to move towards our targeted portfolio mix of first and second lien loans, mezzanine finance and equity securities. First lien loan balances at fair value increased to $260 million at December 31, 2007 from $163 million at December 31, 2006. Second lien, mezzanine loan and bond positions increased to $151 million at December 31, 2007 from $27 million at December 31, 2006. The increase in investment positions is primarily a result of increased secured borrowings which finance such investment purchases. We had equity securities, other than CLO equity securities, totaling $5 million and investments in

CLO Fund securities of $31 million at fair value as of December 31, 2007. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. As of December 31, 2007, our investments in loans and debt securities had an annual weighted average interest rate of approximately 9.5%.

Our investment portfolio (excluding our investment in Katonah Debt Advisors and CLO Funds) at year end is spread across 26 different industries and 91 different entities with an average balance per investment of approximately $5 million. As of December 31, 2007, all portfolio companies were current on their debt service obligations. Our portfolio, including the CLO Funds in which we invest, and the CLO Funds managed by Katonah Debt Advisors, consist exclusively of credit instruments issued by corporations and do not include investments in asset-backed securities, such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

We may invest up to 30% of our investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment.

Investment in CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. As of December 31, 2007, we had $31 million invested in CLO Fund securities, including those issued by funds managed by Katonah Debt Advisors. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund.

The CLO Funds managed by Katonah Debt Advisors invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock.

Our investments in CLO Fund securities are carried at fair value, which is based on a discounted cash flow model that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds and preferred shares/income notes, when available. We recognize unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool is updated and the revised cash flows are used in determining the fair value of the investment. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Investment in Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. As a manager of the CLO Funds, Katonah Debt Advisors expects to receive contractual and recurring management fees and any subsequent incentive management fees from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock. Katonah Debt Advisors also typically receives one-time structuring fees upon the creation of a new CLO Fund. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management, and was valued at approximately $59 million.

We expect to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. By making investments in CLO Funds raised by Katonah Debt Advisors in the future, for which we expect to receive a current cash return, we can help Katonah Debt Advisors raise these funds which in turn will increase its assets under management which will result in additional management fee income.

The revenue that Katonah Debt Advisors generates through the fees it receives for managing CLO Funds and after paying the expenses associated with its operations, including compensation of its employees, may be distributed to us. Cash distributions of Katonah Debt Advisors' accumulated GAAP net income is recorded as dividends from affiliate asset manager when declared. As with all other investments, Katonah Debt Advisors' market value is periodically determined. The valuation is based primarily on a percentage of its assets under management and/or based on Katonah Debt Advisors' estimated net cash flows. Any change in value from period to period is recognized as unrealized gain or loss.

As a separately taxable corporation, Katonah Debt Advisors is taxed at normal corporate rates. For tax purposes, any distributions of taxable net income earned by Katonah Debt Advisors to us would generally need to be distributed to our stockholders. Katonah Debt Advisors' taxable net income differs from GAAP net income for both deferred tax timing adjustments and permanent tax adjustments. Deferred tax timing adjustments may include differences between lease cash payments to GAAP straight line expense and adjustments for the recognition and timing of depreciation, bonuses to employees, stock option expense, and interest rate caps. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties and tax goodwill amortization.

Goodwill amortizable for tax was created upon the purchase of 100% of the equity interests in Katonah Debt Advisors prior to our initial public offering in exchange for shares of our stock valued at $33 million. Although this transaction was a stock transaction rather than an asset purchase and thus no goodwill was recognized for GAAP purposes, for tax purposes such exchange was considered a taxable asset purchase under the Code. At the time of the transfer, Katonah Debt Advisors had equity of approximately $1 million resulting in tax goodwill of approximately $32 million which will be amortized for tax purposes on a straight-line basis over 15 years, resulting in an annual difference between GAAP income and taxable income by approximately $2 million per year over such period.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of December 31, 2007, approximately 63% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. See “Risk Factors—Risks Related to Our Investments—Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments” and “Determination of Net Asset Value.” In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, 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, recent sales of or offers to buy comparable companies, and other relevant factors.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on a quarterly basis in good faith. Duff & Phelps, LLC, an independent valuation firm, provided, third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the year ended December 31, 2007, our Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 21 investments comprising approximately 44% of the total investments at fair value for which market quotations are not readily available as of December 31, 2007. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable. In the future, our Board of Directors may continue to utilize the services of Duff & Phelps, LLC or may use another third party valuation provider.

RECENT DEVELOPMENTS

Recent events in the subprime mortgage sector have impacted the broader financial and credit markets. In general, there has been re-pricing of credit risk due to a higher incidence of borrower defaults on residential mortgages and a consequent reduction in the market value of residential mortgage backed securities. The holders of mortgage-backed securities are also in many cases providers of capital for corporate borrowings. As a result, losses on mortgage-backed securities have reduced the availability of capital for both broadly syndicated loans (including capital available to invest through CLO Funds) as well as middle market loans, even though defaults by corporate borrowers remain at historically low levels. We have no direct exposure to residential mortgage debt (subprime or otherwise) or other consumer borrowings either on our balance sheet or through the CLO Funds managed by Katonah Debt Advisors. However, the recent reduction in liquidity for corporate borrowers may affect both our middle market investment business and the asset management business of Katonah Debt Advisors in several ways.

The decrease in debt capital available to both corporate borrowers and private equity firms has increased the interest rates (generally measured as a “spread” over LIBOR or the Prime Rate) which they must pay for new loans. We believe that this will have a favorable impact on both our middle market investment business and on Katonah Debt Advisors, because higher interest spreads on loans will increase future interest income available for distributions to our stockholders and to investors in CLO Funds. In addition the reassessment of corporate credit risk has caused lenders to require greater structural protection on new loans, such as lower overall financial leverage and maintenance financial covenants. We believe this trend is also favorable to our business because it increases the opportunities for us to invest, because, generally both we and the CLO Funds managed by Katonah Debt Advisors have decided not to invest in highly leveraged or "covenant light" credit facilities. However, we expect that the interest spread on debt issued by future CLO Funds managed by Katonah Debt Advisors will need to be higher than that on debt of its existing CLO Funds, and that Katonah Debt Advisors may need to evaluate other fund structures to continue the growth in its assets under management and fee income. Current CLO market conditions delayed the completion of several CLO Funds which Katonah Debt Advisors had expected to complete during 2007 and may delay the completion of CLO Funds scheduled to be completed during 2008.

As of December 31, 2007, our investment in CLO Funds, at $31 million, represented less than 6% of our total assets. These CLO Funds invested in by us and/or managed by Katonah Debt Advisors and certain third party managers were all distributing cash flows and performing in line with expectations as of December 31, 2007, and none were in breach of any material covenant. The securities in our investment portfolio are spread across 26 different industries and multiple corporate sponsors and, as of December 31, 2007, none of the securities in Kohlberg Capital's investment portfolio were in default or in non-accrual status and all were performing according to their contractual terms. Through December 31, 2007, we had a mark-to-market loss in our investment portfolio, excluding our investment in Katonah Debt Advisors, of approximately $18 million. As of December 31, 2007, we had excess liquidity of over $32 million of cash and available borrowing capacity under our existing credit facility, and neither Kohlberg Capital nor Katonah Debt Advisors was subject to margin calls on any borrowings or warehouse facilities.

On October 1, 2007, we amended our credit facility to increase our borrowing capacity from $200 million to $275 million, extend the maturity date from February 14, 2012 to October 1, 2012 and increase the interest spread charged on outstanding borrowings by 15 basis points, to 0.85%. The interest rate is based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. In addition, the amendment revised the method for determining the required equity contribution from Kohlberg Capital to the special-purpose bankruptcy remote subsidiary, Kohlberg Capital Funding LLC I ("KCAP Funding"). Subject to certain thresholds, the required equity contribution will be increased from $45 million to $60 million, depending on the amount of outstanding borrowings.

On October 3, 2007, we purchased all of the assets of Ardsley CLO 2007-1 Ltd. ("Ardsley"), an entity set up by Katonah Debt Advisors in connection with the possible formation of a new CLO Fund, for an aggregate purchase price of approximately $72 million. Approximately $14 million in aggregate principal amount of such assets were subsequently sold in market transactions with third parties, and the remaining approximately $58 million of debt securities from Ardsley were retained in our investment portfolio. In addition, we purchased assets and entered into commitments in the ordinary course of business. We expect to syndicate a portion of these commitments to third parties. The consummation of any of the investments in this backlog and pipeline depends upon, among other things, one or more of the following: satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment, the execution and delivery of satisfactory documentation and the receipt of any necessary consents. We cannot assure you that we will make any of these investments.

On December 20, 2007, we committed to make an investment in a new distressed investment platform organized by Steven Panagos and Jonathan Katz and named Panagos/Katz Situational Investing. Mr. Panagos was most recently national practice leader of Kroll Zolfo Cooper's Corporate Advisory and Restructuring Practice, and Mr. Katz was the founding partner of Special Situations Investing, a distressed investing vehicle of JPMorgan. We expect that funds managed by PKSI will invest in the debt and equity securities of companies that are restructuring due to financial or operational distress. We also expect that PKSI may selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. We committed to invest up to $2.5 million directly in PKSI through an investment in its Class A securities. We have a 35%

economic interest in PKSI through our investment in its Class B securities on which we will receive our pro rata share of its operating income and may make an investment of up to $25 million in funds managed by PKSI, on which we will receive our pro rata share of such funds' investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of December 31, 2007, we had funded approximately $72,000 of our $2.5 million commitment to PKSI, which is an investment in PKSI's Class A securities.

On January 2, 2008, we acquired substantially all of the assets of Scott's Cove, an asset manager focused on an event-driven credit long short investment strategy. As a result of the acquisition, we acquired approximately $60 million of fee paying assets under management. We plan to integrate the Scott's Cove business within the Katonah Debt Advisors asset management platform. In connection with the acquisition, Katonah Debt Advisors entered into employment agreements with three Scott's Cove investment professionals, and we expect these individuals will assist us in structuring, raising and investing new funds to be managed by Katonah Debt Advisors.

On January 23, 2008, our wholly-owned asset management company, Katonah Debt Advisors, closed a new $315 million CLO Fund. Katonah Debt Advisors received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in the CLO Fund. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of this latest CLO Fund.

CRITICAL ACCOUNTING POLICIES

The financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments and certain revenue recognition matters as discussed below.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition for the periods presented. Furthermore, the financial statements are based on the selection and application of critical accounting policies which may require management to make significant estimates and assumptions. Actual results could differ from those estimates. Critical accounting policies are those that are important to the presentation of our financial condition and results of operations that require management's most difficult, complex or subjective judgments.

Valuation of Portfolio Investments

The most significant estimate inherent in the preparation of our financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

Value, as defined in Section 2(a)(41) of the 1940 Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors.

As a BDC, we may invest in illiquid securities, including loans to and warrants of private companies and other illiquid securities, such as CLO Funds securities and our investment in Katonah Debt Advisors. These securities are valued and carried at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors, each quarter. We determine fair value to be the amount for which an investment could be exchanged in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Our valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio based on the nature of the security, the market for the security and other considerations including the financial performance and enterprise value of the portfolio company. Because of the inherent uncertainty of valuation, the Board of Directors' determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Our Board of Directors may consider other methods of valuation to determine the fair value of investments as appropriate in conformity with GAAP.

Interest Income

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. We generally place a loan on non-accrual status and cease recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if we otherwise do not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of December 31, 2007 and December 31, 2006, no loans or debt securities were greater than 90 days past due or on non-accrual status.

Dividend Income from CLO Fund Securities

We generate dividend income from our investments in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and selective investments in securities issued by funds managed by other asset management companies. Our CLO Fund securities are subordinate to senior security holders who typically receive a fixed rate of return on their investment. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior security holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares. We make estimated interim accruals of such dividend income based on recent historical distributions and CLO Fund performance and adjust such accruals on a quarterly basis to reflect actual distributions.

Dividends from Affiliate Asset Manager

The Company records dividend income from its affiliate asset manager on the declaration date.

Payment in Kind Interest

We may have loans in our portfolio that contain a PIK provision. PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our RIC status, this non-cash source of income must be paid out to stockholders in the form of dividends, even though we have not yet collected the cash.

Fee Income

Fee income includes fees, if any, for due diligence, structuring, commitment and facility fees, and fees, if any, for transaction services and management services rendered by us to portfolio companies and other third parties. Commitment and facility fees are generally recognized as income over the life of the underlying loan, whereas due diligence, structuring, transaction service and management service fees are generally recognized as income when the services are rendered.

Management Compensation

We may, from time to time, issue stock options under the Kohlberg Capital Corporation 2006 Equity Incentive Plan (our "Equity Incentive Plan") to officers and employees for services rendered to us. We will follow Statement of Financial Accounting Standards No. 123R (revised 2004), *Accounting for Stock-Based Compensation*, a method by which the fair value of options are determined and expensed. We use a Binary Option Pricing Model (American, call option) as a valuation model to establish the expected value of all stock option grants. We are internally managed and therefore do not incur management fees payable to third parties.

U.S. Federal Income Taxes

We have elected and intend to continue to qualify for the tax treatment applicable to RICs under Subchapter M of the Code and, among other things, intend to make the required distributions to stockholders as specified therein. In order to qualify as a RIC, we are required to timely distribute to stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required.

In accordance with Statement of Position 93-2, "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies," book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified to capital in excess of par value. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States. See "Certain U.S. Federal Income Tax Considerations" below.

Dividends

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is generally based upon the earnings estimated by management for the period and fiscal year.

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder "opts out" of the plan to receive cash in lieu of having their cash dividends automatically reinvested in additional shares of our common stock.

PORTFOLIO AND INVESTMENT ACTIVITY

Our primary business is lending to and investing in middle market investment businesses through investments in senior secured term loans, mezzanine loans and selected equity securities in primarily privately held middle market companies.

Total portfolio investment activity for the years ended December 31, 2007 and December 31, 2006 was as follows:

	Debt Securities	CLO Fund Securities	Equity Securities	Affiliate Asset Managers	Total Portfolio
2006 Activity:					
Purchases / originations /draws	$ 191,706,724	$ 20,870,000	$ —	$ 33,394,995	$ 245,971,719
Pay-downs / pay-offs / sales	(533,315)	—	—	(72,710)	(606,025)
Net amortized discount	(406,025)	—	—	—	(406,025)
Increase in fair value	—	—	—	4,252,710	4,252,710
Fair Value at December 31, 2006	$ 190,767,384	$ 20,870,000	$ —	$ 37,574,995	$ 249,212,379
2007 Activity:					
Purchases / originations /draws	$ 336,182,774	$ 14,775,000	$ 5,043,950	$ 75,000	$ 356,076,724
Pay-downs / pay-offs / sales	(104,037,559)	—	—	—	(104,037,559)
Net amortized premium	260,848	416,264	—	—	677,112
Net realized gains	266,317	—	—	—	266,317
Increase (decrease) in fair value	(12,485,682)	(5,041,264)	(291,700)	20,935,365	3,116,719
Fair Value at December 31, 2007	$ 410,954,082	$ 31,020,000	$ 4,752,250	$ 58,585,360	$ 505,311,692

Following completion of our initial public offering, we used approximately $185 million of the net proceeds of that offering to acquire a portfolio of approximately $185 million in aggregate principal amount of senior secured loans that were originated during 2006 through a special purpose vehicle organized by Katonah Debt Advisors. These loans were acquired by us for cash at their fair value. Subsequent to our acquisition of these assets and consistent with our investment strategy, we began to reposition our investment portfolio toward a heavier weighting in second lien senior loans and mezzanine loans.

Prior to our initial public offering, we issued an aggregate of 1,258,000 common shares, having a value of approximately $19 million, to affiliates of Kohlberg & Co. to acquire certain subordinated securities and preferred stock securities issued by CLO Funds (Katonah III, Ltd., Katonah IV, Ltd., Katonah V, Ltd., Katonah VII CLO, Ltd., and Katonah VIII CLO, Ltd.) managed by Katonah Debt Advisors and two other asset managers. Subsequent to our initial public offering, we purchased approximately $13 million of CLO Fund securities issued by other CLOs managed by Katonah Debt Advisors and approximately $4 million of CLO Fund securities managed by a third party asset manager. Our total investment in CLO Fund securities at fair value was approximately $31 million as of December 31, 2007. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund.

Prior to our initial public offering, we issued an aggregate of 2,226,333 common shares, having a value of approximately $33 million, to affiliates of Kohlberg & Co. to acquire Katonah Debt Advisors. As a result, Katonah Debt Advisors is a wholly-owned portfolio company that manages CLO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management. Katonah Debt Advisors had after-tax net income of approximately $3 million for the year ended December 31, 2007 and a dividend to us of $500,000.

Both Katonah Debt Advisors and PKSI are considered affiliate investments. As of December 31, 2007, our affiliate asset manager investments at fair value are approximately $59 million.

The level of investment activity for investments funded and principal repayments for our investments can vary substantially from period to period depending on the number and size of investments that we invest in or divest of, and many other factors, including the amount and competition for the debt and equity securities available to middle market companies, the level of merger and acquisition activity for such companies and the general economic environment.

RESULTS OF OPERATIONS

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

Set forth below is a discussion of our results of operations for the year ended December 31, 2007. Prior to the completion of our initial public offering on December 11, 2006, we had no material operations. Therefore, there are no comparable prior periods presented.

Investment Income

Investment income for the year ended December 31, 2007 was approximately $38 million. Of this amount, approximately $28 million was attributable to interest income on our loan and bond investments. For the year ended December 31, 2007 approximately $2 million of investment income was attributable to interest on assets accumulated for future CLO issuances on which we entered into a first loss agreement in connection with loan warehouse arrangements for Katonah Debt Advisors CLO Funds. Approximately $7 million of investment income is attributable to dividends earned on CLO equity investments.

Investment income is primarily dependent on the composition and credit quality of our investment portfolio. Generally, our debt securities portfolio is expected to generate predictable, recurring interest income in accordance with the contractual terms of each loan. Corporate equity securities may pay a dividend and may increase in value for which a gain may be recognized; generally such dividend payments and gains are less predictable than interest income on our loan portfolio. Dividends from CLO Fund securities are dependent on the performance of the underlying assets in each CLO Fund; interest payments, principal amortization and prepayments of the underlying loans in each CLO Fund are primary factors which determine the level of income on our CLO Fund securities.

Dividends from Affiliate Asset Manager

As of December 31, 2007, our investment in Katonah Debt Advisors was approximately $59 million. For the year ended December 31, 2007, Katonah Debt Advisors had GAAP net income of approximately $3 million. Katonah Debt Advisors distributed $500,000 of its approximately $3 million of net income during 2007. Distributions of Katonah Debt Advisors' net income are recorded as dividends from affiliate asset manager. The Company intends to distribute the accumulated net income of Katonah Debt Advisors in the future. For purposes of calculating distributable tax income for required quarterly dividends as a RIC, Katonah Debt Advisors' net income is further reduced by approximately $2 million per annum for tax goodwill amortization resulting from its acquisition by us prior to our initial public offering. As a result, the amount of our declared dividends, as evaluated by management and approved by our Board of Directors, is based on our evaluation of both distributable income for tax purposes and GAAP net investment income (which excludes unrealized gains and losses).

Expenses

Total expenses for the year ended December 31, 2007 were approximately $16 million. Interest expense and amortization on debt issuance costs for the period, which includes facility and program fees on the unused loan balance, was approximately $7 million on average debt outstanding of $106 million. Approximately $4 million of expenses were attributable to employment compensation, including salaries, bonuses and stock option expense for the period. Other expenses included approximately $3 million in professional fees primarily attributable to legal costs related to the initiation of public filings (first year proxy, Form 10-K, etc.), legal costs attributable to the initiation of other certain regulatory and compliance matters, first year Sarbanes-Oxley Act compliance preparation, testing and reporting and recruiting fees. Administrative and other costs totaled approximately $2 million and include occupancy expense, insurance, technology and other office expenses.

Interest and compensation expense are generally expected to be our largest expenses each period. Interest expense is dependent on the average outstanding principal balance on our revolving credit facility and the base index rate for the period. Compensation expense includes base salaries, bonuses, stock compensation, employee benefits and employer related payroll costs. The largest components of total compensation costs are base salaries and bonuses; generally, base salaries are expensed as incurred and bonus expenses are estimated and accrued since bonuses are paid annually.

Net Unrealized Appreciation on Investments

During the year ended December 31, 2007, our investments had an increase in net unrealized appreciation of approximately $3 million. Katonah Debt Advisors had unrealized appreciation of approximately $21 million offset by unrealized losses of approximately $18 million on debt securities, equity securities and CLO Fund securities in our investment portfolio.

The increase in the unrealized value of Katonah Debt Advisors is primarily as a result of an increase in Katonah Debt Advisors' assets under management from $1.2 billion prior to our initial public offering to $2.1 billion as of December 31, 2007. During the year ended December 31, 2007, Katonah Debt Advisors increased its assets under management through the completion of the formation of Katonah X CLO Ltd., which included approximately $486 million in assets. In addition, as of December 31, 2007, Katonah Debt Advisors had aggregated assets of approximately $481 million for new funds it expects to complete during 2008. Of this amount, approximately $212 million of assets were closed into a new $315 million CLO Fund, Katonah 2007, in January 2008.

Net Increase in Stockholders' Equity Resulting From Operations

The net increase in stockholders' equity resulting from operations for the year ended December 31, 2007 was approximately $26 million, or $1.45 per outstanding share.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available for operating our business and to make investments. We seek to have adequate liquidity at all times to cover normal cyclical swings in funding availability and to allow us to meet abnormal and unexpected funding requirements. We plan to satisfy our liquidity needs through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

In addition to the traditional sources of available funds (issuance of new equity, debt or undrawn warehouse facility capacity), we also have the ability to raise additional cash funds through the securitization of assets on our balance sheet through our wholly-owned asset manager, Katonah Debt Advisors. We expect that such a securitization would provide cash for new investments on our balance sheet as well as additional management fee income and potentially increased value (as a result of increased assets under management) for Katonah Debt Advisors.

As a BDC, we are limited in the amount of leverage we can incur to finance our investment portfolio. We are required to meet a coverage ratio of total assets to total senior securities of at least 200%. For this purpose, senior securities include all borrowings and any preferred stock. As a result, our ability to utilize leverage as a means of financing our portfolio of investments is limited by this asset coverage test.

As of December 31, 2007 and December 31, 2006 the fair value of investments and cash and cash equivalents were as follows:

	Investments at Fair Value	
Security Type	December 31, 2007	December 31, 2006
Cash and cash equivalents	$ 12,088,529	$ 32,404,493
Senior Secured Loan	260,138,674	163,313,492
Junior Secured Loan	113,259,293	27,453,892
Mezzanine Investment	33,066,115	—
Senior Subordinated Bond	2,490,000	—
Senior Unsecured Bond	2,000,000	—
CLO Fund Securities	31,020,000	20,870,000
Equity Securities	4,752,250	—
Affiliate Asset Managers	58,585,360	37,574,995
Total	$ 517,400,221	$ 281,616,872

On February 14, 2007, we entered into a securitization revolving credit facility under which we had a right to obtain up to $200 million in financing loaned by or through BMO Capital Markets Corp. On October 1, 2007, we amended the facility to increase our borrowing capacity from $200 million to $275 million, extend the maturity date from February 14, 2012 to October 1, 2012 and increase the interest spread charged on outstanding borrowings by 15 basis points, to 0.85%. The interest rate is based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. Interest is payable monthly. Advances under our credit facility are used by us primarily to make additional investments. The credit facility is secured by loans acquired by us with the advances under the credit facility. We will borrow under the Facility through its wholly-owned, special-purpose bankruptcy remote subsidiary, KCAP Funding.

As of December 31, 2007, the outstanding balance on the credit facility was $255 million, with available additional borrowing capacity of $20 million. As of December 31, 2007, we had restricted cash balances of approximately $7 million, which we maintained in accordance with the terms of our credit facility. A portion of these funds, approximately $2 million, were released to us in January 2008.

We expect our cash on hand, borrowings under our current credit facility's undrawn commitments, and cash generated from operations, including income earned from investments and any income distributions made by Katonah Debt Advisors will be adequate to meet our cash needs at our current level of operations. Our primary use of funds will be investments in secured lien loans, mezzanine debt and CLO Fund equity. In order to fund new originations, we intend to use cash on hand, advances under our credit facility and equity financings. Our credit facility contains collateral requirements, including, but not limited to, minimum diversity, rating and yield, and limitations on loan size. These limitations may limit our ability to fund certain new originations with advances under the credit facility, in which case we will seek to fund originations using new debt or equity financings.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

We are a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of our portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on our balance sheet. Prior to extending such credit, we attempt to limit our credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of December 31, 2007 and December 31, 2006, we had committed to make a total of approximately $4 million and $2 million, respectively, of investments in various revolving senior secured loans, of which approximately $866,000 had been funded as of December 31, 2007 and no amount had been funded as of December 31, 2006. As of December 31, 2007 and December 31, 2006, we had committed to make a total of approximately $8 million and $667,000, respectively, of investments in a delayed draw senior secured loans, of which approximately $5 million had been funded as of December 31, 2007 and no amount had been funded as of December 31, 2006.

We and Katonah Debt Advisors have entered into first loss agreements in connection with warehouse credit lines established to fund the initial accumulation of senior secured corporate loans and certain other debt securities for future CLO Funds that Katonah Debt Advisors will manage, and may enter into similar agreements in the future. Such first loss agreements relate to (i) losses (if any) as a result of individual loan investments being ineligible for purchase by a new CLO Fund (typically due to a payment default on such loan) when such fund formation is completed or, (ii) if a new CLO Fund has not been completed before the expiration of the related warehouse credit line, the loss (if any, and net of any accumulated interest income) on the resale of loans and debt securities funded by such warehouse credit line. In return for our first loss commitment, we receive net interest income from the underlying assets in the loan warehouse.

Katonah Debt Advisors has engaged Bear Stearns to structure and raise three CLO Funds, to be named Katonah 2007-I CLO Ltd., Katonah 2008-I CLO Ltd. (“Katonah 2008-I”) and Katonah 2008-II CLO Ltd. (“Katonah 2008-II”), and to be managed by Katonah Debt Advisors (directly or indirectly through a services contract with an affiliate of Katonah Debt Advisors). As part of these engagements, Katonah Debt Advisors entered into warehouse credit lines with Bear Stearns to fund the initial accumulation of assets for Katonah 2007 and Katonah 2008-I, which provides for a first loss obligation of Katonah Debt Advisors, requiring it to reimburse Bear Stearns for (i) certain losses (if any) incurred on the assets warehoused for Katonah 2007, Katonah 2008-I and Katonah 2008-II prior to their completion, or (ii) if one or all of these CLO Funds fail to close, a portion of the losses (if any) on the resale of the warehoused assets. In connection with the closing of Katonah 2007 in January 2008 discussed below, Katonah Debt Advisors’ maximum first loss guarantee amount under its commitment letter with Bear Stearns was reduced from $22.5 million to $18 million.

As of December 31, 2007, Katonah 2007 and Katonah 2008-I had acquired an aggregate of approximately $340 million and $141 million in assets, respectively, determined on the basis of the par value of such assets. On January 23, 2008, Katonah Debt Advisors closed Katonah 2007 in accordance with the terms of the Bear Stearns engagement. Katonah Debt Advisors received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in Katonah 2007. Approximately $212 million of assets were transferred from the loan warehouse into Katonah 2007 and are no longer subject to a first loss guarantee. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of Katonah 2007. Approximately $269 million in par value of acquired assets remained in the Bear Stearns warehouse credit facility following the closing of Katonah 2007. If the portfolio of remaining warehoused assets had been liquidated on February 29, 2008, Katonah Debt Advisors’ first loss obligation would have been $18 million. On March 16, 2008, JPMorgan announced that, subject to the receipt by Bear Stearns of stockholder approval and the satisfaction or waiver of other specified closing conditions, it has agreed to acquire Bear Stearns. There can be no assurance that the proposed acquisition will take place on the terms disclosed or at all. However, regardless of whether the transaction between JPMorgan and Bear Stearns is consummated, Katonah Debt Advisors’ commitment letter from Bear Stearns will remain in effect in accordance with its terms. Katonah Debt Advisors is currently in discussions with Bear Stearns regarding the timing and structure of the remaining CLO Funds, and its ability to access the warehouse credit line contemplated by the Bear Stearns commitment letter.

On March 12, 2007, Kohlberg Capital and Katonah Debt Advisors engaged Lehman Commercial Paper Inc. (“Lehman”) to structure and raise a CLO Fund to invest in senior secured middle market corporate loans, to be named Ardsley CLO 2007-1 Ltd. and to be managed by Katonah Debt Advisors, and entered into a warehouse credit agreement and ancillary agreements with Lehman to fund the initial accumulation of assets for Ardsley. Under the warehouse credit agreement, Kohlberg Capital, as the first loss provider, was obligated to reimburse Lehman for (i) certain losses (if any) incurred on loans acquired for Ardsley with advances under the warehouse credit facility prior to the completion of the CLO Fund, or (ii) if the CLO Fund failed to close at the expiration of the engagement on December 19, 2007, a portion of the losses (if any) on the resale of the warehoused assets. On October 3, 2007, Kohlberg Capital, Katonah Debt Advisors and Ardsley agreed with Lehman to terminate the engagement, the warehouse credit facility and Kohlberg Capital’s first loss obligation upon payment to Lehman of a payoff amount equal to the amount owed under the warehouse credit facility as of the payoff date minus $1 million, to reflect the estimated current value of the warehoused loans. As part of the termination, Kohlberg Capital purchased all of Ardsley’s assets for an aggregate purchase price of approximately $72 million. Approximately $14 million in aggregate principal amount of such assets were purchased and subsequently sold in market transactions with third parties, and the remaining approximately $58 million of debt securities from Ardsley were retained in our investment portfolio. Ardsley used the proceeds from its sale of these loans to us to repay the outstanding obligations under the warehouse credit facility. All outstanding amounts under the warehouse credit facility have been paid off in full, as a result of which the warehouse credit facility and Kohlberg Capital’s first loss obligations thereunder have terminated. No losses were incurred by Kohlberg Capital upon the termination of Ardsley.

As a result of the termination of the Ardsley warehouse credit facility, the warehouse credit line with Bear Stearns pursuant to the commitment letter dated October 12, 2007 is the only guarantee arrangement to which the Company or Katonah Debt Advisors is a party with respect to the business of Katonah Debt Advisors.

As of December 31, 2006, there were no such first loss commitments or guarantees.

As of December 31, 2007, we had funded approximately $72,000 of our $2.5 million total commitment to PKSI, which is an investment in PKSI’s Class A securities.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual cash obligations and other commercial commitments as of December 31, 2007:

	Payments Due by Period						
Contractual Obligations	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**	**More than Five Years**
Operating lease obligations	$ 1,999,435	$ 422,274	$ 316,816	$ 304,649	$ 311,504	$ 318,513	$ 325,679
Long-term debt obligations	255,000,000	—	—	—	—	255,000,000	—
Unused lending commitments(1)	6,210,232	6,210,232	—	—	—	—	—
Total	$ 263,209,667	$ 6,632,506	$ 316,816	$ 304,649	$ 311,504	$ 255,318,513	$ 325,679

(1) Represents the unfunded lending commitment in connection with revolving lines of credit or delayed funding draws on loans made to portfolio companies.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities contain elements of market risks. We consider our principal market risks to be fluctuations in interest rates and the valuations of our investment portfolio. Managing these risks is essential to our business. Accordingly, we have systems and procedures designed to identify and analyze our risks, to establish appropriate policies and thresholds and to continually monitor these risks and thresholds by means of administrative and information technology systems and other policies and processes.

Interest Rate Risk

Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio.

Our investment income is affected by fluctuations in various interest rates, including LIBOR and prime rates. As of December 31, 2007, approximately 93% of our loans at fair value in our portfolio were at floating rates with a spread to an interest rate index such as LIBOR or the prime rate. We generally expect that future portfolio investments will predominately be floating rate investments. As of December 31, 2007, we had $255 million of borrowings outstanding at a floating rate tied to prevailing commercial paper rates plus a margin of 0.85%.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest income generated by floating rate assets in our investment portfolio.

We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that our balance sheet at December 31, 2007 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical increase or decrease of a 1% change in interest rates would correspondingly affect net interest income proportionately by approximately 1% over a one-year period. Correspondingly, a hypothetical increase or decrease of a 1% change in interest rates would correspondingly affect net interest expense proportionately by approximately 1% over a one-year period. Because most of our investments at December 31, 2007 were floating rate with a spread to an index similar to our financing facility, we would not expect a significant impact on our net interest spread.

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect a net change in assets resulting from operations or net income. Accordingly, no assurances can be given that actual results would not materially differ from the potential outcome simulated by this estimate.

We did not hold any derivative financial instruments for hedging purposes as of December 31, 2007. In connection with the credit facility established on February 14, 2007 (as amended on October 1, 2007), KCAP Funding, our special purpose subsidiary may be required under certain circumstances to enter into interest rate swap agreements or other interest rate hedging transactions.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of December 31, 2007, approximately 63% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. See "Risk Factors—Risks Related to Our Investments—Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments" and "Determination of Net Asset Value." In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, 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, recent sales of or offers to buy comparable companies, and other relevant factors.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on a quarterly basis in good faith. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the year ended December 31, 2007, our Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 21 investments comprising approximately 44% of the total investments at fair value for which market quotations are not readily available as of December 31, 2007. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable. In the future, our Board of Directors may continue to utilize the services of Duff & Phelps, LLC or may use another third party valuation provider.

OBLIGATIONS AND INDEBTEDNESS

On February 14, 2007, we entered into a credit facility that is backed by a revolving pool of loans. We primarily use advances under the credit facility to make additional investments. The credit facility is secured by the loans acquired by us with the advances under the credit facility. We borrow under the credit facility through our wholly-owned, special-purpose bankruptcy remote subsidiary, KCAP Funding. Under the credit facility, funds are loaned by or through BMO Capital Markets Corp., the lender, based on prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, based on prevailing LIBOR rates, in each case plus an applicable spread.

On October 1, 2007, we amended our credit facility to increase the maximum amount we may borrow thereunder from $200 million to $275 million, extend the maturity date from February 14, 2012 to October 1, 2012 and increase the interest spread charged on outstanding borrowings by 15 basis points, to 0.85%. In addition, the amendment revised the method for determining the required equity contribution from Kohlberg Capital to KCAP Funding. Subject to certain thresholds, the required equity contribution will be increased from $45 million to $60 million, depending on the amount of outstanding borrowings.

As of December 31, 2007, we had $255 million of outstanding indebtedness, with available additional borrowing capacity of $20 million.

Under the credit facility, we are subject to limitations as to how borrowed funds may be used, including restrictions on geographic and industry concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings. We are also subject to regulatory restrictions on leverage which may affect the amount of funding that we can obtain under the credit facility. The credit facility also includes certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, a violation of which could result in the early amortization of the credit facility, limit further advances and, in some cases, result in an event of default. The interest charged on borrowed funds is based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. The interest charged on borrowed funds is payable monthly. We were required to pay a one-time, 0.50% structuring fee at the time we originally entered into the credit facility, as well as a one-time, 1% structuring fee on the $75 million increase in borrowing availability under the credit facility at the time we entered into the credit facility amendment. Additionally, we are also required to pay an annual commitment fee, payable monthly, equal to 0.225% for any unused portion of the credit facility.

The pool of loans securing the credit facility is required to meet certain eligibility criteria specified in the documents governing the credit facility. There can be no assurance that we will be able to borrow the amounts anticipated under the credit facility.

We estimate that the portfolio of loans securing the credit facility will be required to generate an annual rate of return of approximately 3% to cover annual interest payments on obligations incurred under the credit facility.

BUSINESS

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with EBITDA of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages CLO Funds that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., a leading private equity firm focused on middle market investing. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management. Our investment objective is to generate current income and capital appreciation from our investments. We also expect to continue to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

As a RIC, we intend to distribute to our stockholders substantially all of our net investment company income, because to maintain our qualification as a RIC, we must, among other things, meet certain source-of-income, asset diversification and distribution requirements. Provided we qualify as a RIC, we generally will not have to pay corporate-level taxes on any of our income and gain that we distribute to our stockholders.

INVESTMENT PORTFOLIO

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other companies if we are presented with attractive opportunities. Our portfolio investments at fair value increased from $249 million at December 31, 2006 to $505 million as of December 31, 2007. The net increase in portfolio size was funded primarily with borrowings under our new credit facility and with the proceeds of the over-allotment option exercised in connection with our December 2006 initial public offering. During the year ended December 31, 2007, we also sold some of our initial portfolio of primarily first lien loans that were accumulated prior to completion of our initial public offering in order to move towards our targeted portfolio mix of first and second lien loans, mezzanine finance and equity securities. First lien loan balances at fair value increased to $260 million at December 31, 2007 from $163 million at December 31, 2006. Second lien, mezzanine loan and bond positions increased to $151 million at December 31, 2007 from $27 million at December 31, 2006. We had equity securities, other than CLO equity securities, totaling $5 million and investments in CLO Fund securities of $31 million at fair value as of December 31, 2007. The increase in investment positions is primarily a result of increased secured borrowings which finance such investment purchases. As of December 31, 2007, our investments in loans and debt securities had an annual weighted average interest rate of approximately 9.5%.

The unaudited characteristics of our investment securities at fair value, excluding CLO equity securities, are presented in the following table as of the end of each quarter end from December 31, 2006 through December 31, 2007:

Security Type ($ in millions)	4Q07 $	4Q07 %	3Q07 $	3Q07 %	2Q07 $	2Q07 %	1Q07 $	1Q07 %	4Q06 $	4Q06 %
First Lien	$ 260.1	63%	$ 190.2	55%	$ 164.3	59%	$ 150.4	69%	$ 163.3	86%
Second Lien/Mezzanine/Bond	150.8	36	148.6	43	110.8	40	64.3	30%	27.5	14
Equity	4.8	1	5.0	2	3.0	1	3.0	1%	—	—
Total	$ 415.7	100%	$ 343.8	100%	$ 278.1	100%	$ 217.7	100%	$ 190.8	100%

The unaudited industry concentrations, based on the fair value of our investment portfolio as of December 31, 2007 and December 31, 2006, were as follows:

Security Type	December 31, 2007 Cost	December 31, 2007 Fair Value	December 31, 2007 %(1)	December 31, 2006 Cost	December 31, 2006 Fair Value	December 31, 2006 %(1)
Aerospace and Defense	$ 32,583,716	$ 32,481,819	6.5%	$ 10,066,692	$ 10,066,692	4.0%
Asset Management Companies(2)	33,469,995	58,585,360	11.6	33,394,995	37,574,995	15.1
Automobile	5,286,731	5,147,010	1.0	9,192,101	9,192,101	3.7
Beverage, Food and Tobacco	—	—	—	2,586,023	2,586,023	1.0
Broadcasting and Entertainment	2,978,999	2,782,500	0.6	—	—	—
Buildings and Real Estate(3)	37,726,396	34,944,226	6.9	19,288,901	19,288,901	7.7
Cargo Transport	14,967,369	14,958,789	3.0	6,361,114	6,361,114	2.6
Chemicals, Plastics and Rubber	3,956,582	3,220,000	0.6	—	—	—
CLO Fund Securities	36,061,264	31,020,000	6.1	20,870,000	20,870,000	8.4
Containers, Packaging and Glass	8,895,059	8,895,059	1.8	4,869,084	4,869,084	2.0
Diversified/Conglomerate Manufacturing	8,931,343	8,718,855	1.7	6,001,219	6,001,219	2.4
Diversified/Conglomerate Service	17,962,721	17,303,969	3.4	5,517,321	5,517,321	2.2
Ecological	3,937,850	3,937,850	0.8	3,985,099	3,985,099	1.6
Electronics	15,830,382	15,158,502	3.0	7,511,950	7,511,950	3.0
Farming and Agriculture	4,800,651	4,058,835	0.8	4,913,210	4,913,210	2.0
Finance	11,590,697	11,209,824	2.2	10,220,467	10,220,467	4.1
Healthcare, Education and Childcare	46,715,870	46,637,705	9.2	28,937,865	28,937,865	11.5
Home and Office Furnishings, Housewares, and Durable Consumer Goods	24,091,185	23,265,816	4.6	2,985,000	2,985,000	1.2
Hotels, Motels, Inns and Gaming	9,364,165	9,091,041	1.8	—	—	—
Insurance	24,346,884	23,941,763	4.7	12,115,209	12,115,209	4.9
Leisure, Amusement, Motion Pictures, Entertainment	18,402,600	18,402,600	3.6	7,034,764	7,034,764	2.8
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	39,573,338	39,483,418	7.8	6,855,875	6,855,875	2.8
Mining, Steel, Iron and Non-Precious Metals	16,338,446	16,069,759	3.2	4,004,614	4,004,614	1.6
Oil and Gas	5,997,874	5,960,000	1.2	—	—	—

Security Type	December 31, 2007 Cost	Fair Value	%(1)	December 31, 2006 Cost	Fair Value	%(1)
Personal and Non Durable Consumer Products (Mfg. Only)	17,315,776	14,750,095	2.9	5,371,096	5,371,096	2.2
Personal, Food and Miscellaneous Services	13,918,651	13,765,201	2.7	—	—	—
Personal Transportation	—	—	—	4,000,000	4,000,000	1.6
Printing and Publishing	21,622,999	21,236,473	4.2	8,819,399	8,819,399	3.5
Retail Stores	4,962,500	4,813,625	1.0	1,958,333	1,958,333	0.8
Utilities	16,384,930	15,471,598	3.1	18,172,048	18,172,048	7.3
Total	$ 498,014,973	$ 505,311,692	100.0%	$ 245,032,379	$ 249,212,379	100.0%

(1) Represents percentage of total portfolio at fair value.

(2) Represents Katonah Debt Advisors and affiliated asset managers.

(3) Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2007 and December 31, 2006, we had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities) or companies providing mortgage lending.

We employ a disciplined approach in the selection and monitoring of our investments. Generally, we target investments that will provide a current return through interest income to provide for stability in our net income and place less reliance on realized capital gains from our investments. Our investment philosophy is focused on preserving capital with an appropriate return profile relative to risk. Our investment due diligence and selection generally focuses on an underlying issuer's net cash flow after capital expenditures to service its debt rather than on multiples of net income, valuations or other broad benchmarks which frequently miss the nuances of an issuer's business and prospective financial performance. We also avoid concentrations in any one industry or issuer. We manage risk through a rigorous credit and investment underwriting process and an active portfolio monitoring program.

Our investment portfolio (excluding our investment in Katonah Debt Advisors and CLO Funds) at quarter end is spread across 26 different industries and 91 different entities with an average balance per investment of approximately $5 million. As of December 31, 2007, all portfolio companies were current on their debt service obligations. Our portfolio, including the CLO Funds in which we invest, and the CLO Funds managed by Katonah Debt Advisors, consist exclusively of credit instruments issued by corporations and do not include investments in asset-backed securities, such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

We may invest up to 30% of our investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States, which investments are not anticipated to be in excess of 10% of our investment portfolio at the time such investments are made. At December 31, 2007, approximately 11% of our investments were foreign assets (including our investments in CLO Funds, which are typically domiciled outside the U.S. and represent approximately 6% of our portfolio). As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment.

As of December 31, 2007, our ten largest portfolio companies represented approximately 29% of the total fair value of our investments. Our largest investment, Katonah Debt Advisors, which is our wholly-owned portfolio company, represented 12% of the total fair value of our investments. Excluding Katonah Debt Advisors and CLO Fund securities, our ten largest portfolio companies represent approximately 17% of the total fair value of our investments.

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Investment in CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. As of December 31, 2007, we had $31 million invested in CLO Fund securities, including those issued by funds managed by Katonah Debt Advisors. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. The CLO Funds managed by Katonah Debt Advisors invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock.

As of December 31, 2007, all of the CLO Funds in which we hold investments maintained the original issue credit ratings on all rated classes of their securities, were distributing cash flows to all classes of investors and were performing in line with expectations with no breach of any material covenants. During the year ended December 31, 2007, our CLO Fund securities for which we had a full year's payments returned an average 28% cash-on-cash return. Our CLO Fund securities as of December 31, 2007 and 2006 are as follows:

CLO Fund Securities	Investment	%(1)	December 31, 2007 Cost	December 31, 2007 Fair Value	December 31, 2006 Cost	December 31, 2006 Fair Value
Grant Grove CLO, Ltd.	Subordinated Securities	22.2%	$ 4,415,580	$ 4,250,000	$ —	$ —
Katonah III, Ltd.	Preferred Shares	23.1	4,500,000	2,810,000	4,500,000	4,500,000
Katonah IV, Ltd.	Mezzanine Investment	17.1	3,150,000	2,420,000	3,150,000	3,150,000
Katonah V, Ltd.	Preferred Shares	26.7	3,320,000	420,000	3,320,000	3,320,000
Katonah VII CLO Ltd.(2).	Subordinated Securities	16.4	4,500,000	3,950,000	4,500,000	4,500,000
Katonah VIII CLO Ltd.(2)	Subordinated Securities	10.3	3,400,000	3,290,000	3,400,000	3,400,000
Katonah IX CLO Ltd.(2)	Preferred Shares	6.9	2,000,000	2,000,000	2,000,000	2,000,000
Katonah X CLO Ltd.(2)	Subordinated Securities	33.3	10,775,684	11,880,000	—	—
Total			$ 36,061,264	$ 31,020,000	$ 20,870,000	$ 20,870,000

(1) Represents percentage of class held.
(2) An affiliate CLO Fund managed by Katonah Debt Advisors.

Our investments in CLO Fund securities are carried at fair value, which is based on a discounted cash flow model that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds and preferred shares/income notes, when available. We recognize unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool is updated and the revised cash flows are used in determining the fair value of the investment. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

The table below summarizes certain attributes of each CLO Fund as per their December 2007 trustee report:

CLO Fund Securities	Number of Securities	Number of Issuers	Number of Industries	Average Security Position Size	Average Issuer Position Size
Grant Grove CLO, Ltd.	245	175	32	$ 1,170,000	$ 1,640,000
Katonah III, Ltd.	305	214	30	1,220,000	1,740,000
Katonah IV, Ltd.	350	246	30	970,000	1,390,000
Katonah V, Ltd.	383	262	30	620,000	910,000
Katonah VII CLO Ltd.	233	178	32	1,410,000	1,850,000
Katonah VIII CLO Ltd	226	170	31	1,650,000	2,200,000
Katonah IX CLO Ltd	216	165	33	1,780,000	2,330,000
Katonah X CLO Ltd	210	157	32	2,060,000	2,750,000

Investment in Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. As a manager of the CLO Funds, Katonah Debt Advisors expects to continue to receive contractual and recurring management fees and any subsequent incentive management fees from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock. Katonah Debt Advisors also typically receives one-time structuring fees upon the creation of a new CLO Fund. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by residential mortgages or other consumer borrowings. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management, and was valued at approximately $59 million.

We expect to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. By making investments in CLO Funds raised by Katonah Debt Advisors in the future, for which we expect to receive a current cash return, we can help Katonah Debt Advisors raise these funds which in turn will increase its assets under management which will result in additional management fee income.

The revenue that Katonah Debt Advisors generates through the fees it receives for managing CLO Funds and after paying the expenses associated with its operations, including compensation of its employees, may be distributed to us. Cash distributions of Katonah Debt Advisors' net income is recorded as dividends from affiliate asset manager when declared. As with all other investments, Katonah Debt Advisors' market value is periodically determined. The valuation is based primarily on a percentage of its assets under management and/or based on Katonah Debt Advisors' estimated net cash flows. Any change in value from period to period is recognized as unrealized gain or loss.

As a separately taxable corporation, Katonah Debt Advisors is taxed at normal corporate rates. For tax purposes, any distributions of taxable net income earned by Katonah Debt Advisors to us would generally need to be distributed to our stockholders. Katonah Debt Advisors' taxable net income differs from GAAP net income for both deferred tax timing adjustments and permanent tax adjustments. Deferred tax timing adjustments may include differences between lease cash payments to GAAP straight line expense and adjustments for the recognition and timing of depreciation, bonuses to employees, stock option expense, and interest rate caps. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties and tax goodwill amortization.

Goodwill amortizable for tax was created upon the purchase of 100% of the equity interests in Katonah Debt Advisors prior to our initial public offering in exchange for shares of our stock valued at $33 million. Although this transaction was a stock transaction rather than an asset purchase and thus no goodwill was recognized for GAAP purposes, for tax purposes such exchange was considered a taxable asset purchase under the Code. At the time of the transfer, Katonah Debt Advisors had equity of approximately $1 million resulting in tax goodwill of approximately $32 million which will be amortized for tax purposes on a straight-line basis over 15 years, resulting in an annual difference between GAAP income and taxable income by approximately $2 million per year over such period.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of December 31, 2007, approximately 63% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, 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, recent sales of or offers to buy comparable companies, and other relevant factors.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on a quarterly basis in good faith. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the year ended December 31, 2007, our Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 21 investments comprising approximately 44% of the total investments at fair value for which market quotations are not readily available as of December 31, 2007. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable. In the future, our Board of Directors may continue to utilize the services of Duff & Phelps, LLC or may use another third party valuation provider.

BACKGROUND

In 1999, affiliates of Kohlberg & Co. formed a lending platform called Katonah Capital, L.L.C. ("Katonah Capital") to capitalize on the experience of Kohlberg & Co. in arranging and structuring debt financing for its own portfolio companies. From its inception through 2005, Katonah Capital organized six CLO Funds that raised in excess of $2 billion in capital to invest in below-investment-grade broadly syndicated loans, bonds and other credit instruments. In 2005, affiliates of Kohlberg & Co. organized Katonah Debt Advisors as a new platform to continue to manage CLO Funds investing in broadly syndicated loans and high-yield bonds and to diversify into lending to middle market companies and investing in other types of credit instruments, and the operations of Katonah Capital were discontinued. Prior to our acquisition of Katonah Debt Advisors and our initial public offering in December 2006, Katonah Debt Advisors raised three CLO Funds with approximately $1.2 billion in assets under management and assembled a $185 million portfolio of primarily middle market loans.

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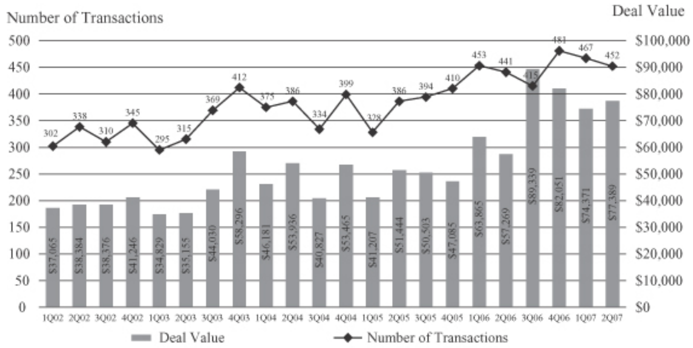
MARKET OPPORTUNITY

We define the middle market as comprising companies with EBITDA of $10 million to $50 million and/or total debt of $25 million to $150 million. We believe that many opportunities exist to provide loans to middle market companies due to:

- the large size of the market, with an estimated 11,000 companies;
- the high level of acquisition activity, with more than 1,500 transactions annually under $500 million during 2005 and 2006; and
- annual senior secured loan volume in 2005 and 2006 in the middle market in excess of $33 billion, according to Standard & Poor's Leveraged Commentary & Data.

The following chart illustrates the number and average transaction value of middle market acquisition transactions from the first quarter of 2002 through the second quarter of 2007:



Source: Thomson Financial, SDC Database, Data as of June 30,2007

STRATEGY

Our investment objective is to generate current income and capital appreciation from our middle market investments and from our investment in Katonah Debt Advisors. We intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. We primarily invest in first and second lien term loans which, because of their priority in a company's capital structure, we expect will have lower default rates and higher rates of recovery of principal if there is a default and which we expect will create a stable stream of interest income. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may also invest in other investments such as loans to larger, publicly-traded companies, high-yield bonds and distressed debt securities. We may also receive warrants or options to purchase common stock in connection with our debt investments. In addition, we may also invest in debt and equity securities issued by CLO Funds managed by Katonah Debt Advisors or by other asset managers. However, our investment strategy is to limit the value of our investments in the debt or equity securities issued by CLO Funds to not more than 10% of the value of our total investment portfolio. We invest exclusively in credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

Our middle market investment business targets companies that have strong historical cash flows, experienced management teams and identifiable and defendable market positions in industries with positive dynamics. Our senior management team has strong relationships with numerous middle market private equity sponsors and regional banks which provide substantial opportunities for our purchase of participations in loans. We also have extensive relationships with the traditional middle market "club" lenders which provide a source of direct lending opportunities. We will continue to seek to manage risk through a rigorous credit and investment underwriting process and an active portfolio monitoring program. See "—Credit and Investment Process" and "—Credit Monitoring." Our underwriting and monitoring program is credit driven by a team of experienced professionals and a modeling process we call "Maximum Reasonable Adversity."

We expect to continue to benefit from our ownership of Katonah Debt Advisors in four ways. First, by working with the investment professionals at Katonah Debt Advisors, we have multiple sources of investment opportunities. We can maximize our investment scale and flexibility by selectively choosing to make an investment through the Company or through a CLO Fund managed by Katonah Debt Advisors, depending on the type of security, the type of transaction and other relevant factors. We expect that Katonah Debt Advisors will continue to be our primary source of broadly syndicated non-investment grade loans, high-yield bonds, CLO equity and mezzanine investments and distressed debt. Second, the experienced team of credit analysts at Katonah Debt Advisors, the members of which also serve as officers of the Company, have specializations covering more than 20 industry groups and they assist us in reviewing potential investments and monitoring our portfolio. Third, we expect to continue to make investments in CLO Funds managed by Katonah Debt Advisors, which we believe will provide us with a current cash investment return. We believe that these investments will provide Katonah Debt Advisors with greater opportunities to access new sources of capital which will ultimately increase Katonah Debt Advisors' assets under management and resulting management fee income. Fourth, we expect to continue to receive distributions of recurring fee income and to generate capital appreciation from our investment in Katonah Debt Advisors.

Our strategic relationship with Kohlberg & Co. is also an important part of our overall strategy. We believe that the participation of its Chairman and co-managing partners on our Board of Directors and of its co-managing partners on our Investment Committee enhances our asset selection and portfolio performance and that Kohlberg & Co. serves as an important source of private equity opportunities. We also believe that the participation of the Kohlberg & Co. co-managing partners on our Investment Committee enhances the due diligence and credit analysis of our lending operations. Christopher Lacovara, one of the firm's two co-managing partners, serves as the Chairman of our Board of Directors and of our Investment Committee.

MIDDLE MARKET BUSINESS

Our middle market investment business is led by our President and CEO, Dayl W. Pearson, and our CIO, R. Jon Corless. Each of Messrs. Pearson and Corless has spent more than 15 years investing in the middle market and, before joining the Company, worked together at CIBC and its affiliates for over eight years. Our management team maintains longstanding relationships with middle market private equity sponsors, lenders who work in small groups, or "club" lenders, and sources of non-sponsored middle market transactions. Members of our senior management team have a proven track record of originating, structuring and managing middle market investments. Mr. Pearson has been involved in all aspects of middle market investing, including origination, negotiation of terms, portfolio management, restructuring and asset sales. Mr. Corless has over 25 years of financial industry experience and has been primarily a credit and risk management professional for the past 18 years responsible for several portfolios of highly leveraged loans and mezzanine securities including middle market assets.

Our middle market investment team has experience assembling portfolios of middle market loans and investments and managing these portfolios through several credit cycles, including both attractive and stressed credit environments. Since March 2006, our middle market investment team has reviewed over 500 middle market investment opportunities while building the portfolio of senior secured loans that we acquired with the net proceeds of our initial public offering.

As a BDC, we offer, and provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

KATONAH DEBT ADVISORS

Katonah Debt Advisors is our wholly-owned asset manager that manages CLO Funds which invest in broadly syndicated senior loans, second lien loans, high-yield bonds, credit default swaps and other credit instruments. The securities issued by these CLO Funds are primarily held by third parties. We control Katonah Debt Advisors through our ownership of 100% of its equity interests. Subject to the requirements of the 1940 Act, Katonah Debt Advisors may, in the future, elect to register as an investment adviser under the Investment Advisers Act of 1940 in connection with the conduct of its business. Katonah Debt Advisors is led by its President, E.A. Kratzman, who has more than 30 years of credit and investment experience. Mr. Kratzman also serves as Vice President of the Company and a member of our Investment Committee. Katonah Debt Advisors structures and sponsors CLO Funds for which it serves as the asset manager and invests in syndicated term loans and high-yield bonds (rated lower than Baa3 by Moody’s or lower than BBB- by Standard & Poor’s). The CLO Funds managed by Katonah Debt Advisors invest exclusively in credit instruments issued by corporations and do not invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. In 2005 and 2006, Katonah Debt Advisors raised three CLO Funds with approximately $1.2 billion in assets under management to invest in broadly syndicated loans and high-yield bonds. As of April 19, 2007, Katonah Debt Advisors priced its most recent CLO Fund with an additional $486 million of assets under management. On October 12, 2007, Katonah Debt Advisors entered into a new commitment letter with Bear Stearns, pursuant to which the parties agreed to structure and raise one additional CLO Fund (for a total of three funds) during the term of the engagement and to re-allocate the assets already warehoused among Katonah 2007, Katonah XI and the new CLO Fund to achieve a target size of approximately $315 million in assets for each such CLO Fund.

The CLO Funds managed by Katonah Debt Advisors allow it to securitize portfolios of loan and bond investments and enhance the funds’ return on capital by issuing debt for which the portfolios of investments serve as collateral. A typical CLO Fund portfolio managed by Katonah Debt Advisors consists primarily of broadly syndicated non-investment grade loans and high-yield bonds typically issued by large capitalization companies. Leveraged loans typically experience less market volatility than high-yield bonds, and also are generally secured by assets, thereby improving the likelihood of principal preservation. The CLO Funds managed by Katonah Debt Advisors currently pay it, as the asset manager, an annual management fee of 0.50% of assets under management and an annual incentive fee of 20% of the profits of the fund, provided that the investment return of the CLO Fund has exceeded a specified minimum rate of return.

Katonah Debt Advisors generally participates in the markets for senior secured syndicated term loans greater than $100 million, high-yield bonds (rated BBB or below) and mezzanine securities of other CLO Funds. The investment portfolios managed by Katonah Debt Advisors typically carry an average overall credit quality of B1/Ba3 Moody’s rating equivalent or B+/BB- Standard & Poor’s rating equivalent. Katonah Debt Advisors believes that this ratings category generally provides the best risk/reward combination as well as more stable returns as compared with other lower rated assets. The markets in which Katonah Debt Advisors invests are large and generally offer considerable trading liquidity. The strategy of the Katonah Debt Advisors is to select and maintain portfolios of syndicated loans and high-yield bonds, which offer a balance of interest rate spreads and credit risks appropriate for CLO securitizations in order to maintain a stable, attractive level of current cash return to investors. We anticipate that the CLO Funds managed by the Structured Products Group of Katonah

Debt Advisors will continue to typically invest only in credit instruments issued by corporations and not to invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

Katonah Debt Advisors employs an experienced team of 13 investment professionals. E.A. Kratzman, President of Katonah Debt Advisors, has participated in the fundraising for 19 CLO Funds investing in loans, high-yield bonds and credit derivatives with an aggregate value of approximately $7 billion. Mr. Kratzman also serves as our Vice President and as a member of our Investment Committee, providing the benefit of his experience to the Company's lending activities. The investment professionals of Katonah Debt Advisors source and evaluate selected CLO equity and mezzanine investment opportunities for us and assist us in identifying ways to optimize the use of our capital through securitizations of assets and other potential refinancing structures.

The 20 credit professionals/analysts employed by us and Katonah Debt Advisors average more than 14 years of experience. Each analyst follows a specific set of industries, allowing them to develop deep insight and broad industry contacts. This credit team reviews, when appropriate, loans sourced by us as well as investment opportunities for CLO Funds managed by Katonah Debt Advisors.

OUR STRATEGIC RELATIONSHIP WITH KOHLBERG & CO.

We believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co., as evidenced by the participation of its Chairman and co-managing partners on our Board of Directors and of its co-managing partners on our Investment Committee. Through such participation, we have access to the expertise of these individuals in the middle market and leveraged investing, which we believe enhances our capital raising, due diligence, investment selection and credit analysis activities. In addition, affiliates of Kohlberg & Co., including those who serve on our Board of Directors and on our Investment Committee, will own, in the aggregate, approximately 14% of our outstanding common stock immediately following the completion of this offering, assuming that 3,100,000 shares of our common stock are sold. We have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but that it has determined in its sole discretion are not appropriate for any investment funds managed by Kohlberg & Co. or any of its affiliates, typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to any third party although no referral from Kohlberg & Co. to date has resulted in an investment by us or our Katonah Debt Advisors. Kohlberg & Co. has also granted us a royalty-free license to use the "Kohlberg" name, which we believe is one of the most widely recognized names in middle market investing, and is providing certain administrative services to us on a transitional basis.

Kohlberg & Co. is a leading U.S. private equity firm which manages investment funds that acquire middle market companies. Kohlberg & Co. was formed in 1987 by Jerome Kohlberg Jr., the senior founding partner of KKR, and his son, James A. Kohlberg, at the time an executive with KKR. Since its inception, Kohlberg & Co. has organized six private equity funds, through which it has raised approximately $3.5 billion of committed capital and completed more than 80 platform and add-on acquisitions with an aggregate value of approximately $7 billion. The Chairman and co-managing partners of Kohlberg & Co., who are members of our Board of Directors, and, in the case of the co-managing partners, also members of our Investment Committee, possess on average more than 20 years of investment banking and middle market investing experience, and have worked together across all of the firm's private equity funds. Christopher Lacovara, one of the firm's two co-managing partners, serves as the Chairman of our Board of Directors and of our Investment Committee.

Because we are an internally managed BDC, we do not pay any fees to Kohlberg & Co. or any of its affiliates. Under the 1940 Act, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior approval of the SEC. In addition, we may co-invest on a concurrent basis with Kohlberg & Co. or any of our affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

COMPETITIVE ADVANTAGES

We believe that we can successfully compete with other providers of capital in the markets in which we compete for the following reasons:

Internally managed structure and significant management resources

We are internally managed by our executive officers under the supervision of our Board of Directors and do not depend on a third party investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs, including the costs associated with employing investment management professionals, and to make distributions to our stockholders. Including employees of Katonah Debt Advisors, some of whom also serve as officers of the Company, we employ a team of 20 experienced investment professionals with substantial experience in middle market lending, credit analysis, loan securitization and portfolio administration. Our President and CEO, Dayl W. Pearson, our CIO, R. Jon Corless, and E.A. Kratzman, our Vice President and a member of our Investment Committee and the President of Katonah Debt Advisors, have an average of over 28 years of credit and investment experience. The 20 credit professionals/analysts employed by us and Katonah Debt Advisors average more than 14 years of experience. We expect to add additional professional staff with a track record of originating senior loans and mezzanine and equity investments.

We believe that we derive substantial benefits from our internally managed structure. First, because they are employed by us, the individuals responsible for managing our investments are dedicated solely to the success of our business. Our investment professionals do not serve as advisors to any other investment funds other than the CLO Funds managed by Katonah Debt Advisors and therefore we do not compete with other investment funds for investment opportunities, although some investment opportunities may be allocated to funds managed by Katonah Debt Advisors. Second, through their participation in our Equity Incentive Plan, a significant portion of the compensation of our senior managers is tied to the performance of our investments, resulting in an alignment of interests between our management and stockholders. Third, we leverage our management resources and those of Katonah Debt Advisors across our portfolio of investments and the investments of the CLO Funds managed by Katonah Debt Advisors.

Multiple sourcing capabilities for assets

We have multiple sources of loans, mezzanine investments and equity investments. Through industry relationships, we believe that we will continue to have the ability to participate in loans originated by other capital providers to middle market companies as well as to source assets directly from private equity sponsors and regional banks. Through Katonah Debt Advisors, we have the ability to acquire participations in selected syndicated secured and second lien term loans whose borrowers and investment returns meet our investment criteria. Through Katonah Debt Advisors, we also have the opportunity to invest in selected equity and mezzanine securities issued by CLO Funds, including those managed by Katonah Debt Advisors. Through our strategic relationship with Kohlberg & Co., we expect to continue to have access to a variety of equity investments and mezzanine and other lending opportunities which are presented to Kohlberg & Co. but do not meet Kohlberg & Co.’s applicable investment criteria for reasons such as the small size or non-control nature of the investment. From January 1, 2007 through December 31, 2007, we reviewed 595 investment opportunities, which resulted in 50 completed transactions and a total gross investment of $374 million.

Disciplined investment process

We employ a rigorous credit review process and due diligence intensive investment strategy which our senior management has developed over more than 20 years of lending. Due to our ability to source transactions through multiple channels, we expect to continue to maintain a substantial pipeline of opportunities to allow comparative risk return analysis and selectivity. By focusing on the drivers of revenue and cash flow, we develop our own underwriting case and multiple stress case scenarios for each company analyzed. An event-specific financial model reflecting company, industry and market variables support each investment decision. We also benefit from the credit and industry expertise of Katonah Debt Advisors' credit team, the members of which also serve as officers of the Company, and the Chairman and co-managing partners of Kohlberg & Co. serving on our Board of Directors and, in the case of its co-managing partners, on our Investment Committee. Generally, both we and the CLO Funds managed by Katonah Debt Advisors have decided not to invest in highly leveraged or "covenant light" credit facilities.

Katonah Debt Advisors' credit platform

Katonah Debt Advisors serves as a source of direct investment opportunities and cash flow. In addition, certain credit analysts employed by Katonah Debt Advisors who also serve as officers of the Company serve as sources of credit analysis. Katonah Debt Advisor's credit team employs a highly rigorous process in selecting and reviewing investment opportunities for CLO Funds managed by Katonah Debt Advisors. We have the opportunity to make investments in CLO Funds managed by Katonah Debt Advisors, which we expect to generate regular cash dividends or interest income. Katonah Debt Advisors also generates revenue through the fees it receives for managing CLO Funds, and may distribute its income, after paying the expenses associated with its operations, including compensation of its employees and taxes, if any, to us. Further we co-invest with CLO Funds managed by Katonah Debt Advisors when we believe it will be advantageous for us to do so. As of December 31, 2007, we had invested at cost $20 million in CLO Funds managed by Katonah Debt Advisors.

Investments in a wide variety of portfolio companies in a number of different industries with no exposure to mortgage-backed securities

Our investment portfolio (excluding our investment in Katonah Debt Advisors and CLO Funds) is spread across 26 different industries and 91 different entities with an average balance per investment of approximately $5 million. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

Strategic relationship with Kohlberg & Co.

We believe that Kohlberg & Co. is one of the oldest and most well-known private equity firms focused on the middle market, and we expect to continue to derive substantial benefits from our strategic relationship with Kohlberg & Co. Through the participation of the Chairman and co-managing partners of Kohlberg & Co. on our Board of Directors and, in the case of its co-managing partners, on our Investment Committee, we have access to the expertise of these individuals in middle market leveraged investing, which we believe enhances our capital raising, due diligence, investment selection and credit analysis. Christopher Lacovara, one of the firm's two co-managing partners, serves as the Chairman of our Board of Directors and of our Investment Committee. In addition, we have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but that it determines in its sole discretion are not appropriate for any investment fund managed by Kohlberg & Co. or any of its affiliates typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to any third party. To date, no referral from Kohlberg & Co. has resulted in an investment by us or Katonah Debt Advisors. Under this agreement, Kohlberg & Co. has also granted us a royalty-free license to use the "Kohlberg" name, which we believe is one of the most widely recognized names in middle market investing.

Significant equity ownership and alignment of incentives

Our senior management team, the senior management team of Katonah Debt Advisors and affiliates of Kohlberg & Co. together have a significant equity interest in the Company, ensuring that their incentives are strongly aligned with those of our stockholders. Affiliates of Kohlberg & Co., including the Chairman and co-managing partners of Kohlberg & Co. who serve on our Board of Directors and, in the case of its co-managing partners, on our Investment Committee, owned in the aggregate approximately 17% of our outstanding common stock as of February 29, 2008 and prior to giving effect to any sale of shares pursuant to this prospectus, which they received, in lieu of cash, as consideration for the contribution to the Company of 100% of the equity of Katonah Debt Advisors and certain subordinated securities investments in CLO Funds managed by Katonah Debt Advisors and two other asset managers or purchased in the open market. We have also issued to our senior management team options to purchase shares of our common stock under our Equity Incentive Plan.

INVESTMENTS AND OPERATIONS

Our investment objective is to generate current income and capital appreciation from our middle market investments. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may invest up to 30% of our capital in other investments such as loans to larger, publicly-traded companies, high-yield bonds, distressed debt securities and debt and equity securities issued by CLO Funds managed by Katonah Debt Advisors or by other asset managers.

As of December 31, 2007, we had a portfolio that included first and second lien senior loans. Our investments generally averaged between $1 million to $10 million, although particular investments may be larger or smaller. We expect that the size of investment will grow as our available capital grows. After the acquisition of assets subsequent to our initial public offering and consistent with our investment strategy, we have begun to reposition the investment portfolio to focus increasingly on second lien senior loans and mezzanine loans.

The size of individual investments will vary according to their priority in a company's capital structure, with larger investments in more secure positions in an effort to maximize capital preservation. We expect that the size of our investments and maturity dates will vary as follows:

- senior secured term loans from $10 to $20 million maturing in five to seven years;
- second lien term loans from $5 to $20 million maturing in six to eight years;
- senior unsecured loans $5 to $15 million maturing in six to eight years;
- mezzanine loans from $5 to $15 million maturing in seven to ten years; and
- equity investments from $1 to $5 million.

When we extend senior secured term loans, we generally take a security interest in the available assets of the portfolio company, including the equity interests of their subsidiaries, which we expect to help mitigate the risk that we will not be repaid. Nonetheless, there is a possibility that our lien could be subordinated to claims of other creditors. Structurally, mezzanine debt ranks subordinate in priority of payment to senior term loans and is often unsecured. Relative to equity, mezzanine debt ranks senior to common and preferred equity in a borrower's capital structure. Typically, mezzanine debt has elements of both debt and equity instruments, offering fixed returns in the form of interest payments associated with a loan, while providing an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest that is typically in the form of equity purchased at the time the mezzanine loan is repaid or warrants to purchase equity at a future date at a fixed cost.

Mezzanine debt generally earns a higher return than senior secured debt due to its higher risk profile and usually less restrictive covenants. The warrants associated with mezzanine debt are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine debt also 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.

As of December 31, 2007, we had invested approximately $32 million in mezzanine debt investments.

CREDIT AND INVESTMENT PROCESS

We employ the same due diligence intensive investment strategy that our senior management team, Katonah Debt Advisors and Kohlberg & Co. have used over the past 20 years. Due to our ability to source transactions through multiple channels, we expect to continue to maintain a substantial pipeline of opportunities to allow comparative risk return analysis and selectivity. By focusing on the drivers of revenue and cash flow, we develop our own underwriting cases, and multiple stress and event-specific case scenarios for each company analyzed.

We focus on lending and investing opportunities in:

- companies with EBITDA of $10 to $50 million;
- companies with financing needs of $25 to $150 million;
- companies purchased by top tier equity sponsors;
- non-sponsored companies with successful management and systems;
- high-yield bonds and broadly syndicated loans to larger companies on a selective basis; and
- equity co-investment in companies where we see substantial opportunity for capital appreciation.

We expect to continue to source investment opportunities from:

- private equity sponsors;
- regional investment banks for non-sponsored companies;
- other middle market lenders with whom we can "club" loans;
- Katonah Debt Advisors with regard to high-yield bonds and syndicated loans; and
- Kohlberg & Co. with regard to selected private equity investment opportunities.

In our experience, good credit judgment is based on a thorough understanding of both the qualitative and quantitative factors which determine a company's performance. Our analysis begins with an understanding of the fundamentals of the industry in which a company operates, including the current economic environment and the outlook for the industry. We also focus on the company's relative position within the industry and its historical ability to weather economic cycles. Other key qualitative factors include the experience and depth of the management team and the financial sponsor, if any.

Only after we have a comprehensive understanding of the qualitative factors do we focus on quantitative metrics. We believe that with the context provided by the qualitative analysis, we can gain a better understanding of a company's financial performance. We analyze a potential portfolio company's sales growth and margins in the context of its competition as well as its ability to manage its working capital requirements and its ability to generate consistent cash flow. Based upon this historical analysis, we develop a set of projections which represents a reasonable underwriting case of most likely outcomes for the company over the period of our investment. Using our Maximum Reasonable Adversity model, we also look at a variety of potential downside cases to determine a company's ability to service its debt in a stressed credit environment.

Elements of the *qualitative analysis* we use in evaluating investment opportunities include the following:

- Industry fundamentals;
- Competitive position and market share;
- Past ability to work through historical down-cycles;
- Quality of financial and technology infrastructure;
- Sourcing risks and opportunities;
- Labor and union strategy;
- Technology risk;
- Diversity of customer base and product lines;
- Quality and experience of management;
- Quality of financial sponsor (if applicable); and
- Acquisition and integration history.

Elements of the *quantitative analysis* we use in evaluating investment opportunities include the following:

- Income statement analysis of growth and margin trends;
- Balance sheet analysis of working capital efficiency;
- Cash flow analysis of capital expenditures and free cash flow;
- Financial ratio and market share standing among comparable companies;
- Financial projections: underwriting versus stress case;
- Event specific Maximum Reasonable Adversity credit modeling;
- Future capital expenditure needs and asset sale plans;
- Downside protection to limit losses in an event of default;
- Risk adjusted returns and relative value analysis; and
- Enterprise and asset valuations.

The origination, structuring and credit approval processes are fully integrated. Our credit team is directly involved in all due diligence and analysis prior to the formal credit approval process.

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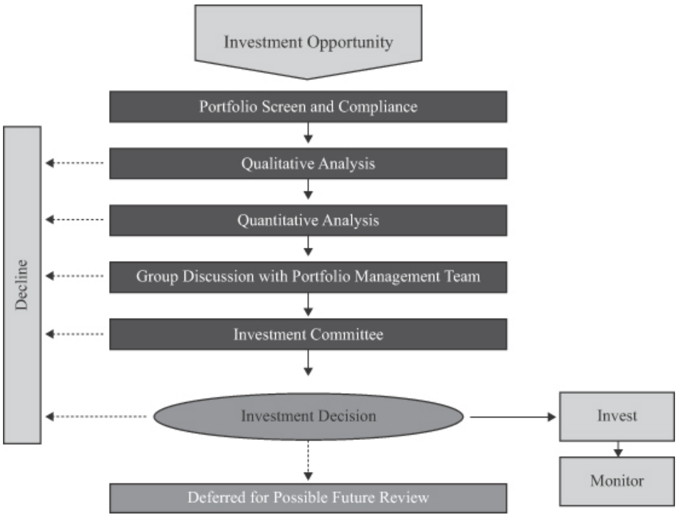
Approval Process

The following chart illustrates our screening and approval process:



We review potential investment opportunities and conduct a due diligence investigation of each potential investment that passes our initial screening process. This due diligence investigation generally includes one or more on-site visits, a review of our historical and prospective financial information, interviews with management, employees, customers and vendors of the prospective portfolio company and background checks and research on the prospective portfolio company's product, service or particular industry. Where appropriate, this is conducted in conjunction with the relevant industry analysts from Katonah Debt Advisors who also serve as officers of the Company. Upon completion of the due diligence investigation, we prepare a credit underwriting memorandum which summarizes the contemplated transaction, presents the investment highlights, analyzes the risks in the transaction and mitigating factors to those risks and analyzes the prospective portfolio company's historical financial statements, financial projections, industry and management team. The underwriting team then presents this memorandum with its recommendations to our Investment Committee, which consists of our Chairman, Christopher Lacovara of Kohlberg & Co., our President and CEO, Dayl W. Pearson, our CIO, R. Jon Corless, the President of Katonah Debt Advisors and our Vice President, E.A. Kratzman, and our Vice President and member of our Board of Directors and a co-managing partner of Kohlberg & Co., Samuel P. Frieder. The approval of a majority of the Investment Committee is required for all investments of less than $15 million, and the unanimous approval of the Investment Committee is required for investments of $15 million or greater.

CREDIT MONITORING

Our management team has significant experience monitoring portfolios of middle market investments, and this is enhanced by the credit monitoring procedures of Katonah Debt Advisors. Our CEO was responsible for building the credit monitoring and portfolio management procedures at IBJ Schroder and our CIO has been involved in credit monitoring for over 15 years. Along with origination and credit analysis, portfolio management is one of the key elements of our business. Most of our investments are not liquid and, therefore, we must prepare to act quickly if potential issues arise so that we can work closely with the management and private equity sponsor, if applicable, of the portfolio company to take any necessary remedial action quickly. In addition, most of our senior management team, including the credit team at Katonah Debt Advisors, have substantial workout and restructuring experience.

In order to assist us in detecting issues with portfolio companies as early as possible, we perform a monthly financial analysis of each portfolio company. This analysis typically includes:

- reviewing financial statements with comparisons to prior year financial statements, as well as the current budget including key financial ratios such as debt/EBITDA, margins and fixed charge coverage;
- independently computing and verifying compliance with financial covenants;
- reviewing and analyzing monthly borrowing base, if any;
- a monthly discussion of MD&A with company management and the private equity sponsor, if applicable;
- determining if current performance could cause future financial covenant default;
- discussing prospects with the private equity sponsor, if applicable;
- determining if a portfolio company should be added to our “watch list” (companies to be reviewed in more depth);
- if a company is not meeting expectations, reviewing original underwriting assumptions and determining if either enterprise value or asset value has deteriorated enough to warrant further action; and
- a monthly update to be reviewed by both the CIO and CEO.

OUR PEOPLE

In addition to our CEO and CIO, we currently employ a CFO, who also serves as a CCO, a managing director of originations, four credit analysts, a director and a manager of portfolio administration, a manager of Information Technology and a manager of Investor Relations. As we grow, we will selectively add experienced staff to enhance both our sourcing of assets and our monitoring of portfolio companies. We have identified several potential experienced origination and portfolio management team members with whom members of our senior management have worked previously as possible additions to our team. In addition, we will add junior staffing as necessary.

Our wholly-owned portfolio company, Katonah Debt Advisors, employs a highly experienced team of 13 investment professionals, all of whom are officers of the Company. The President and two portfolio managers at Katonah Debt Advisors average more than 20 years of credit, investment and securitization experience. The 20 investment professionals/analysts employed by us and Katonah Debt Advisors average more than 14 years of experience. Katonah Debt Advisors will continue to add to its staff as it increases its assets under management. We utilize the Katonah Debt Advisors team to assist both our origination and credit evaluation and monitoring efforts.

COMPETITION

Our primary competitors provide financing to prospective portfolio companies and include commercial banks, specialty finance companies, hedge funds, structured investment funds and investment banks. Many of these entities have greater financial and managerial resources than we have, and the 1940 Act imposes certain regulatory restrictions on us as a BDC to which many of our competitors are not subject. For additional information concerning the competitive risks we face, see “Risk Factors—Risks Related to Our Business—We operate in a highly competitive market for investment opportunities.”

We believe that we provide a unique combination of an experienced middle market origination and credit team, an existing credit platform at Katonah Debt Advisors that includes experienced lenders with broad industry expertise and an Investment Committee that includes co-managing partners of Kohlberg & Co., a leading experienced and successful middle market private equity firm. We believe that this combination of resources provides us with a thorough credit process and multiple sources of investment opportunities to enhance our asset selection process.

OUR CORPORATE INFORMATION

We were organized in August 2006 as a Delaware limited liability company under the name Kohlberg Capital, LLC. Prior to the completion of our initial public offering, we acquired 100% of the equity interests in Katonah Debt Advisors, an entity through which Kohlberg & Co. historically conducted its middle market lending and asset management business, made an election to be regulated as a BDC, and converted to a Delaware corporation. Upon the completion of our initial public offering, we used approximately $185 million of the net proceeds to acquire a portfolio of senior secured term loans from an entity organized by Katonah Debt Advisors. We have elected to be treated as a RIC under Subchapter M of the Code commencing with our taxable year ended December 31, 2006.

Our principal executive offices are located at 295 Madison Avenue, 6th Floor, New York, New York 10017, and our telephone number is (212) 455-8300. We maintain a website on the Internet at *http://www.kohlbergcap.com.* Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings.

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PORTFOLIO COMPANIES

The following tables set forth certain information as of December 31, 2007 regarding each of our investments in portfolio companies. Unless otherwise noted in these tables, the only relationship between us and each portfolio company is our investment in such portfolio company. No single investment (other than our investment in Katonah Debt Advisors) represents more than 5% of our total assets. While we may make loans to or additional investments in these companies, we have no present plans to make any such loans or investments that would raise our investment in any other of these companies above 5% of total assets. Any such loans and investments will be made in accordance with our investment policies and procedures.

Debt Securities and Bond Portfolio

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Advanced Lighting Technologies, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Senior Secured Loan—Revolving Loan 7.5%, Due 6/13	$ —	$ —	$ —
Advanced Lighting Technologies, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Junior Secured Loan—Second Lien Term Loan Note 11.1%, Due 6/14	5,000,000	4,990,905	5,000,000
Advanced Lighting Technologies, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Senior Secured Loan—Term Loan (First Lien) 7.9%, Due 6/13	3,573,000	3,573,000	3,573,000
Advanced Lighting Technologies, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Senior Secured Loan—Deferred Draw Term Loan (First Lien) 7.5%, Due 6/13	650,268	650,268	650,268
Aero Products International, Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	1834 Walden Office Square 3rd Floor Schaumberg, IL 60173	Senior Secured Loan—Term Loan 8.8%, Due 4/12	3,700,000	3,700,000	3,681,500

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Aerostructures Acquisition LLC(6) *Aerospace and Defense*	18008A N. Black Canyon Hwy Phoenix, AZ 85053	Senior Secured Loan—Delayed Draw Term Loan 7.9%, Due 3/13	$ 500,000	$ 500,000	$ 497,500
Aerostructures Acquisition LLC(6) *Aerospace and Defense*	18008A N. Black Canyon Hwy Phoenix, AZ 85053	Senior Secured Loan—Term Loan 7.8%, Due 3/13	6,378,125	6,378,125	6,378,125
AGA Medical Corporation(6) *Healthcare, Education and Childcare*	682 Mendelssohn Avenue Golden Valley, MN 55427	Senior Secured Loan—Tranche B Term Loan 7.2%, Due 4/13	3,832,209	3,829,343	3,654,970
AGS LLC(6) *Hotels, Motels, Inns, and Gaming*	c/o Alpine Investors 3 Embarcadero Center, Suite 2330 San Francisco, CA 94111-4016	Senior Secured Loan—Delayed Draw Term Loan 7.7%, Due 5/13	579,194	562,331	550,234
AGS LLC(6) *Hotels, Motels, Inns, and Gaming*	c/o Alpine Investors 3 Embarcadero Center, Suite 2330 San Francisco, CA 94111-4016	Senior Secured Loan—Initial Term Loan 7.9%, Due 5/13	4,802,419	4,732,592	4,562,298
Allen-Vanguard Corporation(3) *Aerospace and Defense*	5459 Canotek Road Ottawa, Ontario K1J 9M3	Senior Secured Loan—US Term Loan 12.0%, Due 9/12	2,309,736	2,277,028	2,277,028
AmerCable Incorporated(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	350 Bailey Road El Dorado, AR 71730	Senior Secured Loan— Initial Term Loan 8.4%, Due 6/14	6,965,000	6,965,000	6,965,000
Astoria Generating Company Acquisitions, LLC(6) *Utilities*	c/o US Power Generating Company 400 Madison Avenue New York, NY 10017	Junior Secured Loan—Second Lien Term Loan C 8.7%, Due 8/13	4,000,000	4,049,430	3,900,000

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Atlantic Marine Holding Company(6) *Cargo Transport*	8500 Heckscher Drive Jacksonville, FL 32226	Senior Secured Loan—Term Loan 7.1%, Due 3/14	$ 1,739,465	$ 1,750,599	$ 1,730,768
Aurora Diagnostics, LLC(6) *Healthcare, Education and Childcare*	11360 North Jog Road, Suite 103 Palm Beach Gardens, FL 33418	Senior Secured Loan—Tranche A Term Loan (First Lien) 9.0%, Due 12/12	4,060,000	4,010,521	4,019,823
Awesome Acquisition Company (CiCi's Pizza)(6) *Personal, Food and Miscellaneous Services*	1080 West Bethel Road Coppell, TX 75019	Junior Secured Loan—Term Loan (Second Lien) 9.8%, Due 6/14	4,000,000	3,973,451	3,820,000
AZ Chem US Inc.(6) *Chemicals, Plastics and Rubber*	Building 100 4600 Touchton Road E. Suite 1500 Jacksonville, FL 32246	Junior Secured Loan—Second Lien Term Loan 10.6%, Due 2/14	4,000,000	3,956,582	3,220,000
Bankruptcy Management Solutions, Inc.(6) *Diversified/Conglomerate Service*	8 Corporate Park, Suite 210 Irvine, CA 92606	Senior Secured Loan—First Lien Term Loan 7.6%, Due 7/12	1,975,000	1,987,070	1,846,625
Bankruptcy Management Solutions, Inc.(6) *Diversified/Conglomerate Service*	8 Corporate Park, Suite 210 Irvine, CA 92606	Junior Secured Loan—Loan (Second Lien) 11.1%, Due 7/13	2,468,750	2,505,651	1,987,344
Bay Point Re Limited(3)(6) *Insurance*	c/o Conyers Dill & Pearman Clarendon House 2 Church Street Hamilton, Ontario, Canada	Senior Secured Loan—Loan 9.6%, Due 12/10	3,000,000	3,019,487	3,019,487

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Bicent Power LLC(6) *Utilities*	103 North Washington St Easton, MD 21601	Junior Secured Loan—Advance (Second Lien) 8.8%, Due 12/14	$ 4,000,000	$ 4,000,000	$ 3,730,000
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	950 Tower Lane, Suite 1150 Foster City, CA 94404-2127	Senior Secured Loan—Term Loan A10.1%, Due 11/11	3,733,691	3,733,691	3,733,691
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	950 Tower Lane, Suite 1150 Foster City, CA 94404-2127	Senior Secured Loan—Revolving Loan 9.7%, Due 11/10	375,000	375,000	375,000
Caribe Information Investments Incorporated(6) *Printing and Publishing*	c/o Welsh, Carson, Anderson & Stowe 320 Park Avenue, Suite 2500 New York, NY 10022-6815	Senior Secured Loan—Term Loan 7.3%, Due 3/13	2,815,534	2,803,185	2,709,951
Cast & Crew Payroll, LLC (Payroll Acquisition)(6) *Leisure, Amusement, Motion Pictures, Entertainment*	100 East Tujunga Avenue Second Floor Burbank, CA 91502-1955	Senior Secured Loan— Initial Term Loan 7.8%, Due 9/12	10,608,400	10,647,600	10,647,600
CEI Holdings, Inc. (Cosmetic Essence)(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	2182 Route 35 South Holmdel, NJ 07733	Senior Secured Loan—Term Loan 7.5%, Due 3/14	1,850,051	1,751,546	1,665,046
Centaur, LLC(6) *Hotels, Motels, Inns, and Gaming*	10 W Market St, Suite 200 Indianapolis, IN 46204	Senior Secured Loan—Term Loan (First Lien) 8.8%, Due 10/12	4,122,807	4,069,243	3,978,509
Centaur, LLC(6) *Hotels, Motels, Inns, and Gaming*	10 W Market St, Suite 200 Indianapolis, IN 46204	Senior Secured Loan—Delayed Draw Term Loan 8.7%, Due 10/12	—	—	—
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	1450 US Highway 22 Mountainside, NJ 07092	Mezzanine Investment—Senior Subordinated Notes 15.5%, Due 6/13	10,127,500	9,945,201	9,945,201

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Clarke American Corp.(6) *Printing and Publishing*	10931 Laureate Drive San Antonio, TX 78249-3312	Senior Secured Loan—Tranche B Term Loan 7.3%, Due 6/14	$ 2,985,000	$ 2,985,000	$ 2,693,963
Clayton Holdings, Inc(6) *Finance*	2 Corporate Drive Shelton, CT 06484	Senior Secured Loan—Term Loan 7.0%, Due 12/11	614,320	616,752	552,888
Coastal Concrete Southeast, LLC *Buildings and Real Estate(4)*	7 Plantation Drive Bluffton, SC 29910	Mezzanine Investment—Mezzanine Term Loan 15.0%, Due 3/13	8,120,914	7,711,760	8,120,914
Concord Re Limited(3) *Insurance*	c/o Conyers Dill & Pearman Clarendon House 2 church Street Hamilton, Ontario, Canada	Senior Secured Loan—Term Loan 9.2%, Due 2/12	3,000,000	3,024,013	3,000,000
CST Industries, Inc.(6) *Diversified/Conglomerate Manufacturing*	5400 Kansas Avenue Kansas City, KS 66106	Senior Secured Loan—Term Loan 7.9%, Due 8/13	987,500	990,623	990,623
DaimlerChrysler Financial Services Americas LLC(6) *Finance*	27777 Inkster Road Farmington Hills, MI 48334-5326	Senior Secured Loan—Term Loan (First Lien) 9.0%, Due 8/12	1,995,000	1,903,193	1,923,519
Dealer Computer Services, Inc. (Reynolds & Reynolds)(6) *Electronics*	6700 Hollister Houston, TX 77040	Junior Secured Loan—Term Loan (Third Lien) 12.3%, Due 4/14	3,500,000	3,537,846	3,491,250
Dealer Computer Services, Inc. (Reynolds & Reynolds)(6) *Electronics*	6700 Hollister Houston, TX 77040	Junior Secured Loan—Term Loan (Second Lien) 10.3%, Due 10/13	1,000,000	1,009,544	990,000

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Delta Educational Systems, Inc.(6) *Healthcare, Education and Childcare*	144 Business Park Drive Suite 201 Virginia Beach, VA 23462	Senior Secured Loan—Term Loan 8.3%, Due 6/12	$ 2,876,053	$ 2,876,053	$ 2,876,053
DeltaTech Controls, Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non- Electronic)*	c/o Littlejohn & Co. LLC 8 Sound Shore Drive Greenwich, CT 06830	Senior Secured Loan—Term Loan (First Lien) 8.0%, Due 7/14	4,000,000	3,980,991	3,980,991
DeltaTech Controls, Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	c/o Littlejohn & Co. LLC 8 Sound Shore Drive Greenwich, CT 06830	Junior Secured Loan—Term Loan (Second Lien) 11.7%, Due 1/15	2,000,000	1,961,246	1,961,246
Dresser, Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	15455 Dallas Parkway, Suite 1100 Addison, TX 75001	Junior Secured Loan—Term Loan (Second Lien) 11.1%, Due 5/15	3,000,000	2,959,031	2,861,250
Edgestone CD Acquisition Corp. (Custom Direct)(6) *Printing and Publishing*	1802 Fashion Court Joppa, MD 21085	Junior Secured Loan—Loan (Second Lien) 10.8%, Due 12/14	5,000,000	5,000,000	5,000,000
Edgestone CD Acquisition Corp. (Custom Direct)(6) *Printing and Publishing*	1802 Fashion Court Joppa, MD 21085	Senior Secured Loan—Term Loan (First Lien) 7.6%, Due 12/13	4,975,000	4,980,828	4,980,828
eInstruction Corporation(6) *Healthcare, Education and Childcare*	308 N. Carroll Blvd. Denton , TX 76201	Junior Secured Loan—Second Lien Term Loan (Dec. 2007) 12.5%, Due 7/14	10,000,000	10,000,000	10,000,000

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
eInstruction Corporation(6) *Healthcare, Education and Childcare*	308 N. Carroll Blvd. Denton , TX 76201	Senior Secured Loan—Initial Term Loan (Dec. 2007) 9.0%, Due 7/13	$4,970,013	$4,970,013	$4,970,013
Emerson Reinsurance Ltd.(3) *Insurance*	c/o HSBC Financial Services (Cayman) Limited PO Box 1109 90 North Church St Strathvale House Grand Cayman KY1-1102 Cayman Islands	Senior Secured Loan—Series C Loan 10.2%, Due 12/11	3,000,000	3,000,000	2,985,000
Endeavor Energy Resources, L.P. *Oil and Gas*	Attn: Autry C. Stephens 110 N. Marienfeld, Suite 200 Midland, TX 79701-4412	Junior Secured Loan—Second Lien Term Loan 9.6%, Due 3/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.(6) *Diversified/Conglomerate Manufacturing*	c/o Cortec Management III, LLC 200 Park Avenue, 20th Floor New York, NY 10166	Senior Secured Loan—Term Loan 7.9%, Due 12/12	7,926,391	7,940,720	7,728,231
FD Alpha Acquisition LLC (Fort Dearborn)(6) *Printing and Publishing*	1530 Morse Avenue Elk Grove, Illinois 60007	Senior Secured Loan—US Term Loan 8.3%, Due 11/12	915,400	915,400	901,669
First American Payment Systems, L.P.(6) *Finance*	201 Main Street, suite 1000 Fort Worth, TX 76102	Senior Secured Loan—Term Loan 8.2%, Due 10/13	3,694,000	3,694,000	3,601,650
Flatiron Re Ltd.(3) *Insurance*	2 Church Street Hamilton HM 11, Bermuda	Senior Secured Loan—Closing Date Term Loan 9.1%, Due 12/10	3,664,488	3,691,697	3,646,165

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Flatiron Re Ltd.(3) *Insurance*	2 Church Street Hamilton HM 11, Bermuda	Senior Secured Loan—Delayed Draw Term Loan 9.1%, Due 12/10	$ 1,774,986	$ 1,788,166	$ 1,766,111
Ford Motor Company(6) *Automobile*	One American Road Dearborn, MI 48126	Senior Secured Loan—Term Loan 8.0%, Due 12/13	1,989,950	1,987,554	1,845,678
Freescale Semiconductor, Inc. *Electronics*	6501 William Cannon Dr. Austin, TX 78735	Senior Subordinated Bond—10.125% - 12/2016 - 35687MAP2 10.1%, Due 12/16	3,000,000	3,009,230	2,490,000
Frontier Drilling USA, Inc.(6) *Oil and Gas*	1000 Louisiana Street Suite 1210 Houston, TX 77002-5031	Senior Secured Loan—Term B Advance 8.7%, Due 6/13	2,000,000	1,997,874	1,960,000
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate(4)*	1 Hammock Beach Parkway Palm Coast, FL 32127	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 8.2%, Due 6/11	1,257,143	1,218,578	1,026,143
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate(4)*	1 Hammock Beach Parkway Palm Coast, FL 32127	Senior Secured Loan—First Lien Tranche B Term Loan 8.3%, Due 6/11	2,701,714	2,618,835	2,205,274
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate(4)*	1 Hammock Beach Parkway Palm Coast, FL 32127	Junior Secured Loan—Second Lien Term Loan 12.3%, Due 6/12	3,000,000	2,680,274	1,925,010

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Gleason Works, The(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	1000 University Avenue P.O. Box 22970 Rochester, NY 14607-1239	Senior Secured Loan—New US Term Loan 6.8%, Due 6/13	$ 2,437,280	$ 2,444,818	$ 2,324,556
Hawkeye Renewables, LLC(6) *Farming and Agriculture*	21050 140th Street Iowa Falls, IA 50126	Senior Secured Loan—Term Loan (First Lien) 9.0%, Due 6/12	2,962,406	2,894,213	2,346,640
HealthSouth Corporation *Healthcare, Education and Childcare*	One HealthSouth Parkway Birmingham, AL 35243	Senior Secured Loan—Term Loan 7.7%, Due 3/13	1,262,594	1,266,540	1,208,403
HMSC Corporation (aka Swett and Crawford)(6) *Insurance*	3715 Northside Parkway N.W. Building 200, Suite 800 Atlanta, GA 30327	Junior Secured Loan—Loan (Second Lien) 10.7%, Due 10/14	5,000,000	4,803,383	4,550,000
Huish Detergents Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	15 West South Temple, Suite 1400 Salt Lake City, UT 84101-1535	Junior Secured Loan—Loan (Second Lien) 9.1%, Due 10/14	1,000,000	1,000,000	811,660
Hunter Fan Company(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10017	Senior Secured Loan—Initial Term Loan (First Lien) 7.4%, Due 4/14	4,161,071	3,947,013	3,682,548
Hunter Fan Company(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10017	Junior Secured Loan—Loan (Second Lien) 11.6%, Due 10/14	3,000,000	3,000,000	2,430,000

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Hunter Fan Company(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10017	Senior Secured Loan—Delayed Draw Term Loan 7.2%, Due 4/14	$ —	$ —	$ —
IAL Acquisition Co. (International Aluminum Corporation)(6) *Mining, Steel, Iron and Non-Precious Metals*	Four Embarcadero Center Suite 1900 San Francisco, CA 94111	Senior Secured Loan—Term Loan 7.6%, Due 3/13	4,039,700	4,039,700	4,039,700
Infiltrator Systems, Inc.(6) *Ecological*	6 Business Park Road Old Saybrook, CT 06475	Senior Secured Loan—Term Loan 8.4%, Due 9/12	3,950,000	3,937,850	3,937,850
Inmar, Inc.(6) *Retail Stores*	2601 Pilgrim Court Road Winston-Salem, NC 27106	Senior Secured Loan—Term Loan 7.3%, Due 4/13	4,962,500	4,962,500	4,813,625
Intrapac Corporation/Corona Holdco(6) *Containers, Packaging and Glass*	125 Mural Street, Suite 200 Richmond Hill Ontario L4B 1M4 Canada	Senior Secured Loan—1st Lien Term Loan 8.5%, Due 5/12	5,850,000	5,873,152	5,873,152
Intrapac Corporation/Corona Holdco(6) *Containers, Packaging and Glass*	125 Mural Street, Suite 200 Richmond Hill Ontario L4B 1M4 Canada	Junior Secured Loan—Term Loans (Second Lien) 12.5%, Due 5/13	3,000,000	3,021,907	3,021,907
Jones Stephens Corp.(6) *Buildings and Real Estate (4)*	c/o Cortec Management IV, L.L.C. 200 Park Avenue, 20th Floor New York, NY 10166	Senior Secured Loan—Term Loan 8.8%, Due 9/12	10,245,530	10,217,367	10,217,367
JW Aluminum Company(6) *Mining, Steel, Iron and Non-Precious Metals*	435 Old Mt. Holly Road Mt. Holly, SC 29445	Junior Secured Loan—Term Loan (2nd Lien) 11.1%, Due 12/13	5,371,429	5,390,350	5,210,286

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Kepler Holdings Limited(3) *Insurance*	c/o Reid Management Ltd. Argyle House 41A Cedar Avenue Hamilton, Ontario	Senior Secured Loan—Loan 10.3%, Due 6/09	$ 3,000,000	$ 3,000,000	$ 2,985,000
Kepler Holdings Limited(3)(6) *Insurance*	c/o Reid Management Ltd. Argyle House 41A Cedar Avenue Hamilton, Ontario	Senior Secured Loan—Loan 10.3%, Due 6/09	2,000,000	2,020,139	1,990,000
KIK Custom Products Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	33 MacIntosh Blvd. Concord, Ontario L4K 4L5	Junior Secured Loan—Loan (Second Lien) 9.8%, Due 12/14	5,000,000	5,000,000	3,400,000
La Paloma Generating Company, LLC *Utilities*	1221 Lamar, Suite 1020 Houston, TX 77101	Junior Secured Loan—Loan (Second Lien) 8.3%, Due 8/13	2,000,000	2,017,210	1,890,000
LBREP/L-Suncal Master I LLC *Buildings and Real Estate(4)*	c/o SunCal Companies 2392 Morse Avenue Irvine, CA 92614-6234	Junior Secured Loan—Term Loan (Third Lien) 13.8%, Due 2/12	2, 254,068	2,254,068	2,006,120
LBREP/L-Suncal Master I LLC(6) *Buildings and Real Estate(4)*	c/o SunCal Companies 2392 Morse Avenue Irvine, CA 92614-6234	Senior Secured Loan—Term Loan (First Lien) 8.2%, Due 1/10	$ 3,920,000	$ 3,842,022	$3,567,200

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
LBREP/L-Suncal Master I LLC(6) *Buildings and Real Estate(4)*	c/o SunCal Companies 2392 Morse Avenue Irvine, CA 92614-6234	Junior Secured Loan—Term Loan (Second Lien) 12.2%, Due 1/11	2,000,000	1,918,000	1,780,000
Legacy Cabinets, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	100 Legacy Blvd. P.O. Box 730 Eastaboga, AL 36260-8009	Senior Secured Loan—First Lien Term Loan 8.6%, Due 8/12	2,955,000	2,955,000	2,955,000
Levlad, LLC & Arbonne International, LLC(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	c/o Harvest Partners, Inc. 280 Park Avenue New York, NY 10017	Senior Secured Loan—Term Loan 7.2%, Due 3/14	2,898,451	2,898,451	2,266,589
LN Acquisition Corp. (Lincoln Industrial)(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	One Lincoln Way St. Louis, MI 63120	Junior Secured Loan—Initial Term Loan (Second Lien) 10.9%, Due 1/15	2,000,000	2,000,000	1,970,000
LPL Holdings, Inc.(6) *Finance*	9785 Towne Centre Drive San Diego, CA 92121-1968	Senior Secured Loan—Tranche D Term Loan 6.8%, Due 6/13	5,338,639	5,376,752	5,131,767
MCCI Group Holdings, LLC(6) *Healthcare, Education and Childcare*	c/o Medical Care Consortium, Inc. 4960 SW 72nd Street, Suite 406 Miami, FL 33143-6050	Junior Secured Loan—Term Loan (Second Lien) 12.7%, Due 6/13	1,000,000	1,000,000	1,000,000

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
MCCI Group Holdings, LLC(6) *Healthcare, Education and Childcare*	c/o Medical Care Consortium, Inc. 4960 SW 72nd Street, Suite 406 Miami, FL 33143-6050	Senior Secured Loan—Term Loan (First Lien) 9.4%, Due 12/12	$5,960,018	$5,940,018	$ 5,960,018
Murray Energy Corporation(6) *Mining, Steel, Iron and Non-Precious Metals*	29325 Chagrin Boulevard Suite 300 Pepper Pike, OH 44122	Senior Secured Loan—Tranche B Term Loan (First Lien) 7.9%, Due 1/10	1,969,620	1,979,459	1,890,835
National Interest Security Company, L.L.C.(6) *Aerospace and Defense*	c/o D.C. Capital Partners 975 F St. NW, Suite 1050 Washington, DC 20004	Senior Secured Loan—Term Loan 9.7%, Due 12/12	5,000,000	5,000,000	5,000,000
Northeast Biofuels, LP(6) *Farming and Agriculture*	1850 County Route 57 Fulton, NY 13069	Senior Secured Loan—Construction Term Loan 8.5%, Due 6/13	1,365,854	1,368,725	1,229,268
Northeast Biofuels, LP(6) *Farming and Agriculture*	1850 County Route 57 Fulton, NY 13069	Senior Secured Loan—Synthetic LC Term Loan 8.1%, Due 6/13	536,585	537,713	482,927

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Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
PAS Technologies Inc. *Aerospace and Defense*	c/o Gridiron Capital, LLC 39 Locust Avenue, Suite 204 New Canaan, CT 06840-4783	Senior Secured Loan—Incremental Term Loan Add On 8.5%, Due 6/11	$856,741	$856,741	$ 856,741
PAS Technologies Inc. *Aerospace and Defense*	c/o Gridiron Capital, LLC 39 Locust Avenue, Suite 204 New Canaan, CT 06840-4783	Senior Secured Loan—Term Loan 8.4%, Due 6/11	4,236,111	4,211,616	4,211,616
Pegasus Solutions, Inc. *Leisure, Amusement, Motion Pictures, Entertainment*	Campbell Centre 1 8350 North Central Expressway Suite 1900 Dallas, TX 75206-1613	Senior Unsecured Bond—10.500% - 04/2015 - 705908AA9 10.5%, Due 4/15	2,000,000	2,000,000	2,000,000
Pegasus Solutions, Inc.(6) *Leisure, Amusement, Motion Pictures, Entertainment*	Campbell Centre 1 8350 North Central Expressway Suite 1900 Dallas, TX 75206-1613	Senior Secured Loan—Term Loan 8.1%, Due 4/13	5,755,000	5,755,000	5,755,000
Primus International Inc.(6) *Aerospace and Defense*	15000 N.E. 8th Street Suite 1910 Bellevue, WA 98004	Senior1 Secured Loan—Term Loan 7.7%, Due 6/12	3,259,279	3,265,878	3,177,797
QA Direct Holdings, LLC(6) *Printing and Publishing*	30 East 33rd St New York, NY 10016	Senior Secured Loan—Term Loan 9.6%, Due 8/14	4,987,469	4,938,587	4,950,063
Resco Products, Inc.(6) *Mining, Steel, Iron and Non-Precious Metals*	Penn Center West Two, Suite 430 Pittsburgh, PA 15276	Junior Secured Loan—2nd Lien Term Loan 13.1%, Due 6/14	5,000,000	4,928,938	4,928,938
Rhodes Companies, LLC, The(6) *Buildings and Real Estate*[4]	4730 South Fort Apache Road, Suite 300 Las Vegas, NV 89147	Senior Secured Loan—First Lien Term Loan 8.3%, Due 11/10	1,878,788	1,780,166	1,647,077

Portfolio Company /Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Rhodes Companies, LLC, The(6) *Buildings and Real Estate(4)*	4730 South Fort Apache Road, Suite 300 Las Vegas, NV 89147	Junior Secured Loan—Second Lien Term Loan 12.6%, Due 11/11	$2,000,000	$2,011,185	$1,266,680
San Juan Cable, LLC(6) Broadcasting and Entertainment	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10022	Junior Secured Loan—Second Lien Term Loan 10.7%, Due 10/13	3,000,000	2,978,999	2,782,500
Schneller LLC(6) *Aerospace and Defense*	c/o Graham Partners II, L.P 3811 West Chester Pike, Building 2, Suite 200 Newtown Square, PA 19073	Senior Secured Loan—First Lien Term Loan 8.7%, Due 6/13	4,975,000	4,927,882	4,950,125
Seismic Micro-Technology, Inc. (SMT)(6) *Electronics*	528 Ramona St Palo Alto, CA 94301	Senior Secured Loan—Term Loan 7.6%, Due 6/12	995,000	992,532	992,532
Seismic Micro-Technology, Inc. (SMT)(6) *Electronics*	528 Ramona St Palo Alto, CA 94301	Senior Secured Loan—Term Loan 7.6%, Due 6/12	1,492,500	1,488,798	1,488,798
Sorenson Communications, Inc.(6) *Electronics*	4393 South Riverboat Road Suite 300 Salt Lake City, UT 84123-2524	Senior Secured Loan—Tranche C Term Loan 7.4%, Due 8/13	2,791,551	2,807,105	2,720,897
Specialized Technology Resources, Inc.(6) *Diversified/Conglomerate Service*	10 Water Street Enfield, CT 06082-4899	Senior Secured Loan—Term Loan (First Lien) 7.3%, Due 6/14	5,970,000	5,970,000	5,970,000

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Portfolio Company /Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Specialized Technology Resources, Inc.(6) *Diversified/Conglomerate Service*	10 Water Street Enfield, CT 06082-4899	Junior Secured Loan— Loan (Second Lien) 11.8%, Due 12/14	$ 7,500,000	$ 7,500,000	$ 7,500,000
Standard Steel, LLC(6) *Cargo Transport*	c/o Trimaran Fund II, L.L.C. 622 Third Avenue, 35th Floor New York, NY 10017-6779	Senior Secured Loan— Delayed Draw Term Loan 7.4%, Due 7/12	825,699	831,324	831,324
Standard Steel, LLC(6) *Cargo Transport*	c/o Trimaran Fund II, L.L.C. 622 Third Avenue, 35th Floor New York, NY 10017-6779	Senior Secured Loan— Initial Term Loan 7.3%, Due 7/12	4,097,298	4,125,208	4,125,208
Standard Steel, LLC(6) *Cargo Transport*	c/o Trimaran Fund II, L.L.C. 622 Third Avenue, 35th Floor New York, NY 10017-6779	Junior Secured Loan— Loan (Second Lien) 10.8%, Due 7/13	1,750,000	1,760,240	1,760,240
Stolle Machinery Company(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	6949 S. Potomac Street Centennial, CO 80112	Junior Secured Loan— Loan (Second Lien) 11.4%, Due 9/13	1,000,000	1,015,115	975,000
Stolle Machinery Company(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	6949 S. Potomac Street Centennial, CO 80112	Senior Secured Loan— First Lien Term Loan 7.9%, Due 9/12	1,975,000	1,985,124	1,945,375

Portfolio Company /Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
TLC Funding Corp.(6) *Healthcare, Education and Childcare*	c/o Global Securitization Services LLC 445 Broad Hollow Road, Suite 239 Melville, NY 11747-3601	Senior Secured Loan—Term Loan (First Lien) 9.9%, Due 5/12	$3,930,000	$3,850,590	$3,959,475
TPF Generation Holdings, LLC(6) *Utilities*	1044 North 115th Street, Suite 400 Omaha, NE 68154-4410	Junior Secured Loan—Second Lien Term Loan 9.1%, Due 12/14	2,000,000	2,033,096	1,890,000
TransAxle LLC *Automobile*	Route 73 and O'Donnell Lane Cinnaminson, NJ 08077	Senior Secured Loan—Revolver 8.2%, Due 8/11	490,909	486,678	488,832
TransAxle LLC(6) *Automobile*	Route 73 and O'Donnell Lane Cinnaminson, NJ 08077	Senior Secured Loan—Term Loan 9.2%, Due 9/12	2,812,500	2,812,500	2,812,500
TUI University, LLC(6) *Healthcare, Education and Childcare*	c/o Summit Partners, L.P., 499 Hamilton Avenue Palo Alto, California 94301	Senior Secured Loan—Term Loan (First Lien) 8.1%, Due 10/14	3,990,000	3,794,292	3,810,450

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Portfolio Company /Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Twin-Star International, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	115 S.E. 4th Avenue Delray Beach, FL 33483	Senior Secured Loan—Term Loan 7.8%, Due 4/13	$4,975,000	$4,975,000	$4,975,000
United Maritime Group, LLC (fka Teco Transport Corporation)(6) *Cargo Transport*	702 N. Franklin St, Plaza 9 Tampa, FL 33605	Junior Secured Loan—Term Loan (Second Lien) 12.8%, Due 12/13	4,500,000	4,500,000	4,511,250
United Maritime Group, LLC (fka Teco Transport Corporation)(6) *Cargo Transport*	702 N. Franklin St, Plaza 9 Tampa, FL 33605	Senior Secured Loan—1st Lien Term Loan 9.0%, Due 12/12	2,000,000	2,000,000	2,000,000
Water PIK, Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	6000 Condor Drive Moorpark, CA 93021	Senior Secured Loan—Loan (First Lien) 8.2%, Due 6/13	2,985,000	2,965,778	2,925,300
Wesco Aircraft Hardware Corp.(6) *Aerospace and Defense*	27727 Avenue Scott Valencia, CA 91355	Junior Secured Loan—Second Lien Term Loan 10.6%, Due 3/14	4,132,887	4,166,447	4,132,887
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	609 N. 2nd Street Saint Joseph, MO 64501	Mezzanine Investment —11.000%—02/2015—97654JAB9 11.0%, Due 2/15	5,000,000	4,762,014	5,000,000

Portfolio Company /Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	609 N. 2nd Street Saint Joseph, MO 64501	Mezzanine Investment—11.000%—02/2015—97654JAA1 11.0%, Due 2/15	$ 10,000,000	$ 10,000,000	$ 10,000,000
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Junior Secured Loan—Term Loan (Second Lien) 9.3%, Due 12/12	2,683,177	2,688,724	2,555,726
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Senior Secured Loan—Acquisition Term Loan 7.1%, Due 6/12	783,980	772,832	733,021
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Senior Secured Loan—Synthetic Letter of Credit 7.1%, Due 6/12	668,412	658,900	618,280
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Senior Secured Loan—Synthetic Revolver Deposits 7.1%, Due 6/12	167,103	164,727	154,570
X-Rite, Incorporated(6) *Electronics*	3100 44th Street SW Grandville, MI 49418	Senior Secured Loan—Term Loan (First Lien) 8.5%, Due 10/12	1,995,000	1,985,328	1,985,025
X-Rite, Incorporated(6) *Electronics*	3100 44th Street SW Grandville, MI 49418	Junior Secured Loan—Loan (Second Lien) 12.4%, Due 10/13	1,000,000	1,000,000	1,000,000
Total Investment in Debt Securities and Bonds (81% of total investments at fair value)			$426,014,170	$423,439,764	$ 410,954,082

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Equity Portfolio

Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value(2)
Aerostructures Holdings L.P. *Aerospace and Defense*	18008A N. Black Canyon Hwy Phoenix, AZ 85053	Partnership Interest	1.2%	$ 1,000,000	$ 1,000,000
eInstruction Acquisition, LLC *Healthcare, Education and Childcare*	308 N. Carroll Blvd. Denton , TX 76201	Membership Units	1.1%	1,069,810	1,069,810
FP WRCA Coinvestment Fund VII, Ltd.(3) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	609 N. 2nd Street Saint Joseph, MO 64501	Class A Shares	0.7%	1,500,000	1,500,000
Park Avenue Coastal Holding, LLC *Buildings and Real Estate(4)*	399 Park Avenue, Suite 3204 New York, NY 10022	Common Interests	2.0%	1,000,000	803,000
Coastal Concrete Southeast, LLC *Buildings and Real Estate(4)(7)*	7 Plantation Drive Bluffton, SC 29910	Warrants[8]	0.9%	474,140	379,440
Total Investment in Equity Securities (1% of total investments at fair value)				$ 5,043,950	$ 4,752,250

CLO Fund Securities

Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value(2)
Grant Grove CLO, Ltd.(3)	c/o Maples Finance Limited P.O. Box 1093 GT Queensgate House South Church Street George Town, Grand Cayman Cayman Islands	Subordinated Securities	22.2%	$ 4,415,580	$ 4,250,000
Katonah III, Ltd.(3)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Preferred Shares	23.1%	4,500,000	2,810,000

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Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value(2)
Katonah IV, Ltd.(3)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Preferred Shares	17.1%	$ 3,150,000	$ 2,420,000
Katonah V, Ltd.(3)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Preferred Shares	26.7%	3,320,000	420,000
Katonah VII CLO Ltd.(3), (9)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Subordinated Securities	16.4%	4,500,000	3,950,000
Katonah VIII CLO Ltd(3), (9)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Subordinated Securities	10.3%	3,400,000	3,290,000
Katonah IX CLO Ltd(3), (9)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Preferred Shares	6.9%	2,000,000	2,000,000
Katonah X CLO Ltd(3), (9)	c/o Deutsche Bank (Cayman) P.O. Box 1984 GT Elizabeth Square George Town, Grand Cayman Cayman Islands	Subordinated Securities	33.3%	10,775,684	11,880,000
Total Investment in CLO Fund Securities (6% of total investments at fair value)				**$ 36,061,264**	**$ 31,020,000**

Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value(2)
Katonah Debt Advisors *Asset Management Company*	295 Madison Avenue 6th Floor New York, NY 10017	Membership Interests	100.0%	$ 33,394,995	$ 58,510,360
PKSI *Distressed Investments*	295 Madison Avenue 6th Floor New York, NY 10017	Class A Shares	100.0%	71,500	71,500
PKSI *Distressed Investments*	295 Madison Avenue 6th Floor New York, NY 10017	Class B Shares	35.0%	3,500	3,500
Total Investment in Portfolio Companies (12% of total investments at fair value)				**$ 33,469,995**	**$ 58,585,360**
Total Investments(5)				**$ 498,014,973**	**$ 505,311,692**

(1) A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which resets semi-annually, quarterly, or monthly. For each such loan, we have provided the weighted average annual stated interest rate in effect at December 31, 2007.

(2) Reflects the fair market value of all existing investments as of December 31, 2007, as determined by our Board of Directors.

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

(4) Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2007, we had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through our investments in CLO funds.

(5) The aggregate cost of investments for federal income tax purposes is approximately $500 million. The aggregate gross unrealized appreciation is approximately $27 million and the aggregate gross unrealized depreciation is approximately $20 million.

(6) Pledged as collateral for the secured revolving credit facility (see Note 6 to the financial statements).

(7) Non-income producing.

(8) Warrants having a strike price of $0.01 and expiration date of March 2017.

(9) An affiliate CLO Fund managed by Katonah Debt Advisors.

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MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors elects our officers who serve at its discretion. In connection with our election to be regulated as a BDC, we established our Board of Directors initially with seven members, three of whom are "interested persons" as defined in Section 2(a)(19) of the 1940 Act and four of whom are not interested persons, whom we refer to as our independent directors.

Directors and Executive Officers

Our executive officers, directors and key employees and their positions are as set forth below. The address for each executive officer and director is c/o Kohlberg Capital Corporation, 295 Madison Avenue, 6th Floor, New York, New York 10017.

Name	Age	Position with Us
Independent Directors:		
C. Turney Stevens, Jr.	57	Director
Albert G. Pastino	65	Director
C. Michael Jacobi	66	Director
Gary Cademartori	66	Director
Non-Independent Directors:		
Christopher Lacovara(1)	43	Chairman and Vice President
James A. Kohlberg(1)	50	Vice Chairman and Vice President
Samuel P. Frieder(1)	43	Director and Vice President
Executive Officers		
Dayl W. Pearson	53	President and Chief Executive Officer
R. Jon Corless	56	Chief Investment Officer
Michael I. Wirth	49	Chief Financial Officer and Chief Compliance Officer
E.A. Kratzman	56	Vice President; President of Katonah Debt Advisors
John M. Stack	62	Vice President; Managing Director of Katonah Debt Advisors

(1) Messrs. Lacovara, Kohlberg and Frieder are interested persons, as defined in section 2(a)(19) of the 1940 Act, because they are officers of the Company.

The following is a summary of certain biographical information concerning our directors, executive officers and key employees:

Independent Directors

C. Turney Stevens

Mr. Stevens has served on Kohlberg Capital's Board since December 2006 and serves on the Valuation Committee and the Compensation Committee of the Board. Mr. Stevens retired as the Founder, Chairman and CEO of Harpeth Companies, LLC, a diversified financial services company that is the parent company of Harpeth Capital, LLC and Harpeth Consulting, LLC. Prior to founding Harpeth in 1999, Mr. Stevens was a founder and Chairman of Printing Arts America, Inc. From 1986 to 1994, Mr. Stevens served in various capacities at Rodgers Capital Corporation, a middle market investment banking firm focused on mergers and acquisitions and private institutional equity transactions, including as President. In 1973, Mr. Stevens founded PlusMedia, Inc., a magazine publishing company that he later sold to a public company in 1982. Mr. Stevens began his career at Tennessee Securities, a Nashville investment banking firm, which was one of the region's leaders in helping to capitalize early-stage and growth-stage companies. Mr. Stevens graduated from David

Lipscomb University in 1972 and received an Executive M.B.A. degree from the Owen Graduate School of Management at Vanderbilt University in 1981. He now serves as the Executive-in-Residence and Visiting Professor of Management in the College of Business at Lipscomb University. He is a 2007 graduate of the Directors' College at the Anderson School of Management at UCLA and is certified as a public company director by Institutional Shareholder Services.

Albert G. Pastino

Mr. Pastino has served on Kohlberg Capital's Board since December 2006 and is the Chair of the Audit Committee of the Board. Mr. Pastino is also the Senior Managing Director at Amper Investment Banking ("AIB"), a NASD member investment bank focusing on private transactions for middle market companies. He founded AIB in 2004. AIB focuses on capital formation, mergers and acquisitions and strategic advisory assignments. After leaving an affiliate of Kohlberg & Co. in June 1997, Mr. Pastino worked as an investor, CFO and Chief Operating Officer at a variety of companies and was involved in all aspects of financial and general management, reporting and fundraising for a variety of companies, including Aptegrity, Inc., Bolt, Inc., AmTec, Inc. and Square Earth, Inc. Mr. Pastino is a member of the Board of Directors of Critical Homecare Solutions Holdings, Inc. and a member of the Board of Directors and Finance Committee of New Eyes for the Needy, a not-for-profit organization headquartered in New Jersey.

C. Michael Jacobi

Mr. Jacobi has served on Kohlberg Capital's Board since December 2006 and serves on the Audit Committee of the Board. Mr. Jacobi is also the owner and President of Stable House, LLC, a company that is engaged in business consulting and real estate development. From 2001 to 2005, Mr. Jacobi served as the President, CEO and member of the board of directors of Katy Industries, Inc., a portfolio company of investment funds affiliated with Kohlberg & Co., which is involved in the manufacture and distribution of electrical and maintenance products. Mr. Jacobi was the President and CEO of Timex Corporation from 1993 to 1999, and he was a member of the board of directors of Timex Corporation from 1992 to 2000. Prior to 1993, he served Timex Corporation in senior positions in marketing, sales, finance and manufacturing. Mr. Jacobi received a B.S. from the University of Connecticut, and he is a Certified Public Accountant. Mr. Jacobi is currently a member of the board of directors of Webster Financial Corporation, Corrections Corporation of America and Sturm Ruger & Co. He serves as the audit committee chairman of the board of directors of Webster Financial Corporation and Corrections Corporation of America.

Gary Cademartori

Mr. Cademartori has served on Kohlberg Capital's Board since December 2006, is the Chairman of the Compensation Committee of the Board and serves on the Audit Committee of the Board. Mr. Cademartori is also a partner in Wall Street Technology Group, LLC, a company engaged in financial and technology consulting and executive mentoring to create more value for companies involved in business change. Previously, Mr. Cademartori was a financial consultant for less than one year in 1998 and, from 1999 to 2005, a partner in Tatum CFO Partners, LLP, serving as an interim CFO and rendering financial consulting services for middle market SEC reporting and privately-held companies. From 1995 to 1998, Mr. Cademartori served in the capacity of CFO for Schrader-Bridgeport International, Inc. Between 1981 and 1995, Mr. Cademartori served as the CFO of Charter Power Systems, Inc., Athlone Industries, Inc., Formica Corporation, and Butler International, Inc., all of which were mid-sized companies listed on the New York Stock Exchange. Prior to 1981, Mr. Cademartori was an audit partner in Touche Ross & Co., an international accounting firm. Mr. Cademartori received his M.B.A. degree in Finance and International Business from Seton Hall University, and he is a certified public accountant. He serves on the Small Business Advisory Committee of the Financial Accounting Standards Board, and on the board of directors of Marotta Controls, Inc.

Non-Independent Directors

Christopher Lacovara

Mr. Lacovara has served on Kohlberg Capital's Board since December 2006 and is also the Chairman of the Board, the Chairman of the Valuation Committee of the Board and a Vice President of the Company. Mr. Lacovara joined Kohlberg & Co. in 1988 and was named Principal in 1995 and co-managing partner in 2006. Kohlberg & Co. has invested approximately $2 billion of equity capital in nearly 100 middle market platform and add-on acquisitions with a combined transaction value of over $6 billion. From 1987 to 1988, he was an Associate in the Mergers and Acquisitions Department at Lazard Freres & Company. Prior to that he was a Financial Analyst in the Corporate Finance Department of Goldman, Sachs & Co. Mr. Lacovara received a A.B. in History from Harvard College, a B.E. in Engineering Sciences from Hofstra University and a Master of Science in Civil Engineering from Columbia University. Mr. Lacovara serves on the board of directors of a number of private companies as well as the Management Committee of Katonah Debt Advisors. Mr. Lacovara also serves on the board of directors of Katy Industries, Inc. and Stanadyne Corp.

James A. Kohlberg

Mr. Kohlberg has served on Kohlberg Capital's Board since December 2006 and is also the Vice Chairman of the Board and a Vice President of the Company. Mr. Kohlberg is also a co-founder and Chairman of Kohlberg & Co. Kohlberg & Co. has invested approximately $2 billion of equity capital in nearly 100 middle market platform and add-on acquisitions with a combined transaction value of over $6 billion. Mr. Kohlberg has over 22 years experience in the buyout profession, and from 1984 to 1987 was with KKR. Prior to joining KKR he was employed by Merrill Lynch & Co. Mr. Kohlberg received a B.A. from Golden Gate University and an M.B.A. from New York University. Mr. Kohlberg serves on the board of directors of numerous private companies. Mr. Kohlberg also serves on the board of directors of EcoAmerica, ClearEdge Power, Inc. and Essential Entertainment. In addition, Mr. Kohlberg is expected to become a director of The New York Times Company at the 2008 annual meeting of stockholders expected to be held on April 22, 2008.

Samuel P. Frieder

Mr. Frieder has served on Kohlberg Capital's Board since December 2006, serves on the Valuation Committee of the Board and is a Vice President of the Company. Mr. Frieder joined Kohlberg & Co. in 1989 and became a Principal in 1995 and co-managing partner in 2006. Kohlberg & Co. has invested approximately $2 billion of equity capital in nearly 100 middle market platform and add-on acquisitions with a combined transaction value of over $6 billion. From 1988 to 1989 he was a senior associate in the Capital Funding Group at Security Pacific Business Credit. Prior to that, he was a senior real estate analyst at Manufacturers Hanover Trust Company. Mr. Frieder received an A.B. from Harvard College. Mr. Frieder serves on the board of directors of a number of private companies as well as on the Management Committee of Katonah Debt Advisors. Mr. Frieder also serves on the board of directors of Katy Industries, Inc. and Stanadyne Corp.

Executive Officers

Dayl W. Pearson, President and CEO

Mr. Pearson has more than 30 years of banking and finance experience and has focused primarily on middle market credit intensive transactions, completing over $5 billion of financings over the past 15 years. From 1997 to 2006, he was a Managing Director at CIBC in the Leveraged Finance and Sponsor Coverage Group specializing in middle market debt transactions. Mr. Pearson was responsible for originating and executing more than $3 billion of transactions including senior loans, high-yield securities, mezzanine investments and equity co-investments. Prior to joining CIBC, Mr. Pearson was instrumental in developing the middle market leveraged finance business of IBJ Schroder from 1992 through 1997. In 1995, he became responsible for the entire $500 million leveraged finance portfolio and was involved in approving all new senior and mezzanine commitments.

Previously, he was a senior lending officer in First Fidelity Bank's middle market lending group primarily focused on restructurings, and prior to that Mr. Pearson invested in distressed securities. Mr. Pearson began his career at Chase Manhattan Bank after receiving a B.A. from Claremont Men's College and an M.B.A. from the University of Chicago.

Michael I. Wirth, CFO, CCO, Secretary and Treasurer

Mr. Wirth has over 25 years of experience in the financial services sector and has managed over $2 billion in real estate debt and equity securities and advised or structured over $15 billion in structured real estate debt. Prior to joining the Company, from 2003 to 2006, Mr. Wirth was a co-founder, CFO and Executive Vice President of New York Mortgage Trust, a mortgage REIT that completed its initial public offering in 2004. Mr. Wirth served from 2002 to 2003 as CFO of Newcastle Investment Corp., a mortgage REIT. Mr. Wirth also served as a Senior Vice President of Fortress Investment Group, the external advisor of Newcastle, from 2002 to 2003. From 2000 to 2002, Mr. Wirth served as the Senior Vice President and CFO of Charter Municipal Mortgage Acceptance Company (now known as Centerline Holding Company), a multi-family residential finance company, American Mortgage Acceptance Company, a mortgage REIT, and Aegis Realty Inc., a retail property REIT. Mr. Wirth also served as a Senior Vice President of Related Capital Company, which externally managed each of the foregoing companies from 2000 to 2002. From 1997 to 2000, Mr. Wirth served as a Vice President at CGA Investment Management, a monoline insurer of structured debt and an investor in real estate and asset-backed securities. From 1983 to 1997, Mr. Wirth was a senior manager with Deloitte & Touche LLP and specialized in transaction, valuation and consulting services to the real estate and financial services industries. Mr. Wirth received a B.B.A. from Georgia State University and is a member of the American Institute of Certified Public Accountants.

R. Jon Corless, Chief Investment Officer

Mr. Corless joined Kohlberg Capital and Katonah Debt Advisors, Kohlberg Capital's wholly-owned portfolio company, in 2006 as part of their middle market team. Mr. Corless has over 30 years of experience in high-yield and leveraged credits. Prior to joining the Company, Mr. Corless was a Credit Risk Manager for Trimaran Debt Advisors, a CLO manager. Prior to joining Trimaran Debt Advisors, Mr. Corless spent 15 years as a Senior Credit Risk Manager for CIBC with risk management responsibility for media and telecommunications, high-yield, middle market, and mezzanine loan portfolios. Before joining CIBC, Mr. Corless worked at Bank of America NA in Corporate Finance and at Bankers Trust Company. Mr. Corless received a B.A. from Wesleyan University.

E.A. Kratzman, Vice President; President of Katonah Debt Advisors

Mr. Kratzman has primary responsibility for the overall management and direction of the business activities of Katonah Debt Advisors, Kohlberg Capital's wholly-owned portfolio company, since May 2005, and also serves as a Vice President of Kohlberg Capital. Mr. Kratzman oversees portfolio management, trading, structuring, analytics and operations at Katonah Debt Advisors and serves as chairman of the Company's Investment Committee. Mr. Kratzman has over 30 years of leveraged finance experience. Mr. Kratzman has previously been at Rabobank International in New York where he was the Head of CLO Management. Prior to that he was employed at First Union's Institutional Debt Management Group (IDM), where he was Head of Portfolio Management and one of three co-founders. Prior to IDM, Mr. Kratzman was with Societe Generale, New York and, prior to that, he was co-Head of the Asset Recovery Group at Deutsche Bank North America in New York. From 1985 to 1996, Mr. Kratzman was employed by Westpac Banking Corporation. From 1993 to 1996, Mr. Kratzman was Senior Vice President and Chief Credit Officer for the Americas Division. He holds a B.A. from Hobart College and an M.B.A. in finance from Rutgers University, and is a graduate of the Executive Management Program at J.L. Kellogg Graduate School of Management.

John M. Stack, Vice President; Managing Director of Katonah Debt Advisors

Mr. Stack has over 30 years of banking experience focusing on credit and is responsible for the oversight of the investment analysts and credit processes of Katonah Debt Advisors, Kohlberg Capital's wholly-owned portfolio company, and also serves as a Vice President of Kohlberg Capital. Prior to joining Katonah Debt Advisors in 2005, Mr. Stack was a Managing Director at Societe Generale where he headed the U.S. Leverage Finance Group. This Group provided senior, mezzanine and high-yield financing for leverage buyouts across a broad spectrum of industries. Previously, Mr. Stack had been with the New York office of The First National Bank of Chicago, where at various times he headed the Media Team, the Leverage Finance Team, the regional credit analysis group, and a corporate banking team. Mr. Stack began his banking career with Citibank where he completed credit analysis, corporate banking, secured lending and distressed loan management assignments in New York and Puerto Rico. Mr. Stack is a graduate of Fordham College and did post-graduate business studies at New York University.

Board of Directors

The number of directors constituting our Board of Directors is presently set at seven directors.

Our Board of Directors is divided into three classes. Class II holds office for a term expiring at the annual meeting of stockholders to be held in 2008, Class III holds office for a term expiring at the annual meeting of stockholders to be held in 2009, and Class I holds office for a term expiring at the annual meeting of stockholders to be held in 2010. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Messrs. Frieder, Jacobi and Pastino's current term expires in 2008, Messrs. Lacovara and Kohlberg's current term expires in 2009 and Messrs. Stevens and Cademartori's current term expires in 2010. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Committees of the Board of Directors

Audit Committee. Our Board of Directors has established an Audit Committee. The Audit Committee is composed of Messrs. Pastino, Cademartori and Jacobi. As determined by the Board, each of the members of the Audit Committee is an independent director and satisfies the audit committee independence requirements of the Exchange Act and The Nasdaq Global Select Market listing standards. Mr. Pastino serves as Chairman of the Audit Committee. The Audit Committee's functions include providing assistance to our Board of Directors in fulfilling its oversight responsibility relating to our financial statements and the financial reporting process, compliance with legal and regulatory requirements, the qualifications and independence of our independent registered public accountant, our system of internal controls, the internal audit function, our code of ethics, retaining and, if appropriate, terminating the independent registered public accountant and approving audit and non-audit services to be performed by the independent registered public accountant. The Audit Committee's Charter, as approved by our Board of Directors, can be found in the Corporate Governance section of the Company's website at *www.kohlbergcap.com*. The Audit Committee has adopted a policy under which, to the extent required by law, all auditing services and all permitted non-audit services to be rendered by our independent registered public accountant are pre-approved. In fiscal year 2007, the Audit Committee held three meetings, and each of the meetings was attended by the full Audit Committee.

Valuation Committee. Our Board of Directors has established a Valuation Committee. The Valuation Committee is composed of Messrs. Lacovara, Frieder and Stevens. Mr. Lacovara serves as chairman of the Valuation Committee. The Valuation Committee is responsible for reviewing and recommending to the full Board of Directors the fair value of debt and equity securities for which market quotations are not readily available. The Valuation Committee may utilize the services of an independent valuation firm in arriving at fair value of these securities. In fiscal 2007, Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that the Board identified and requested them to perform. Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments. The Valuation Committee Charter, as approved by the Board, can be found in the Corporate Governance section of the Company's website at *www.kohlbergcap.com*. The Valuation Committee met four times during fiscal year 2007, and each of the meetings was attended by the full Valuation Committee.

Compensation Committee. Our Board of Directors has established a Compensation Committee. The Compensation Committee is composed of Messrs. Cademartori and Stevens. As determined by the Board, each of the members of the Compensation Committee is an independent director and satisfies the independence requirements of The Nasdaq Global Select Market listing standards. Mr. Cademartori serves as chairman of the Compensation Committee. The Compensation Committee determines compensation for our executive officers, in addition to administering our Equity Incentive Plan, which is described below. Neither Mr. Cademartori nor Mr. Stevens is or was an officer or employee of the Company, nor does either of them have, or has either of them had, an "interlocking" or other relationship with the Company that would detract from his independence as a member of the Compensation Committee. The Compensation Committee Charter, as approved by our Board of Directors, can be found in the Corporate Governance section of the Company's website at *www.kohlbergcap.com*. The Compensation Committee's functions include examining the levels and methods of compensation employed by the Company with respect to the Chief Executive Officer and non-CEO officers, making recommendations to the Board with respect to non-CEO officer compensation, reviewing and approving the compensation package of the Chief Executive Officer, making recommendations to the Board with respect to incentive compensation plans and equity-based plans, reviewing management succession plans, making administrative and compensation decisions under equity compensation plans approved by the Board and making recommendations to the Board with respect to grants thereunder, administering cash bonuses, and implementing and administering the foregoing. In accordance with its Charter, the Compensation Committee may delegate its authority to a subcommittee.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

Determination of Executive Compensation Pre-Initial Public Offering

Executive compensation arrangements entered into prior to the restructuring and completion of our initial public offering were negotiated with the respective executives, and were based on compensation for executives with comparable responsibilities at other similar lending or asset management businesses. Mr. Lacovara, who currently serves as the Chairman of our Board and had the primary responsibility for the formation and oversight of Katonah Debt Advisors, our wholly-owned portfolio company, prior to our acquisition of Katonah Debt Advisors, played a key role in setting up the pre-initial public offering executive compensation structure.

The employment agreements with our executives were approved by the Board of Managers of Kohlberg Capital, LLC, our predecessor, and separately by the independent managers of Kohlberg Capital, LLC. Following the conversion of Kohlberg Capital, LLC into the Company, our Board of Directors ratified all of the acts of the Board of Managers of Kohlberg Capital, LLC, established a Compensation Committee and vested the Compensation Committee with power over compensation matters, as further described in this section and in "Management—Board of Directors—Committees of the Board of Directors."

Unless otherwise indicated, the discussion and analysis below relates to compensation of executive officers of both the Company and Katonah Debt Advisors.

Primary Objectives

The primary objectives of the Compensation Committee of our Board of Directors with respect to executive compensation are to attract, retain and motivate the best possible executive talent. The focus is to tie short- and long-term cash and equity incentives to achievement of measurable corporate and individual performance objectives and to align executives' incentives with stockholder value creation. To achieve these objectives, the Compensation Committee maintains compensation plans that tie a substantial portion of executives' overall compensation to our operational performance. The structure of the executives' base and incentive compensation is designed to encourage and reward the following:

- sourcing and pursuing attractively priced investment opportunities;
- participating in comprehensive due diligence with respect to our investments;
- ensuring the most effective allocation of capital; and
- working efficiently and developing relationships with other professionals.

Benchmarking of Compensation

Management develops our compensation plans by utilizing publicly available compensation data and subscription compensation survey data for national and regional companies in the middle market lending industry and in particular other publicly-traded, internally managed BDCs. We believe that the practices of this group of companies provide us with appropriate compensation benchmarks because these companies have similar organizational structures and tend to compete with us for executives and other employees. For benchmarking executive compensation, we typically review the compensation data we have collected from the complete group of companies, as well as a subset of the data from those companies that have a similar number of employees and a similar investment portfolio as us.

Pay-for-Performance Philosophy

Based on management's analyses and recommendations, the Compensation Committee has approved a pay-for performance compensation philosophy, which is intended to bring base salaries and total executive compensation in line with approximately the fiftieth percentile of the companies with a similar number of employees represented in the compensation data we review. We work within the framework of this pay-for-performance philosophy to determine each component of an executive's initial compensation package based on numerous factors, including:

- the individual's particular background and circumstances, including training and prior relevant work experience;
- the individual's role with us and the compensation paid to similar persons in the companies represented in the compensation data that we review;
- the demand for individuals with the individual's specific expertise and experience at the time of hire;
- performance goals and other expectations for the position;
- comparison to other executives within the Company having similar levels of expertise and experience; and
- uniqueness of industry skills.

Setting and Assessment of Performance Goals; Role of CEO

The Compensation Committee has also implemented an annual performance management program, under which annual performance goals are determined and set forth in writing at the beginning of each calendar year for our as a whole and for each individual employee. Annual corporate goals are proposed by management and approved by our Board of Directors at the end of each calendar year for the following year. These corporate goals target the achievement of specific strategic, operational and financial milestones. Annual individual goals focus on contributions which facilitate the achievement of the corporate goals and are set during the first quarter of each calendar year. Individual goals are proposed by each employee and approved by his or her direct supervisor. The CEO's goals are approved by the Compensation Committee. Annual salary increases, annual bonuses and annual stock option awards granted to our employees are tied to the achievement of these corporate and individual performance goals.

The performance goals for our CEO and other executive management are as follows:

- achievement or our dividend objectives (emphasizing both growth and stability);
- growth of our investment portfolio;
- maintenance of the credit quality and financial performance of our investment portfolio;
- development of our human resources; and
- development of our financial and information systems.

The performance goals for senior executives of Katonah Debt Advisors are as follows:

- increase in Katonah Debt Advisors' assets under management and diversification of such assets;
- increase in revenue and income distributable by Katonah Debt Advisors to the Company;
- performance of fund assets managed by Katonah Debt Advisors, particularly with respect to credit quality; and
- development of Katonah Debt Advisors' human resources.

We believe that the current performance goals are realistic "stretch" goals that should be reasonably attainable by management.

During the first calendar quarter, we evaluate individual and corporate performance against the written goals for the recently completed year. Consistent with our compensation philosophy, each employee's evaluation begins with a written self-assessment, which is submitted to the employee's supervisor. The supervisor then prepares a written evaluation based on the employee's self-assessment, the supervisor's own evaluation of the employee's performance and input from others within the Company. This process leads to a recommendation for annual employee salary increases, annual stock option awards and bonuses, if any, which is then reviewed and approved by the Compensation Committee. Our executive officers, other than the CEO, submit their self-assessments to the CEO, who performs the individual evaluations and submits recommendations to the Compensation Committee for salary increases, bonuses and stock option awards. In the case of the CEO, his individual performance evaluation is conducted by the Compensation Committee, which determines his compensation changes and awards. For all employees, including our executive officers, annual base salary increases, annual stock option awards and annual bonuses, to the extent granted, are implemented during the first calendar quarter of the year.

Compensation Components

Our compensation package consists of the following components, each of which we deem instrumental in motivating and retaining our executives:

Base Salary

Base salaries for our executives are established based on the scope of their responsibilities and their prior relevant background, training and experience, taking into account competitive market compensation paid by the companies represented in the compensation data we review for similar positions and the overall market demand for such executives at the time of hire. As with total executive compensation, we believe that executive base salaries should generally target the fiftieth percentile of the range of salaries for executives in similar positions and with similar responsibilities in the companies of similar size to us represented in the compensation data we review. An executive's base salary is also evaluated together with other components of the executive's compensation to ensure that the executive's total compensation is in line with our overall compensation philosophy.

Base salaries are reviewed annually as part of our performance management program and increased for merit reasons, based on the executive's success in meeting or exceeding individual performance objectives and an assessment of whether significant corporate goals were achieved. We also realign base salaries with market levels for the same positions in companies of similar size to us represented in the compensation data we review if necessary and if we identify significant market changes in our data analysis. Additionally, we adjust base salaries as warranted throughout the year for promotions or other changes in the scope or breadth of an executive's role or responsibilities.

Annual Bonus

Our compensation program includes eligibility for an annual performance-based cash bonus in the case of all executives and certain senior, non-executive employees. The amount of the cash bonus depends on the level of achievement of the stated corporate and individual performance goals. As set forth in their employment agreements, Messrs. Pearson and Corless are currently eligible for annual performance-based cash bonuses of up to $450,000 and $250,000, respectively; Mr. Wirth is currently eligible for an annual performance-based cash bonus of no less than $300,000; and Mr. Kratzman was eligible in 2007 for annual performance-based cash bonus from Katonah Debt Advisors of no less than $500,000 and no more than $1,000,000; and Mr. Stack is eligible for target annual performance-based cash bonus from Katonah Debt Advisors of $175,000. The amounts of the annual cash bonuses paid to Messrs. Pearson, Wirth and Corless are determined by the Compensation Committee of our Board of Directors. The amount of the annual cash bonuses paid to Messrs. Kratzman and Stack is determined by the Management Committee of Katonah Debt Advisors. In each case, the annual bonus award will be based on the individual performance of each of Messrs. Pearson, Wirth, Corless, Kratzman and Stack and on the performance of the Company against goals established annually by our Board of Directors, in the case of Messrs. Pearson, Wirth and Corless, and by the Management Committee of Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, after consultation with the individual. All bonuses are subject to an annual increase, solely at the discretion of our Board of Directors, and in its discretion, the Compensation Committee may award bonus payments to our executives above or below the amounts specified in their respective employment agreements.

Long-Term Incentives

We believe that long-term performance is achieved through an ownership culture that encourages long-term participation by our executive officers in equity-based awards. Our Equity Incentive Plan allows the granting to executive officers of stock options, restricted stock and other equity-based awards. We typically make an initial equity award of stock options to certain new senior level employees and annual stock option grants as part of our overall compensation program. All grants of awards pursuant to our Equity Incentive Plan are approved by our Board of Directors. Our Equity Incentive Plan has been designed to allow, but not require, the grant of awards that qualify under an exception to the deduction limit of Section 162(m) of the Code for "performance-based compensation."

Initial stock option awards. Executives who join us are awarded initial stock option grants. These grants have an exercise price equal to the fair market value of our common stock on the grant date and a vesting schedule as determined by our Board of Directors. The amount of the initial stock option award is determined based on the executive's position with us and an analysis of the competitive practices of companies similar in size to us represented in the compensation data that we review. The initial stock option awards are intended to provide the executive with an incentive to build value in the organization over an extended period of time. The amount of the initial stock option award is also reviewed in light of the executive's base salary and other compensation to ensure that the executive's total compensation is in line with our overall compensation philosophy. The grant date for stock option awards to existing employees is the later of the date that our Board of Directors approved the option grant or the date that we and the employee have reached a mutual understanding as to the amount and terms of such option grant. For prospective employees, the grant date is the date upon which we and the employee have reached an agreement regarding the terms of employment and the terms of the options granted by our Board of Directors, and the employment has commenced (thus such date is typically the first day of employment). All of the grant dates are approved by the Compensation Committee.

Annual stock option awards. Our practice is to make annual stock option awards as part of our overall performance management program. The Compensation Committee believes that stock options provide management with a strong link to long-term corporate performance and the creation of stockholder value. We intend that the annual aggregate value of these awards be set near competitive median levels for companies represented in the compensation data we review. As is the case when the amounts of base salary and initial equity awards are determined, a review of all components of the executive's compensation is conducted when determining annual equity awards to ensure that an executive's total compensation conforms to our overall philosophy and objectives. A pool of options is reserved for executives and other officers based on setting a target grant level for each employee category, with the higher ranked employees being eligible for a higher target grant. The Compensation Committee meets in the fourth quarter of each year to evaluate, review and recommend for our Board of Directors' approval the annual stock option award design, level of award and prospective grant date of such award for each named executive officer and the CEO. For promotions or new hires, the Compensation Committee approves the award in advance of the grant date, and the stock option grant is awarded on the determined date at the Company's closing market price per share. We use a Binary Option Pricing Model (American, call option) valuation model to establish the expected value of all stock option grants.

Other Compensation

We and Katonah Debt Advisors maintain broad-based benefits and perquisites that are provided to all employees, including health, life and disability insurance and a 401(k) plan. We and Katonah Debt Advisors participate in a defined contribution plan for their executive officers and employees. In particular circumstances, we also utilize cash signing bonuses when certain executives and senior non-executives join us. Such cash signing bonuses typically either vest during a period of less than a year or are repayable in full to us if the employee recipient voluntarily terminates employment with us prior to the first anniversary of the date of hire. Whether a signing bonus is paid and the amount thereof are determined on a case-by-case basis under the specific hiring circumstances. For example, we will consider paying signing bonuses to compensate for amounts forfeited by an executive upon terminating prior employment, to assist with relocation expenses and/or to create an additional incentive for an executive to join us in a position where there is high market demand.

Termination-Based Compensation

Severance. If terminated without cause, each of Messrs. Pearson, Wirth, Corless, Kratzman and Stack is entitled to receive his base salary and to have his health insurance premiums paid for the remaining term of his employment agreement, in case of Messrs. Pearson, Wirth, Corless and Kratzman, or for a period of not less than six months, in the case of Mr. Stack. The initial terms of the employment agreements with Messrs. Pearson, Wirth and Corless expire on December 31, 2008 and the initial term of the employment agreement with Mr. Kratzman was set to expire on December 31, 2009. Upon their expiration, the agreements with Messrs. Pearson, Wirth, Corless and Kratzman automatically renew for successive one year periods unless terminated in writing by either party upon thirty days' written notice. In determining whether to approve the terms of such severance arrangements, our Board of Directors, in the case of Messrs. Pearson, Wirth and Corless, and the Management Committee of Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, took into account that the employment agreements contain non-competition covenants that would be binding on the executives following their termination.

Acceleration of vesting of equity-based awards. In general, all unvested options held by an employee are forfeited immediately upon that employee's termination, whether or not for cause. Under our Equity Incentive Plan, however, our Board of Directors may, if it so chooses, provide in the case of any award for post-termination exercise provisions, including a provision that accelerates all or a portion of any award, but in no event may any award be exercised after its expiration date.

Actions Taken After Year-End or Effective After Year End

At its December 14, 2007 meeting and upon the Compensation Committee's recommendation, our Board of Directors approved increases in the base salaries of some of the executive officers named in the Summary Compensation Table effective January 1, 2008, as follows: Mr. Pearson—2008 base salary of $350,000 ($300,000 in 2007); Mr. Wirth—2008 base salary of $325,000 ($300,000 in 2007); Mr. Kratzman—2008 base salary of $350,000 ($300,000 in 2007); and Mr. Corless—2008 base salary of $250,000 ($200,000 in 2007). No change was made to Mr. Stack's base salary.

Effective January 1, 2008, the employment agreements between Mr. Kratzman and the Company and Katonah Debt Advisors, respectively, were amended as described under "—Employment Agreements— Employment Agreements with E.A. Kratzman and John M. Stack" and "Potential Payments Upon Termination or Change of Control—Termination of Employment and Change of Control Arrangements—Termination of Employment Provisions in Employment Agreements" below.

Conclusion

The compensation policies of the Company and Katonah Debt Advisors are designed to motivate and retain their respective senior executive officers and to ultimately reward them for outstanding individual and corporate performance.

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Summary Compensation Table

The following table shows the compensation paid or accrued during the fiscal years ended December 31, 2007 and December 31, 2006 to our President and CEO, our CFO and our three most highly compensated executive officers other than our President, CEO and CFO.

Name and Principal Position	Year (1)	Salary ($)	Bonus ($)	Option awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	All Other Compensation ($)(6)	Total ($)
Dayl W. Pearson	2007	300,000(11)	—	90,000	450,000	29,734	869,734
President and Chief Executive Officer	2006	252,308(2)(7)	150,000(3)	3,750	350,000	29,171	785,229
Michael I. Wirth	2007	300,000(11)	—	54,000	375,000	29,734	758,734
Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary	2006	46,700(2)(8)	150,000(3)	2,250	—	—	198,950
E.A. Kratzman	2007	300,000(9)(11)	—	72,000	600,000(9)	29,734	1,001,734
Vice President; President of Katonah Debt Advisors	2006	300,000(2)(9)	—	3,000	600,000(9)	29,171	932,171
R. Jon Corless	2007	200,000(11)	—	36,000	250,000	29,734	515,734
Chief Investment Officer	2006	166,026(2)(10)	—	1,500	200,000	20,697	388,223
John M. Stack	2007	212,500(9)(11)	—	21,667	200,000(9)	29,734	463,901
Vice President; Managing Director of Katonah Debt Advisors	2006	189,183(2)(9)	—	—	175,000(9)	29,171	393,354

(1) We were organized in 2006 and, consequently, paid no compensation prior to 2006.

(2) Represents actual cash salaries paid during 2006.

(3) A $150,000 signing bonus was paid to Mr. Wirth to reimburse him, in part, for amounts forfeited upon termination of prior employment, and a $150,000 bonus was paid to Mr. Pearson as a specific performance reward for our initial public offering.

(4) Amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 31, 2007 and 2006, respectively, of the grant date fair value of stock options granted in those years in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). Grant date fair value is based on the Binary Option Pricing Model (American, call option) pricing model for use in valuing stock options. Assumptions used in the calculation of these amounts are shown in Note 10, Stock Options, to our audited consolidated financial statements included in our 2007 Annual Report on Form 10-K, filed with the SEC on March 14, 2008 and Note 9, Stock Options, to our audited consolidated financial statements included in our 2006 Annual Report on Form 10-K, filed with the SEC on March 29, 2007.

(5) Annual performance-based cash bonus. As described in "—Compensation Discussion and Analysis—Compensation Components—Annual Bonus" above, the annual bonuses of the executive officers named in the Summary Compensation Table are derived based on the performance of the Company and the individual executive relative to pre-established objectives for the fiscal year. The threshold, target and/or maximum amounts for the fiscal year 2007 bonus opportunity of each executive officer named in the Summary Compensation Table are reported in the Grants of Plan-Based Awards in Fiscal Year 2007 table below.

(6) Represents amounts received pursuant to the Katonah Debt Advisors Money Purchase Pension Plan (the "Pension Plan") and the Katonah Debt Advisors Employee Savings and Profit Sharing Plan (the "Savings Plan"). Under the Pension Plan, Messrs. Pearson, Wirth, Kratzman, Corless and Stack received compensation of $25,268 each in 2007 and $24,771, $—, $24,771, $17,376 and $24,771, respectively, in

(footnotes continued on following page)

2006; and under the Savings Plan, these individuals received compensation of $4,466 each in 2007 and $4,400, $—, $4,400, $3,321 and $4,400, respectively, in 2006. The Pension Plan and the Savings Plan are defined benefit plans, and the Company matches an individual's contribution up to a pre-set amount according to a specific formula.

(7) Mr. Pearson's annual base salary was $300,000. The amount paid in 2006 was pro rated based on Mr. Pearson's effective hire date of March 6, 2006.

(8) Mr. Wirth's annual base salary was $300,000. The amount paid in 2006 was pro rated based on Mr. Wirth effective hire date of November 6, 2006.

(9) Messrs. Kratzman and Stack receive their salary and performance-based bonus from Katonah Debt Advisors.

(10) Mr. Corless' annual base salary was $200,000. The amount paid in 2006 was pro rated based on Mr. Corless' effective hire date of March 6, 2006.

(11) Represents actual cash salaries paid during 2007.

Grants of Plan-Based Awards in Fiscal Year 2007

The following table shows information regarding grants of equity awards during the fiscal year ended December 31, 2007 held by the executive officers named in the Summary Compensation Table.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)					
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Option Awards
Dayl W. Pearson	—	—	450,000	450,000	—	—	—
Michael I. Wirth	—	300,000	375,000	—	—	—	—
E.A. Kratzman	—	500,000	600,000	1,000,000	—	—	—
R. Jon Corless	—	—	250,000	250,000	—	—	—
John M. Stack	01/19/07(2)	—	175,000	—	50,000	16.36(3)	90,500

(1) The actual bonus awards earned with respect to 2007 and paid out in 2008 are reported under "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table above. Messrs. Kratzman and Stack receive their annual performance-based bonus from Katonah Debt Advisors.

(2) The options granted to Mr. Stack vest in four equal annual installments beginning on January 19, 2008, the first anniversary of the option grant date. There are no additional criteria (performance-based or otherwise) that would have to be met as a condition to vesting.

(3) The closing price of the Company's common stock on the date of grant.

The terms of compensation of each executive officer named in the Summary Compensation table are derived from employment agreements, as well as from annual performance reviews conducted by the Compensation Committee, in the case of Mr. Pearson, and by Mr. Pearson, in the case of the other executive officers named in the Summary Compensation Table. See "—Compensation Discussion and Analysis—Compensation Components—Annual Bonus" above for additional information. Annual base salary increases, annual stock option awards and cash bonuses, if any, for Mr. Pearson are determined by the Compensation Committee. Mr. Pearson recommends annual base salary increases, annual stock option awards and cash bonuses, if any, for the other executive officers named in the Summary Compensation Table, which are reviewed and approved by the Compensation Committee.

Employment Agreements

We have entered into employment agreements with Messrs. Pearson, Wirth, Corless and Kratzman. Each of Messrs. Pearson, Wirth and Corless receives his salary, bonus and benefits and received his initial grant of stock options pursuant to his employment agreement with us, and Mr. Kratzman received his initial grant of stock options pursuant to his employment agreement with the Company. Messrs. Kratzman and Stack receive their salary, bonus and benefits pursuant to employment agreements with Katonah Debt Advisors.

Employment Agreements with Dayl W. Pearson, Michael I. Wirth and R. Jon Corless

Each of the employment agreements with Messrs. Pearson, Wirth and Corless provides for a term ending on December 31, 2008, and automatic, successive one-year renewal terms beginning on January 1 of each successive year unless either party to the employment agreement provides at least 30 days prior written notice of its decision not to extend the term of the employment agreement. Under their respective employment agreements, Messrs. Pearson, Wirth and Corless are entitled to receive an annual base salary of $300,000, $300,000 and $200,000, respectively. Messrs. Pearson and Corless are currently eligible for annual performance-based cash bonuses of up to $450,000 and $250,000, respectively, and Mr. Wirth is currently eligible for an annual performance-based cash bonus of no less than $300,000. Pursuant to their employment agreements, Messrs. Pearson, Wirth and Corless received one-time grants of options to purchase 250,000, 150,000 and 100,000 shares of our common stock, respectively. These options vest in four equal annual installments; the first installment vested on December 11, 2007, the first anniversary date of the pricing of our initial public offering. See "—Outstanding Equity Awards at 2007 Fiscal Year-End" below for further information regarding vesting. Each employment agreement also contains non-competition covenants and provisions governing termination, death and disability.

Employment Agreements with E.A. Kratzman and John M. Stack

As amended effective January 1, 2008, Mr. Kratzman's agreement with Katonah Debt Advisors provides for a term ending on December 31, 2010 and automatic, successive one-year renewal terms beginning on January 1 of each successive year unless previously terminated in writing by either party. Under the amended employment agreement, Mr. Kratzman is entitled to receive an annual base salary of $350,000, which will be automatically increased to $400,000 commencing July 1, 2008, and is eligible for an annual bonus from Katonah Debt Advisors of no less than $650,000 and no more than $1,000,000 (with a 2007 bonus of $600,000) based on achievement of the following performance objectives: increase in Katonah Debt Advisors' assets under management and diversification of such assets; increase in revenue and income distributable by Katonah Debt Advisors to the Company; performance of fund assets managed by Katonah Debt Advisors, particularly with respect to credit quality; and development of Katonah Debt Advisors' human resources. In addition, Mr. Kratzman is entitled to receive a one-time bonus of $250,000 upon completion by the Company of at least two of the CLO Funds contemplated pursuant to the Bear Stearns commitment letter dated October 12, 2007 or upon completion of a credit opportunities fund. The agreement also contains non-competition covenants and provisions governing termination, death and disability.

As amended effective January 1, 2008, Mr. Kratzman's agreement with Kohlberg Capital provides for an indefinite term ending upon Mr. Kratzman's resignation, death or removal with or without cause. Pursuant to his employment agreement with the Company, Mr. Kratzman is to receive, subject to shareholder approval of the applicable equity incentive plan, an annual grant of shares of the Company's restricted common stock having a value of $500,000. Such restricted shares will vest 50% on the third anniversary of the grant date and 50% on the fourth anniversary of the grant date and will be subject to the terms set out in a restricted stock award agreement between Mr. Kratzman and the Company. The agreement also contains provisions regarding non-competition covenants.

Mr. Stack's agreement with Katonah Debt Advisors provides for an indefinite term ending upon Mr. Stack's resignation, death or removal with or without cause. Under his employment agreement, Mr. Stack is entitled to receive an annual base salary of $175,000 and a target annual performance-based bonus from Katonah Debt Advisors of $175,000. His employment agreement also contains non-competition covenants and provisions governing termination, death and disability.

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Outstanding Equity Awards at 2007 Fiscal Year-End

The following table shows grants of stock options and grants of unvested stock awards outstanding on December 31, 2007, the last day of our fiscal year, to each of the executive officers named in the Summary Compensation Table.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Dayl W. Pearson	62,500	187,500(1)	15.00(4)	12/11/16
Michael I. Wirth	37,500	112,500(1)	15.00(4)	12/11/16
E.A. Kratzman	50,000	100,000(2)	15.00(4)	12/11/16
R. Jon Corless	25,000	75,000(1)	15.00(4)	12/11/16
John M. Stack	—	50,000(3)	16.36(5)	01/19/17

(1) The remaining unvested options granted to Messrs. Pearson, Wirth and Corless vest in three equal annual installments beginning on December 11, 2008, the second anniversary date of the date of pricing of our initial public offering. There are no additional criteria (performance-based or otherwise) that would have to be met as a condition to vesting.

(2) The remaining unvested options granted to Mr. Kratzman vests in two equal annual installments beginning on December 11, 2008, the second anniversary date of the date of pricing of our initial public offering. There are no additional criteria (performance-based or otherwise) that would have to be met as a condition to vesting.

(3) The options granted to Mr. Stack vest in four equal annual installments beginning on January 19, 2008, the first anniversary of the option grant date. There are no additional criteria (performance-based or otherwise) that would have to be met as a condition to vesting.

(4) The initial public offering price of our common stock.

(5) The closing price of our common stock on the date of grant.

Option Exercises and Stock Vested in Fiscal Year 2007

There were no exercises of stock options held by the executive officers named in the Summary Compensation Table during the fiscal year ended December 31, 2007. In fiscal year 2007, the executive officers named in the Summary Compensation Table did not hold any shares of our stock that would be subject to vesting.

Pension Benefits

We do not have any qualified or non-qualified defined benefit plans or supplemental executive retirement plans.

Nonqualified Deferred Compensation

We do not have any defined contribution or other plans that provide for the deferral of compensation on a basis that is not tax-qualified.

Potential Payments Upon Termination or Change of Control

Termination of Employment and Change of Control Arrangements

Change of Control Arrangements in the Company's 2006 Equity Incentive Plan

Under our Equity Incentive Plan, in the event of a Covered Transaction (as defined below), all outstanding, unexercised options and other awards granted under our Equity Incentive Plan will terminate and cease to be exercisable, and all other awards to the extent not fully vested (including awards subject to conditions not yet satisfied or determined) will be forfeited, provided that our Board of Directors may in its sole discretion on or prior to the effective date of the Covered Transaction take any (or any combination of) the following actions, as to some or all outstanding awards:

- make any outstanding option exercisable in full;
- remove any performance or other conditions or restrictions on any award;
- in the event of a Covered Transaction under the terms of which holders of the shares of the Company will receive upon consummation thereof a payment for each such share surrendered in the Covered Transaction (whether cash, non-cash or a combination of the foregoing), make or provide for a payment (with respect to some or all of the awards) to the participant equal in the case of each affected award to the difference between (A) the fair market value of a share of common stock times the numbers of shares subject to such outstanding award (to the extent then exercisable at prices not in excess of the fair market value) and (B) the aggregate exercise price of all shares subject to such outstanding award, in each case on such payment terms (which need not be the same as the terms of payment to holders of shares) and other terms, and subject to such conditions, as our Board of Directors determines; and
- with respect to an outstanding award held by a participant who, following the Covered Transaction, will be employed by or otherwise providing services to an entity which is a surviving or acquiring entity in the Covered Transaction or any affiliate of such an entity, at or prior to the effective time of the Covered Transaction, in its sole discretion and in lieu of the action described in the three preceding bullets, arrange to have such surviving or acquiring entity or affiliate assume any award held by such participant outstanding hereunder or grant a replacement award which, in the judgment of our Board of Directors is substantially equivalent to any award being replaced.

Under our Equity Incentive Plan, a "*Covered Transaction*" is a (i) sale of shares of our common stock, consolidation, merger, or similar transaction or series of related transactions in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of our then outstanding shares of common stock by a single person or entity or by a group of persons and/or entities acting in concert; (ii) a sale or transfer of all or substantially all of our assets; or (iii) a dissolution or liquidation of the Company. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i) (as determined by our Board of Directors), the Covered Transaction shall be deemed to have occurred upon consummation of the tender offer.

We are proposing to amend and restate the Equity Incentive Plan at our 2008 annual meeting of stockholders.

Termination of Employment Provisions in the Company's 2006 Equity Incentive Plan

Unless our Board of Directors expressly provides otherwise, immediately upon the cessation of employment or services of a participant in our Equity Incentive Plan, all awards to the extent not already vested terminate and all awards requiring exercise cease to be exercisable and terminate, except that:

- When a participant's employment or services are ceased for Cause (as defined below), all options, vested and unvested, immediately terminate;

- Ÿ For vested options held by a participant immediately prior to his or her death, to the extent then exercisable, the options remain exercisable for the lesser of a period of 180 days following the participant's death or the period ending on the latest date on which those options could have been exercised had there been no cessation of employment or services; and
- Ÿ In all other cases, all vested options held by the participant immediately prior to the cessation of his or her employment, to the extent then exercisable, remain exercisable for the lesser of a period of 90 days or the period ending on the latest date on which that option could have been exercised had there been no cessation of employment or services.

Under our Equity Incentive Plan, "Cause" has the same meaning as provided in the employment agreement between the participant and the Company or its affiliate, provided that if the participant is not a party to any such agreement, "Cause" means (i) the participant's chronic alcoholism or drug addiction; (ii) fraud, embezzlement, theft, dishonesty, or any deliberate misappropriation of any material amount of money or other assets or property of the Company or any of its affiliates by the participant; (iii) willful failure to perform, or gross negligence in the performance of, the participant's duties and responsibilities to the Company and its affiliates; (iv) the participant's material breach of any agreement between the participant and the Company or its affiliates, except where the breach is caused by incapacity or disability of the participant; (v) a charge, indictment or conviction of, or plea of nolo contendere by, the participant to a felony or other crime involving moral turpitude; (vi) the participant's material breach of his fiduciary duties as an officer, trustee or director of the Company or any of its affiliates; (vii) the participant's willful refusal or failure to carry out a lawful and reasonable written directive of our Board of Directors or its designee, which failure or refusal does not cease within 15 days after written notice of such failure is given to the participant by the Company; or (viii) the participant's willful misconduct which has, or could be reasonably expected to have, a material adverse effect upon the business, interests or reputation of the Company or any of its affiliates.

Our Board of Directors may provide in the case of any award for post-termination exercise provisions different from those set forth above, including, without limitation, terms allowing a later exercise by a former employee (or, in the case of a former employee who is deceased, the person or persons to whom the award is transferred by will or the laws of descent and distribution) as to all or any portion of the award not exercisable immediately prior to termination of employment or other service, but in no case may an award be exercised after the latest date on which it could have been exercised had there been no cessation of employment or services.

We are proposing to amend and restate the Equity Incentive Plan at our 2008 annual meeting of stockholders.

Termination of Employment Provisions in Employment Agreements

Each of the executive officers named in the Summary Compensation Table has an employment agreement pursuant to which we, in the case of Messrs. Pearson, Wirth and Corless, or Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, must make payments and provide certain benefits upon termination of employment. If any of the executive officers named in the Summary Compensation Table is terminated other than for cause (as defined below) or, in the case of Mr. Kratzman, terminates his employment for good reason, such officer is entitled to the continued payment of his base salary and the employer portion of his health care premiums for the remainder of the term of his employment, in the case of Messrs. Pearson, Wirth, Corless or Kratzman, or for a period of no less than six months, in the case of Mr. Stack, plus (i) any accrued but unpaid base salary and bonus (no less than $650,000 in the case of Mr. Kratzman) and (ii) payment for any accrued and unused vacation time. Notwithstanding the above, if the Company, in the case of Messrs. Pearson, Wirth or Corless, or Katonah Debt Advisors, in the case of Mr. Kratzman, waives the non-competition provisions in the applicable employment agreement at any point after six months (one month in the case of Mr. Kratzman) from the date of termination, then the continued salary and benefits payments cease. All severance payments are conditioned on the execution of a signed release of claims in the form provided by the Company, in the case of Messrs. Pearson, Wirth and Corless, or by Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, and upon that release not being subsequently revoked.

In the event of death of any of the executive officers named in the Summary Compensation Table, any amounts owed to the decedent under the applicable employment agreement will be paid to the decedent's estate or to his designated successor or assigns. In the event of a disability which renders the officer unable to continue to perform substantially all of his duties and responsibilities under his employment agreement, the officer is entitled to continued payment of his base salary and benefits for up to 12 weeks of disability during any period of 365 consecutive calendar days. If the officer is unable to return to work after 12 weeks of disability, the Company, in the case of Messrs. Pearson, Wirth or Corless, or Katonah Debt Advisors, in the case of Messrs. Kratzman or Stack, may terminate his employment.

For purposes of the employment agreements with the executive officers named in the Summary Compensation Table, "cause" means (i) a material failure to perform (other than by reason of disability), or material negligence in the performance of, duties and responsibilities to the Company or to any person or entities directly or indirectly controlling, controlled by or under common control with the Company, (ii) a material breach of the employment agreement or any other agreement with the Company or with any person or entities directly or indirectly controlling, controlled by or under common control with the Company or (iii) other conduct that could reasonably be anticipated to be harmful to the business, interests or reputation of the Company or of any person or entities directly or indirectly controlling, controlled by or under common control with the Company.

For purposes of Mr. Kratzman's employment agreement with Katonah Debt Advisors, "good reason" means (i) material diminution in the nature or scope of Mr. Kratzman's responsibilities, duties or authority or (ii) his being required to relocate to a principal place of employment outside of the New York metropolitan area; however, a change in reporting relationships resulting from the direct or indirect control of the Company by another entity and any diminution of the business of the Company or any of its affiliates or any sale or transfer of equity, property or other assets of the Company or any of its affiliates does not constitute good reason.

The following table sets forth estimated payment obligations to each of the executive officers named in the Summary Compensation table, assuming a termination on December 31, 2007, the last business day of fiscal year 2007.

The information below constitutes forward-looking statements for purposes of the Private Litigation Securities Reform Act of 1995

Name	Termination by Company Without Cause ($)	Termination by Company For Cause ($)	Change of Control ($)	Voluntary Termination ($)	Disability ($)	Death ($)
Dayl W. Pearson						
Severance Payment	700,000	—	—	—	—	—
Base Salary	—	—	—	—	80,769	—
Accrued and unpaid base salary	—	—	—	—	—	—
Accrued and unpaid bonus	—	—	450,000	—	—	450,000
Accrued and unused vacation time(1)	0-53,846	0-53,846	0-53,846	0-53,846	0-53,846	0-53,846
Insurance benefits(2)	17,797	—	—	—	8,214	—
TOTAL:	717,797-771,643	0-53,846	450,000-503,846	0-53,846	88,983-142,829	530,769-584,615
Michael I. Wirth						
Severance Payment	650,000	—	—	—	—	—
Base Salary	—	—	—	—	75,000	—
Accrued and unpaid base salary	—	—	—	—	—	—
Accrued and unpaid bonus	—	—	375,000	—	—	375,000
Accrued and unused vacation time(1)	0-50,000	0-50,000	0-50,000	0-50,000	0-50,000	0-50,000
Insurance benefits(2)	17,376	—	—	—	8,020	—
TOTAL:	667,376-717,376	0-50,000	375,000-425,000	0-50,000	83,020-133,020	375,000-425,000
E.A. Kratzman(3)						
Severance Payment	350,000	—	—	—	—	—
Base Salary	—	—	—	—	80,769	—
Accrued and unpaid base salary	—	—	—	—	—	—
Accrued and unpaid bonus	650,000-1,000,000	—	650,000-1,000,000	—	—	650,000-1,000,000
Accrued and unused vacation time(1)	0-53,846	0-53,846	0- 53,846	0-53,846	0-53,846	0- 53,846
Insurance benefits(2)	35,654	—	—	—	8,228	—
TOTAL:	1,035,654-1,439,501	0-53,846	650,000-1,053,846	0-53,846	88,997-142,843	650,000-1,053,846
R. Jon Corless						
Severance Payment	500,000	—	—	—	—	—
Base Salary	—	—	—	—	57,692	—
Accrued and unpaid base salary	—	—	—	—	—	—
Accrued and unpaid bonus	—	—	250,000	—	—	250,000
Accrued and unused vacation time(1)	0-38,462	0-38,462	0-38,462	0-38,462	0-38,462	0-38,462
Insurance benefits(2)	16,035	—	—	—	7,401	—
TOTAL:	516,035-554,497	0-38,462	250,000-288,462	0-38,462	65,093-103,555	250,000-288,462
John M. Stack						
Severance Payment	112,500	—	—	—	—	—
Base Salary	—	—	—	—	51,923	—
Accrued and unpaid base salary	—	—	—	—	—	—
Accrued and unpaid bonus	—	—	200,000	—	—	200,000
Accrued and unused vacation time(1)	0-34,615	0-34,615	0-34,615	0-34,615	0-34,615	0-34,615
Insurance benefits(2)	10,841	—	—	—	5,424	—
TOTAL:	123,341-157,957	0-34,615	200,000-234,615	0-34,615	57,347-91,962	200,000-234,615

(footnotes on following page)

(1) Accrued and unused vacation time is a range of minimum and maximum amounts payable, depending on the amount of vacation time used at the time of termination.
(2) Insurance benefits are based on the December 2007 monthly payment for health and dental coverage.
(3) Effective January 1, 2008, Mr. Kratzman employment agreements with the Company and Katonah Debt Advisors, respectively, were amended as described under "—Employment Agreements—Employment Agreements with E.A. Kratzman and John M. Stack" and "—Termination of Employment Provisions in Employment Agreements" above. As the table assumes a termination on December 31, 2007, it reflects estimated payment obligations to Mr. Kratzman as of December 31, 2007 and does not give effect to the amendments.

Director Compensation in Fiscal Year 2007

The following table sets forth a summary of the compensation earned by the Company's directors in 2007:

Name	Fees Earned or Paid in Cash ($)	Total ($)
Independent Directors		
Gary Cademartori	41,500	41,500
C. Michael Jacobi	35,500	35,500
Albert G. Pastino	45,500	45,500
C. Turney Stevens	37,000	37,000
Non-Independent Directors(1)		
Christopher Lacovara	—	—
James A. Kohlberg	—	—
Samuel P. Frieder	—	—

(1) Messrs. Lacovara, Kohlberg and Frieder are not independent directors because they are officers of the Company.

Director Compensation Policy

As compensation for serving on our Board of Directors, each of the independent directors receives an annual fee of $25,000 and an additional $1,500 per meeting attended. Employee directors and non-independent directors do not receive compensation for serving on our Board of Directors. Independent directors who serve on Board committees receive cash compensation in addition to the compensation they receive for service on our Board of Directors. The chairperson of our Audit Committee receives an additional $10,000 per year, the chairperson of each other committee of our Board of Directors receives an additional $5,000 per year and all committee members receive an additional $500 for each committee meeting they attend. In addition, we reimburse our directors for their reasonable out-of-pocket expenses incurred in attending meetings of our Board of Directors.

We are proposing to adopt a 2008 Non-Employee Director Plan at our 2008 annual meeting of stockholders to, among other things, allow for the issuance to the independent directors of options to purchase our common stock as a portion of their compensation for service on the Board in accordance with the terms of exemptive relief for which we have applied with the SEC.

Employee Benefit Plans

2006 Equity Incentive Plan

Our Equity Incentive Plan was approved by the Board of Managers of Kohlberg Capital, LLC on November 27, 2006 and by the members of Kohlberg Capital, LLC on December 11, 2006, prior to the conversion of Kohlberg Capital, LLC into Kohlberg Capital Corporation. Under this plan, we may grant options to acquire shares and, to the extent permitted by exemptive or other relief that may be granted by the SEC or its staff, other share-based awards, including without limitation restricted shares and options to acquire restricted shares. There are 1,500,000 shares of common stock currently reserved for issuance under our Equity Incentive Plan. As of February 29, 2008, no options had been exercised, 1,315,000 shares were subject to outstanding options under our Equity Incentive Plan, 305,000 shares were subject to exercisable options and 185,000 shares were available for future grant under our Equity Incentive Plan.

In accordance with the terms of our Equity Incentive Plan, our Board of Directors has authorized the Compensation Committee to administer our Equity Incentive Plan, but has retained the authority to make grants. In accordance with the provisions of our Equity Incentive Plan, the Compensation Committee will determine the terms of options and other awards, including:

- the determination of which employees and directors will be granted options and other awards;
- the number of shares subject to options and other awards;
- the exercise price of each option, which may not be less than fair market value (or, if no fair market value exists at the time of issuance, the current net asset value) of the shares subject to the award on the date of grant;
- the schedule upon which options become exercisable;
- the termination or cancellation provisions applicable to options;
- the terms and conditions of other awards, including conditions for repurchase, termination or cancellation, issue price and repurchase price; and
- all other terms and conditions upon which each award may be granted in accordance with our Equity Incentive Plan.

No participant may receive awards for over 1,000,000 shares of common stock in any fiscal year.

In addition, our Board of Directors or any committee to which our Board of Directors delegates authority may, with the consent of any adversely affected plan participants and to the extent permitted by law, reprice or otherwise amend outstanding awards consistent with the terms of our Equity Incentive Plan. No share may be repriced other than in accordance with the 1940 Act and the applicable stockholder approval requirements of The Nasdaq Global Select Market.

Upon the occurrence of a Covered Transaction, our Board of Directors may take any one or more of the actions described above under "Executive Compensation—Potential Payments Upon Termination or Change of Control—Termination of Employment and Change of Control Arrangements—Change of Control Arrangements in the Company's 2006 Equity Incentive Plan."

We are proposing to amend and restate the Equity Incentive Plan at our 2008 annual meeting of stockholders to, among other things, increase the number of shares of common stock reserved for issuance thereunder and to allow for the issuance of restricted stock awards in accordance with the terms of exemptive relief granted by the SEC in March 2008.

Equity Compensation Plan Information

During the year ended December 31, 2007, we granted options to purchase 495,000 shares of common stock under the Equity Incentive Plan to our employees with a weighted average exercise price per share of $16.63, with a risk-free rate ranging between 4.6% to 5.3%, with volatility rates ranging between 20.5% to 22.4% and for which 25% of such options vest on each of the subsequent four grant date anniversaries and have a ten-year exercise period. During the year ended December 31, 2007, options to purchase 90,000 shares granted to employees were forfeited. As of December 31, 2007, options to purchase a total of 1,315,000 shares were outstanding and 305,000 shares were subject to exercisable options. The options have an estimated remaining contractual life of 9 years and 0 months.

During the year ended December 31, 2007, the weighted average grant date fair value per share for options granted during the period was $1.90. For the year ended December 31, 2007, the weighted average grant date fair value per share for options forfeited during the period was $1.81. The following table summarizes certain information regarding the Equity Incentive Plan as of December 31, 2007:

Plan Category	(a) Number of Securities To Be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Security Holders(1)	1,315,000	$ 15.52	185,000
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	1,315,000	$ 15.52	185,000

(1) The Company's 2006 Equity Incentive Plan.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has licensed to us, on a royalty free basis, the right to use the Kohlberg name. This agreement is terminable by Kohlberg & Co. at any time following the fifth anniversary of the date of the agreement and in specified other circumstances.

In addition, our License and Referral Agreement with Kohlberg & Co. provides that Kohlberg & Co. will notify us of equity investment opportunities that have been made available to Kohlberg & Co. but that Kohlberg & Co. has determined, in its sole discretion, are not appropriate for it or any investment fund managed by Kohlberg & Co. or any of its affiliates (generally as a result of the small size or non-control nature of the investment), prior to making such investment opportunity available to any third party.

In connection with our initial public offering we entered into a Transition Services Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. agreed to continue to provide us with accounting services, cash management and budgeting services, tax services, internal legal services, payroll administration and other human resource services and intellectual technology services for a period of up to six months from the date of our initial public offering (the "Transition Services Agreement"). In addition, under this agreement and during this period, Kohlberg & Co. agreed to continue the participation of our employees in Kohlberg & Co.'s medical, dental, retirement and other benefit plans until they can be transitioned to similar plans of the Company and to continue to maintain the participation of the Company in Kohlberg & Co.'s insurance programs until the Company has established its own insurance programs. The transition is complete, the Transition Services Agreement has expired by its terms and Kohlberg & Co. no longer receives any payment thereunder, except that we continue to indemnify Kohlberg & Co. for certain liabilities associated with the Transition Services Agreement.

Our portfolio company, Katonah Debt Advisors, has entered into an Assignment and Assumption Agreement with Katonah Capital pursuant to which it has assumed all of Katonah Capital's rights and obligations under the lease agreement for our principal headquarters at 295 Madison Avenue, 6th Floor, New York, New York 10017. We have entered into an Overhead Allocation Agreement with Katonah Debt Advisors which provides for the sharing of the expenses under the lease agreement. In connection with this assignment and assumption of the lease, we issued a letter of credit to the lessor to replace a letter of credit previously issued by Kohlberg & Co. under the original lease.

Certain entities and affiliates of Kohlberg & Co. together own, in the aggregate, approximately 16% of our outstanding common stock.

Prior to our conversion to a Delaware corporation, the issuance of common stock in our initial public offering and our election to be regulated as a BDC, we completed the acquisition of 100% of the outstanding equity of Katonah Debt Advisors, as part of which we issued an aggregate of 2,226,333 common units to James A. Kohlberg and an entity affiliated with Kohlberg & Co. to acquire 100% of the outstanding limited liability company interests of Katonah Debt Advisors. We also acquired certain subordinated securities issued by CLO Funds managed by Katonah Debt Advisors and two other asset managers, as part of which we issued an aggregate of 1,258,000 common units to affiliates of Kohlberg & Co. to acquire subordinated securities and preferred stock securities issued by CLO Funds managed by Katonah Debt Advisors and two other asset managers.

We used the net proceeds of our initial public offering to acquire a portfolio of approximately $185 million in aggregate principal amount of senior secured loans that were originated during 2006 by Katonah Debt Advisors' middle market lending group and are held by a special purpose vehicle organized by Katonah Debt Advisors. These loans were acquired by us for cash at their fair market value, as determined by our Board of

Directors, which approximated the cost of acquisition by such special purpose vehicle. The purchase of these loans was financed with a credit facility and the proceeds that we paid to the special purpose vehicle in order to acquire these loans were used by that entity to repay the credit facility.

In the ordinary course of business, we may enter into transactions with portfolio companies that may be considered related party transactions. We have implemented certain procedures, both written and unwritten, to ensure that we do not engage in any prohibited transactions with any persons affiliated with us. If such affiliations are found to exist, we seek Board and/or committee review and approval or exemptive relief for such transactions, as appropriate.

Under the 1940 Act, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior approval of the SEC. In addition, we may co-invest on a concurrent basis with Kohlberg & Co. or any of our affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

No person is deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth, as of February 29, 2008, information with respect to the beneficial ownership of our common stock by:

- each person known to us to beneficially own more than 5% of the outstanding shares of our common stock;
- each of our directors and each named executive officer; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Common stock subject to options that are currently exercisable or exercisable within 60 days of February 29, 2008 are deemed to be outstanding and beneficially owned by the person holding such options. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 18,094,306 shares of common stock outstanding as of February 29, 2008.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, except to the extent authority is shared by spouses under applicable law, and maintains an address of c/o Kohlberg Capital Corporation, 295 Madison Avenue, 6th Floor, New York, New York 10017.

Name and Address	Number of Shares	Percentage of Class	Dollar Range of Equity Securities(1)
Principal Stockholders:			
Franklin Resources, Inc.(2) One Franklin Parkway, San Mateo, California 94403-1906	1,290,181	7.1%	
Systematic Financial Management, L.P.(3) 300 Frank W. Burr Blvd., Glenpointe East, 7th Floor, Teaneck, New Jersey 07666	1,011,521	5.6%	
T. Rowe Price Associates, Inc.(4) 100 E. Pratt Street, Baltimore, Maryland 21202	1,560,700	8.6%	
Directors and Executive Officers:			
Independent Directors			
C. Michael Jacobi	13,000	*	>$100,000
Albert G. Pastino	2,170	*	$10,001-$50,000
C. Turney Stevens	1,500	*	$10,001-$50,000
Gary Cademartori	1,558	*	$10,001-$50,000
Non-Independent Directors(5)			
James A. Kohlberg(6)(8)	2,019,664	11.2%	>$100,000
Christopher Lacovara(7)(8)	602,134	3.3%	>$100,000
Samuel P. Frieder(7)(8)	464,634	2.6%	>$100,000
Executive Officers			
E.A. Kratzman(8)	94,272	1.0%	>$100,000
Michael I. Wirth(8)(9)	44,147	*	>$100,000
Dayl W. Pearson(8)(10)	66,143	*	>$100,000
R. Jon Corless(8)	32,571	*	>$100,000
John M. Stack(8)	14,635	*	>$100,000
Directors and Executive Officers as a Group (12 persons)	3,356,428	18.2%	>$100,000

(footnotes on the following page)

* Less than 1%.

(1) Pursuant to the applicable SEC rules, the dollar range of equity securities is given as of December 31, 2007.

(2) The information regarding Franklin Resources, Inc. is based solely on information included in the Schedule 13G filed by Franklin Resources, Inc. with the SEC on January 31, 2008. Franklin Resources, Inc. reported that each of Charles B. Johnson and Rupert H. Johnson, Jr. owns in excess of 10% of its outstanding common stock and that Franklin Advisory Services, LLC, Franklin Advisers, Inc. and Franklin Templeton Portfolio Advisors, Inc. have the sole power to vote or to direct the vote of, and the sole power to dispose or to direct the disposition of, 515,000, 459,439 and 315,742 shares of our common stock, respectively.

(3) The information regarding Systematic Financial Management, L.P. is based solely on information included in the Schedule 13G filed by Systematic Financial Management, L.P. with the SEC on February 15, 2008. Systematic Financial Management, L.P. indicated that it has sole dispositive power as to 1,011,521 shares of our common stock and has sole voting power as to 547,021 of those shares.

(4) The information regarding T. Rowe Price Associates, Inc. is based solely on information included in Amendment No. 1 to Schedule 13G filed by T. Rowe Price Associates, Inc. with the SEC on February 13, 2008. T. Rowe Price Associates, Inc. indicated that it has sole dispositive power as to 1,560,700 shares of our common stock and has sole voting power as to 962,700 of those shares.

(5) Messrs. Lacovara, Kohlberg and Frieder are interested persons, as defined in section 2(a)(19) of the 1940 Act, because they are officers of the Company.

(6) Includes 1,258,000 shares of common stock held by the KKAT Entities as follows: 300,000 shares of common stock held by KKAT Acquisition Company III, LLC, 210,000 shares of common stock held by KKAT Acquisition Company IV, LLC, 221,333 shares of common stock held by KKAT Acquisition Company V, LLC, 300,000 shares of common stock held by KKAT Acquisition Company VII, LLC and 226,667 shares of common stock held by KKAT Acquisition Company VIII, LLC, as to which Mr. Kohlberg has both voting and dispositive power. Mr. Kohlberg disclaims beneficial ownership of the shares held by KKAT Acquisition Company III, LLC, KKAT Acquisition Company IV, LLC, KKAT Acquisition Company V, LLC, KKAT Acquisition Company VII, LLC and KKAT Acquisition Company VIII, LLC (collectively, the “KKAT Entities”), except to the extent of his pecuniary interest therein. Excludes shares of our common stock owned by KAT Associates, LLC. Mr. Kohlberg is a beneficiary under certain trusts that are members of KAT Associates, LLC and, as such, may have a pecuniary interest in a portion of such shares.

(7) Excludes shares of common stock held by the KKAT Entities. Messrs. Lacovara and Frieder are members of the KKAT Entities and therefore may have a pecuniary interest in certain of the shares held by the KKAT Entities. Messrs. Lacovara and Frieder disclaim beneficial ownership of the shares held by the KKAT Entities except to the extent of their respective pecuniary interests therein.

(8) Includes shares of common stock issuable pursuant to options granted under our Equity Incentive Plan that are exercisable within 60 days of February 29, 2008, as follows: 125,000, 62,500, 50,000, 37,500, 25,000, 12,500, 2,500 and 2,500 shares to Messrs. Lacovara, Pearson, Kratzman, Wirth, Corless, Stack, Kohlberg and Frieder, respectively.

(9) Includes 205 shares of common stock held by Mr. Wirth, as custodian for his son and daughter under the Uniform Gifts to Minors Act (the “UGMA”), and 593 shares of common stock held by Mr. Wirth’s wife, for which Mr. Wirth disclaims beneficial ownership.

(10) Includes 104 shares of common stock held by Mr. Pearson, as custodian, for his daughter under the UGMA, for which Mr. Pearson disclaims beneficial ownership. Excludes 104 shares of common stock held by Mr. Pearson’s son, for which Mr. Pearson disclaims beneficial ownership.

DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of February 29, 2008, we did not have any preferred stock outstanding.

Value, as defined in Section 2(a)(41) of 1940 Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. 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 our senior management. The Valuation Committee of our Board of Directors reviews these preliminary valuations and make recommendations to our Board of Directors. Where appropriate, the Valuation Committee may utilize an independent valuation firm selected by our Board of Directors. The Valuation Committee has selected an independent valuation firm to assist with the periodic valuation of our illiquid securities. Our Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the recommendations of the Valuation Committee.

Because of 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 determined under our procedures may differ significantly from the values that would have been used had a ready market existed for the investments or from the values that would have been placed on our assets by other market participants, and the differences could be material.

There is no single standard for determining fair value. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses. Instead, we must determine the fair value of each individual investment on a quarterly basis. We record unrealized depreciation on investments when we believe that an investment has decreased in value, including where collection of a loan or realization of an equity security is doubtful. Conversely, we record unrealized appreciation if we believe that as a result our investment has appreciated in value, for example, because the underlying portfolio company has appreciated in value.

As a BDC, we invest primarily in illiquid securities, including loans to and warrants of private companies and interests in other illiquid securities, such as interests in the underlying CLO Funds. Our investments are generally subject to restrictions on resale and generally have no established trading market. Because of the type of investments that we make and the nature of our business, our valuation process requires an analysis of various factors. Our valuation methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation.

With respect to private debt and equity investments, each investment is valued using industry valuation benchmarks, and, where appropriate, such as valuing private warrants, the input value in our valuation model may be assigned a discount reflecting the illiquid nature of the investment and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offering or subsequent loan or warrant sale occurs, the pricing indicated by the external event is considered in determining our private debt or equity valuation. Securities that are traded in the over-the-counter market or on a stock exchange generally are valued at the prevailing bid price on the valuation date. However, restricted or thinly traded public securities may be valued at discounts from the public market value due to limitations on our ability to sell the securities.

Our investments in CLO Fund securities are carried at fair value, which is based on a discounted cash flow model that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds and preferred shares/income notes, when available. We recognize unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool is updated and the revised cash flows are used in determining the fair value of the investment. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis. If we were to sell a group of CLO Fund securities in a pool in one or more transactions, the total value received for that pool may be different than the sum of the fair values of the individual investments in CLO Fund securities.

Determinations In Connection With Offerings

In connection with each primary offering of shares of our common stock, the Board of Directors or a committee thereof is required to make the determination that we are not selling shares of our common stock at a price below our then current net asset value at the time at which the sale is made. The Board of Directors (or such committee) considers the following factors, among others, in making such determination:

- the net asset value of our common stock disclosed in the most recent periodic report we filed with the SEC;
- our management's assessment of whether any material change in the net asset value has occurred (including through the realization of net gains on the sale of our portfolio investments) from the period beginning on the date of the most recently disclosed net asset value to the period ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between the net asset value disclosed in the most recent periodic report we filed with the SEC and our management's assessment of any material change in the net asset value since the date of the most recently disclosed net asset value, and the offering price of the shares of our common stock in the proposed offering.

Importantly, this determination does not require that we calculate net asset value in connection with each offering of shares of our common stock, but instead it involves the determination by the Board of Directors or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value at the time at which the sale is made.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we provided to the SEC in the registration statement to which this prospectus is a part) to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value fluctuates by certain amounts in certain circumstances until the prospectus is amended, the Board of Directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine net asset value within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine net asset value to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records we are required to maintain under the 1940 Act.

DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our Board of Directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend in cash by notifying American Stock Transfer & Trust Company, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than ten days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on The Nasdaq Global Select Market on the dividend payment date. Market price per share on that date will be the closing price for such shares on The Nasdaq Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There are no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus a $0.10 per share brokerage commission from the proceeds.

If your dividends are reinvested, you will be required to pay tax on the distributions in the same manner as if the distributions were received in cash. The taxation of dividends will not be affected by the form in which you receive them. See "Certain U.S. Federal Income Tax Considerations."

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at www.amstock.com, by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at the address set forth below or by calling the plan administrator at 1-866-668-8564.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to, and additional information about the plan may be obtained from, the plan administrator by mail at American Stock Transfer & Trust Company, Attn. Dividend Reinvestment Department, P.O. Box 922, Wall Street Station, New York, New York 10269-0560 or by telephone at 1-866-668-8564.

REGULATION

The following discussion is a general summary of some of the material prohibitions and restrictions governing BDCs generally. It does not purport to be a complete description of all the laws and regulations affecting BDCs.

A BDC is a unique kind of investment company that primarily focuses on investing in or lending to private companies and making managerial assistance available to them. A BDC provides stockholders with the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage privately-owned companies. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In the ordinary course of business, we may enter into transactions with portfolio companies that may be considered related party transactions. We have implemented certain procedures, both written and unwritten, to ensure that we do not engage in any prohibited transactions with any persons affiliated with us. If such affiliations are found to exist, we seek Board and/or committee review and approval or exemptive relief for such transactions, as appropriate.

In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of (i) 67% or more of such company’s shares present at a meeting or represented by proxy if more than 50% of the outstanding shares of such company are present or represented by proxy or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, or “qualifying assets,” unless, at the time the acquisition is made, “qualifying assets” represent at least 70% of the company’s total assets. The principal categories of “qualifying assets” relevant to our business are the following:

- Securities of an “eligible portfolio company” purchased in transactions not involving any public offering. An “eligible portfolio company” is defined in the 1940 Act as any issuer which:
  - (a) is organized under the laws of, and has its principal place of business in, the United States;
  - (b) is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
  - (c) satisfies any of the following:
    - (i) does not have outstanding any class of securities with respect to which a broker or dealer may extend margin credit;
    - (ii) is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company;
    - (iii) is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million; or
    - (iv) does not have any class of securities listed on a national securities exchange.
- Securities of any eligible portfolio company that we control;

- Securities purchased in a private transaction from a U.S. issuer that is not an investment company and is in bankruptcy and subject to reorganization;
- Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the conversion of warrants or rights relating to such securities;
- Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment; and
- Under certain circumstances, securities of companies that were eligible portfolio companies at the time of the initial investment but that are not eligible portfolio companies at the time of the follow-on investment.

On October 25, 2006, the SEC reproposed a rule under the 1940 Act that would further expand the definition of an "eligible portfolio company" to include certain domestic operating companies that list their securities on a national securities exchange.

Significant Managerial Assistance

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described above. However, to count portfolio securities as "qualifying assets" for the purpose of the 70% test, the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company's officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that at least 70% of our assets are "qualifying assets." Typically, we invest in U.S. treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements that are treated, under applicable tax rules, as being issued by a single counterparty, we would not meet the diversification tests imposed on us by the Code to qualify for tax treatment as a RIC for U.S. federal income tax purposes. Thus, we do not intend to enter into repurchase agreements treated as issued, under applicable tax rules, by a single counterparty in excess of this limit. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities; Coverage Ratio

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200%

immediately after each such issuance. In addition, with respect to certain types of senior securities, we must make provisions to prohibit any dividend distribution to our stockholders or the repurchase of certain of our securities, unless we meet the applicable asset coverage ratios at the time of the dividend distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes. For a discussion of the risks associated with the resulting leverage, see “Risk Factors—Risks Related to Our Business—The debt we incur could increase the risk of investing in our Company.”

Code of Ethics

We adopted and maintain a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code’s requirements. We may be prohibited under the 1940 Act from conducting certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, the prior approval of the SEC. You can obtain a copy of the code of ethics by any of the methods described under “Available Information.”

Privacy Principles

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

Generally, we do not receive any non-public personal information relating to our stockholders, although some non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, as is necessary to service stockholder accounts, such as to a transfer agent, or as otherwise permitted by law.

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

Proxy Voting Policies and Procedures

Although most of the securities we hold are not voting securities, some of our investments may entitle us to vote proxies. We vote proxies relating to our portfolio securities in the best interest of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by us. Although we generally vote against proposals that we believe may have a negative impact on our portfolio securities, we may vote for such a proposal if we believe there exists a compelling long-term reason to do so.

Our proxy voting decisions are made by our Investment Committee, which is responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that (1) anyone involved in the decision making process disclose to our CCO any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal to reduce any attempted influence from interested parties.

Other

We will be periodically examined by the SEC for compliance with the 1940 Act.

We will not “concentrate” our investments, that is, invest 25% or more of our assets in any particular industry (determined at the time of investment).

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from indemnifying any director or officer against any liability to our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person’s office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws and to review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We have a designated CCO who is responsible for administering these policies and procedures.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of certain material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, RICs, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as in effect as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the “IRS”) regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets in which we do not currently intend to invest.

A “U.S. stockholder” generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the “substantial presence” test in Section 7701(b) of the Code;
- a corporation or other entity taxable as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- a trust over the administration of which a court in the U.S. has primary supervision or over which U.S. persons have control; or
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A “Non-U.S. stockholder” is a beneficial owner of shares of our common stock that is neither a U.S. stockholder nor a partnership for U.S. federal income tax purposes. If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder who is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Election to be Taxed as a Regulated Investment Company

As a BDC, we have elected to be treated as a RIC under Subchapter M of the Code commencing with our taxable year ended December 31, 2006. As a RIC, we generally will not have to pay corporate-level taxes on any income or gains that we distribute to our stockholders as dividends. To qualify for treatment as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for treatment as a RIC, we must distribute to our stockholders, for each taxable year, at least 90% of our “net investment company income,” which is generally the sum of our net investment income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses (the “Annual Distribution Requirement”).

Taxation as a Regulated Investment Company

For any taxable year in which we qualify as a RIC and satisfy the Annual Distribution Requirement, we generally will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (*i.e.*, net realized long-term capital gains in excess of net realized short-term capital losses) we distribute to stockholders with respect to that year. We will be subject to U.S. federal income tax at the regular corporate rates on any net ordinary income or capital gain not distributed (or deemed distributed) to our stockholders. As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain net taxable undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any net income realized, but not distributed, in the preceding year. We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). We currently intend to make sufficient distributions each taxable year and/or pay sufficient corporate income tax to avoid any excise tax liability, although we reserve the right to pay an excise tax rather than make an additional distribution when circumstances warrant (*e.g.*, the payment of an excise tax amount that we deem to be *de minimis*).

To qualify for tax treatment as a RIC for U.S. federal income tax purposes, in addition to satisfying the Annual Distribution Requirement, we must, among other things:

- have in effect at all times during each taxable year an election to be regulated as a BDC under the 1940 Act;
- in each taxable year, derive at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities and (b) net income derived from an interest in a “qualified publicly traded partnership” (as defined by the Code) (all such income “Qualifying Income”); and
- diversify our holdings so that at the end of each quarter of the taxable year: (i) at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and (ii) no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of (a) one issuer, (b) two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (c) one or more “qualified publicly traded partnerships” (the “Diversification Tests”).

We conduct the business of Katonah Debt Advisors through direct or indirect subsidiaries. Some of our subsidiaries are treated as corporations for U.S. federal income tax purposes. As a result, such subsidiaries will be subject to tax at regular corporate rates. We will recognize income from these subsidiaries to the extent that we receive dividends and distributions that are a return of capital from these subsidiaries. Some of the wholly-owned subsidiaries may be treated as disregarded entities for U.S. federal income tax purposes. As a result, we may directly recognize fee income earned by these subsidiaries. Fee income that we recognize directly through entities that are treated as disregarded entities for U.S. federal tax purposes will generally not constitute Qualifying Income. We intend to monitor our recognition of fee income to ensure that at least 90% of our gross income in each taxable year is Qualifying Income.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, with increasing interest rates or that are issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders to satisfy the Annual Distribution Requirement, even though we will not have received an amount of cash that corresponds with the income accrued.

We could also be subject to a U.S. federal income tax (including interest charges) on distributions received from investments in passive foreign investment companies ("PFICs") or on proceeds received from the disposition of shares in PFICs, which tax cannot be eliminated by making distributions to our stockholders. A PFIC is any foreign corporation in which (i) 75% or more of the gross income for the taxable year is passive income, or (ii) the average percentage of the assets (generally by value, but by adjusted tax basis in certain cases) that produce or are held for the production of passive income is at least 50%. Generally, passive income for this purpose means dividends, interest (including income equivalent to interest), royalties, rents, annuities, the excess of gains over losses from certain property transactions and commodities transactions, and foreign currency gains. Passive income for this purpose does not include rents and royalties received by the foreign corporation from active business and certain income received from related persons. If we are in a position to treat and so treat such a PFIC as a "qualified electing fund" ("QEF") we will be required to include our share of the company's income and net capital gain annually, regardless of whether we receive any distribution from the company. Alternately, we may make an election to mark the gains (and to a limited extent losses) in such holdings "to the market" as though we had sold and repurchased our holdings in those PFICs on the last day of our taxable year. Such gains and losses are treated as ordinary income and loss. The QEF and mark-to-market elections may have the effect of accelerating the recognition of income (without the receipt of cash) and increasing the amount required to be distributed for us to avoid taxation.

We may also invest in "controlled foreign corporations" ("CFCs"). A non-U.S. corporation will be a CFC if "U.S. Shareholders" (*i.e* ., each U.S. investor that owns (directly or by attribution) 10% or more of the interests in the non-U.S. corporation (by vote)) own (directly or by attribution) more than 50% (by vote or value) of the outstanding interests of the non-U.S. corporation. If we are a U.S. Shareholder with respect to a CFC, we will be required each year to include in income our pro rata share of the corporation's "Subpart F income" (as defined in the Code). Therefore, investments in CFCs may have the effect of accelerating the recognition of income (without the receipt of cash) and increasing the amount required to be distributed for us to avoid taxation.

We are authorized to borrow funds and to sell assets to satisfy the Annual Distribution Requirement and to avoid any excise tax liability. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation—Senior Securities; Coverage Ratio." Moreover, our ability to dispose of assets to meet the Annual Distribution Requirement and to avoid any excise tax liability may be limited by (1) the illiquid nature of our portfolio, or (2) other requirements relating to our tax treatment as a RIC, including the Diversification Tests. If we dispose of assets to meet the Annual Distribution Requirements and to avoid any excise tax liability, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant. Our transactions in options, futures contracts, hedging transactions and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to stockholders. We do not currently intend to engage in these types of transactions.

A RIC is not permitted to deduct expenses in excess of its "investment company taxable income" (which is, generally, ordinary income plus net short-term capital gains in excess of net long-term capital losses). If our expenses in a given year exceed investment company taxable income (*e.g* ., as the result of large amounts of equity-based compensation), we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years. In addition, expenses can be used only to offset investment company taxable income, not net capital gain (that is, the excess of net long-term capital gains over the net short-term capital losses). Due to these limits on the deductibility of expenses, we may for tax purposes have aggregate taxable income over a period of several years that we are required to distribute and that is taxable to our stockholders even if such income is greater than the net income we actually earned during those years in the aggregate. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions. Assuming we qualify for tax treatment as a RIC, our corporate-level U.S. federal income tax should be substantially reduced or eliminated, and, as explained below in "—Taxation of U.S. Stockholders," a portion of our distributions or deemed distributions may be characterized as long-term capital gain in the hands of stockholders. Except as otherwise provided, the remainder of this discussion assumes that we qualify for tax treatment as a RIC and have satisfied the Annual Distribution Requirement.

Failure to Qualify as a Regulated Investment Company

If we were to fail to qualify for tax treatment as a RIC (including if our Board of Directors elected to temporarily or permanently revoke our RIC election), we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would distributions be required to be made. Such distributions would be taxable to our stockholders as dividend income to the extent of our current and accumulated earnings and profits and (if made during a taxable year beginning before January 1, 2011) provided certain holding period and other requirements were met, could potentially qualify for treatment as "qualified dividend income" in the hands of stockholders taxed as individuals eligible for the 15% maximum rate. Subject to certain limitations under the Code, corporate distributees may be eligible for the dividends received deduction with respect to our dividend distributions. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify for tax treatment as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify for tax treatment as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

Taxation of U.S. Stockholders

For U.S. federal income tax purposes, distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock through our dividend reinvestment plan. For taxable years beginning before January 1, 2011, to the extent such distributions paid by us are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be designated by us as "qualified dividend income" eligible to be taxed in the hands of non-corporate stockholders at the rates applicable to long-term capital gains, provided holding period and other requirements are met at both the stockholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be qualified dividend income. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as “capital gain dividends” will be taxable to a U.S. stockholder as long-term capital gains (currently at a maximum rate of 15% in the case of individuals, trusts or estates), regardless of the U.S. stockholder’s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. stockholder’s adjusted tax basis in such stockholder’s common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We may retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses and designate the retained net capital gains as a “deemed distribution.” In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder’s cost basis for his, her or its common stock. Since we expect to pay tax on any retained net capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder’s other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder’s liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form to claim a refund for the taxes we paid. For U.S. federal income tax purposes, the tax basis of shares owned by a stockholder generally will be increased by an amount equal to the difference between the amount of undistributed capital gains included in the stockholder’s gross income and the tax deemed paid by the stockholder as described in this paragraph. To utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a “deemed distribution.” We may also make actual distributions to our stockholders of some or all of realized net long-term capital gains in excess of realized net short-term capital losses.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared. A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss. For taxable years beginning before January 1, 2011, individual U.S. stockholders are subject to a maximum U.S. federal income tax rate of 15% on their net capital gain (*i.e.*, the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year ($1,500 for married individuals filing separately); any net capital losses of a non-corporate stockholder in excess of $3,000 ($1,500 for married individuals filing separately) generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

Distributions are taxable to stockholders even if they are paid from income or gains earned by us before a stockholder's investment (and thus were included in the price the stockholder paid). If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically, it may represent a return of his, her or its investment. Distributions are taxable whether stockholders receive them in cash or reinvest them in additional shares through the Dividend Reinvestment Plan. A stockholder whose distributions are reinvested in shares will be treated as having received a dividend equal to either (i) the fair market value of the shares issued to the stockholder (if we issue new shares), or (ii) the amount of cash allocated to the stockholder for the purchase of shares on its behalf (if we purchase shares on the open market). We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal tax status of each year's distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the 15% "qualified dividend income" rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation. Dividends distributed by us generally will not be eligible for the corporate dividends-received deduction or the preferential rate applicable to "qualified dividend income."

We may be required to withhold U.S. federal income tax ("backup withholding"), currently at a rate of 28%, from all distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the IRS.

Under Treasury regulations, if a stockholder recognizes a loss with respect to our shares of $2 million or more for an individual stockholder or $10 million for a corporate stockholder, the stockholder must file with the IRS a disclosure statement on Form 8886. Direct stockholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether a taxpayer's treatment of the loss is proper. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a non-U.S. stockholder will depend upon that person's particular circumstances. Non-U.S. stockholders should consult their tax advisors before investing in our common stock. In general, dividend distributions (other than certain distributions derived from net long-term capital gains, certain interest income and short term capital gains, as described below) paid by us to a non-U.S. stockholder are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains that, if paid to a non-U.S. stockholder directly, would not be subject to withholding. If the distributions are effectively connected with a U.S. trade or business of the non-U.S. stockholder, (and, if an income tax treaty applies, attributable to a permanent establishment in the United States), we will not be required to withhold U.S. federal income tax if the non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to U.S. federal income tax at the rates applicable to U.S. stockholders. (Special certification requirements apply to a non-U.S. stockholder that is a foreign partnership or a foreign trust and such entities are urged to consult their tax advisors.) For taxable years beginning prior to January 1, 2008, except as provided below, we generally will not be required to withhold any amounts with respect to certain distributions of (1) U.S.-source interest income that meets certain requirements, and (2) net short-term capital gains in excess of net long-term capital losses, in each case to the extent we properly designate such distributions. We intend to make such designations. In respect of distributions described in clause (1) above, however, we will be required to withhold amounts with respect to distributions to a non-U.S. stockholder:

- that has not provided a satisfactory statement that the beneficial owner is not a U.S. person;
- to the extent that the dividend is attributable to certain interest on an obligation if the non-U.S. stockholder is the issuer or is a 10% stockholder of the issuer;
- that is within certain foreign countries that have inadequate information exchange with the United States; or
- to the extent the dividend is attributable to interest paid by a person that is a related person of the non-U.S. stockholder and the non-U.S. stockholder is a “controlled foreign corporation” for U.S. federal income tax purposes.

Actual or deemed distributions of our net capital gain to a non-U.S. stockholder, and gains realized by a non-U.S. stockholder upon the sale of our common stock, will not be subject to U.S. federal withholding tax and generally will not be subject to U.S. federal income tax unless the distributions or gain, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. stockholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. stockholder in the U.S.), or in the case of an individual stockholder, the stockholder is present in the U.S. for a period or periods aggregating 183 days or more during the year of the sale or capital gain dividend and certain other conditions are met. If we distribute our net capital gain in the form of deemed rather than actual distributions, a non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder’s allocable share of the tax we pay on the capital gains deemed to have been distributed. To obtain the refund, the non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate (or at a lower rate if provided for by an applicable treaty).

A non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of U.S. federal tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute or successor form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. stockholder or otherwise establishes an exemption from backup withholding. Investment in the shares may not be appropriate for a non-U.S. stockholder. Non-U.S. persons should consult their tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

DESCRIPTION OF CAPITAL STOCK

The following description is based on relevant portions of the Delaware General Corporation Law and on our certificate of incorporation and bylaws. This summary may not contain all of the information that is important to you, and we refer you to the Delaware General Corporation Law and our certificate of incorporation and bylaws for a more detailed description of the provisions summarized below.

Stock

Our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.01 per share, of which 18,094,306 shares were outstanding as of February 29, 2008, and 5,000,000 shares of preferred stock, par value $0.01 per share, of which none were outstanding as of February 29, 2008. Our common stock is traded on The Nasdaq Global Select Market under the symbol "KCAP." A total of 1,500,000 shares of our common stock have been authorized for issuance under our Equity Incentive Plan. Under Delaware law, our stockholders are not personally liable for our debts or obligations solely based on their ownership of our common stock.

Set forth below is a chart describing the classes of our securities outstanding as of February 29, 2008:

Title of Class	Amount Authorized	Amount Held by Us or for Our Account	Amount Outstanding Exclusive of Amount Under Column
Common Stock	100,000,000	—	18,094,306
Preferred Stock	5,000,000	—	—

Common Stock

Under the terms of our certificate of incorporation, all shares of our common stock have equal rights as to earnings, assets, dividends and voting, and those shares that have been issued are duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of funds legally available therefor. Except to the extent required under the 1940 Act, shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by U.S. federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of any series preferred stock that might be outstanding at that time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. The holders of common stock possess exclusive voting power except (i) as provided with respect to any other class or series of stock or (ii) as may be required by the 1940 Act if we fail to meet certain asset coverage requirements. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock are able elect all of our directors, and holders of less than a majority of such shares are unable to elect any director.

Preferred Stock

Under the terms of our certificate of incorporation, our Board of Directors is authorized to issue shares of preferred stock in one or more series without stockholder approval. Our Board of Directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of each series of preferred stock.

Every issuance of preferred stock is required to comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are unpaid in an amount equal to two full years' dividends, and to continue to be so represented until all dividends in arrears shall have been paid or otherwise provided for. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. Although, at this time, we do not expect to issue preferred stock, we believe that the availability for issuance of preferred stock provides us with increased flexibility in structuring future financings and acquisitions.

Registration Rights

Prior to our initial public offering, we entered into a registration rights agreement with certain affiliates of Kohlberg & Co. who hold shares of our common stock. Pursuant to the registration rights agreement, we have agreed that, upon demand by the holders of a specified percentage of these shares, we will file a registration statement to cover resales of the shares of common stock held by the requesting stockholders. In addition, pursuant to the registration rights agreement, we have agreed to grant these holders piggyback registration rights to include the shares held by these holders in any registration statement that we file for newly issued shares of our common stock, subject to certain exceptions. All expenses incurred in connection with these registrations will be borne by us. Holders of approximately 3,396,778 shares of our common stock are entitled to have such shares included in any such registration statement.

We will use our best efforts to cause any such demand registration statement to be declared effective by the SEC on or prior to the 90th day following the filing of such registration statement with the SEC, subject to the exceptions provided for in the registration rights agreement.

The securities held by these holders will cease to be registrable securities and therefore we will not be required to include these securities in any such registration statement on the earlier of (i) the date on which such shares have been registered effectively pursuant to the Securities Act and, in the case of an underwritten offering, disposed of in accordance with the registration statement relating to it, (ii) the date on which such shares have been distributed to the public pursuant to Rule 144 under the Securities Act, (iii) the date on which such shares are sold to us or (iv) the date on which all registrable securities held by any such holder may be sold without restrictions (other than the expiration of the applicable time period) pursuant to Rule 144(b)(1) under the Securities Act.

The foregoing summary of certain provisions of the registration rights agreement may not include all of the provisions that are important to you and is subject to, and qualified in its entirety by reference to, the provisions of the registration rights agreement. Copies of the registration rights agreement are available as set forth under the heading "Available Information."

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Under our certificate of incorporation, we will fully indemnify any person who was or is involved in any actual or threatened action, suit or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that such person is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, against all expense, liability and loss (including attorneys' fees and related disbursements), judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended, penalties and amounts paid or to be paid in settlement, actually and reasonably incurred by such person in connection with such action, suit or proceeding, except with respect to any matter as to which such person shall have been finally adjudicated in a decision on the merits in any such action, suit or other proceeding not to have acted in good faith in the reasonable belief that such person's action was in our best interests or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office. Our certificate of incorporation also provides that our directors will not be personally liable for monetary damages to us for breaches of their fiduciary duty as directors, except for a breach of their duty of loyalty to us or our stockholders, for acts or omissions not in good faith in the reasonable belief that the action was in the best interests of the Company or which involve intentional misconduct or a knowing violation of law, for authorization of illegal dividends or redemptions or for any transaction from which the director derived an improper personal benefit. So long as we are regulated under the 1940 Act, the above indemnification and limitation of liability will be limited by the 1940 Act or by any valid rule, regulation or order of the SEC thereunder. The 1940 Act provides, among other things, that a company may not indemnify any director or officer against liability to it or its stockholders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Delaware law also provides that indemnification permitted under the law shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, a vote of stockholders or otherwise. We have entered into indemnification agreements with each of our directors and with each of our officers designated as officers for purposes of Section 16 of the Exchange Act.

Our certificate of incorporation permits us to secure insurance on behalf of any person who is or was or has agreed to become a director or officer of our company or is or was serving at our request as a director or officer of another enterprise for any liability arising out of his or her actions, regardless of whether the Delaware General Corporation Law would permit indemnification. We have obtained liability insurance for our officers and directors.

Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions; Anti-Takeover Measures

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a "business combination" with "interested stockholders" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes certain mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to exceptions, an "interested stockholder" is a person who, together with his, her or its affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock. Our certificate of incorporation and bylaws provide that:

- the Board of Directors is divided into three classes, as nearly equal in size as possible, with staggered three-year terms;
- directors may be removed only for cause by the affirmative vote of the holders of 75% of the shares of our capital stock entitled to vote; and
- subject to the requirements of the 1940 Act, any vacancy on the Board of Directors, however the vacancy occurs, including a vacancy due to an enlargement of the Board of Directors, may only be filled by vote of the directors then in office.

The classification of our Board of Directors and the limitations on removal of directors and filling of vacancies could have the effect of making it more difficult for a third party to acquire us, or of discouraging a third party from acquiring us.

Our certificate of incorporation and bylaws also provide that:

- any action required or permitted to be taken by the stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting; and
- special meetings of the stockholders may only be called by our Board of Directors, chairman or CEO.

Our bylaws provide that, in order for any matter to be considered "properly brought" before a meeting, a stockholder must comply with requirements regarding advance notice to us. These provisions could delay, until the next stockholders' meeting, stockholder actions which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage another person or entity from making a tender offer for our common stock, because such person or entity, even if it acquired a majority of our outstanding voting securities, would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting, and not by written consent.

Delaware's law generally provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws requires a greater percentage. Under our certificate of incorporation and bylaws, the affirmative vote of the holders of at least 75% of the shares of our capital stock entitled to vote is required to amend or repeal any of the provisions of our bylaws. Moreover, our bylaws provide that generally, a majority of the shares of our capital stock issued and outstanding and entitled to vote may amend our certificate of incorporation. However, the vote of at least 75% of the shares of our capital stock then outstanding and entitled to vote in the election of directors, voting together as a single class, is required to amend or repeal any provision of the certificate of incorporation pertaining to the Board of Directors, limitation of liability, indemnification, stockholder action or amendments to the certificate of incorporation, to approve a proposal to convert, whether by merger or otherwise, from a closed-end company to an open-end company or to approve a proposal to effect our liquidation or dissolution. However, if such amendment or proposal is approved by at least 75% of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by the stockholders entitled to cast a majority of the votes entitled to be cast on such matter. The "continuing directors" is defined in our certificate of incorporation as our directors at the time of the completion of our initial public offering as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on our Board of Directors. The stockholder vote with respect to our certificate of incorporation or bylaws would be in addition to any separate class vote that might in the future be required under the terms of any series preferred stock that might be outstanding at the time any such changes are submitted to stockholders. In addition, our certificate of incorporation permits our Board of Directors to amend or repeal our bylaws by a majority vote.

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

As of February 29, 2008, we had 18,094,306 shares of our common stock outstanding, of which 3,404,333 shares were "restricted" securities within the meaning of Rule 144 promulgated under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including under the safe harbor provisions contained in Rule 144. Pursuant to a registration rights agreement, we have agreed to file one or more registration statements in respect of the shares of common stock that are restricted securities.

In general, under Rule 144 as amended effective February 15, 2008, if six months (in the case of resales by non-affiliates who have not been affiliates during the prior three months) or one year (in the case of resales by affiliates) have elapsed since the date of acquisition of restricted securities from us or any of our affiliates, the holder of such restricted securities can sell such securities so long as:

- there continues to be available adequate current public information about us, which condition will be deemed to be met if we continue to satisfy applicable Exchange Act reporting requirements; and
- in the case of resales by affiliates, the number of securities sold for the account such person within any three-month period does not exceed the greater of (i) 1% of the total number of our common stock then outstanding and (ii) the average weekly trading volume of our common stock during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC (or the receipt of the order to execute the transaction by the broker or the date of its execution).

Sales of our restricted securities by affiliates under Rule 144 also are subject to certain manner of sale provisions and notice requirements. If one year has elapsed since the date of acquisition of restricted securities from us or any of our affiliates and the holder is not one of our affiliates at any time during the three months preceding the proposed sale, such person can sell such securities in the public market under Rule 144(b)(1) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements. No assurance can be given as to (1) the likelihood that an active market for our common stock will be maintained, (2) the liquidity of any such market, (3) the ability of our stockholders to sell our securities or (4) the prices that stockholders may obtain for any of our securities. No prediction can be made as to the effect, if any, that future sales of securities, or the availability of securities for future sale, will have on the market price prevailing from time to time. Sales of substantial amounts of our securities, or the perception that such sales could occur, may affect adversely prevailing market prices of the common stock. See "Risk Factors—Risks Related to an Investment in Our Shares."

Stock Options

As of February 29, 2008, there were options to purchase 1,315,000 shares of our common stock outstanding under our Equity Incentive Plan and 305,000 shares were subject to exercisable options. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates.

We have filed a registration statement under the Securities Act covering 1,500,000 shares of common stock reserved for issuance under our Equity Incentive Plan.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, we generally do not execute transactions through any particular broker or dealer, but 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, operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we generally seek reasonably competitive trade execution costs, we do not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided, and our management and employees are authorized to pay such commission under these circumstances.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our securities are held under a custody agreement with U.S. Bank National Association. The address of the custodian is U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. The transfer agent and registrar for our common stock, American Stock Transfer & Trust Company, acts as our transfer agent, dividend paying and reinvestment agent and registrar. The principal business address of the transfer agent is 59 Maiden Lane, New York, New York 10038.

LEGAL MATTERS

Certain legal matters regarding the common stock offered by this prospectus will be passed upon for us by Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters in connection with this offering will be passed upon for the dealer managers by Clifford Chance US LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements and financial highlights as of December 31, 2007 and December 31, 2006 and for the year ended December 31, 2007 and for the period from December 11, 2006 (inception date) to December 31, 2006 included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. The principal business address of Deloitte & Touche LLP is Two World Financial Center, New York, New York 10281.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus.

As a public company, we file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus forms a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC’s Public Reference Section, Washington, D.C. 20549-0102. In addition, the SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC at *http://www.sec.gov*.

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I INDEX TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Kohlberg Capital Corporation

We have audited the accompanying balance sheets of Kohlberg Capital Corporation (the “Company”), including the schedules of investments, as of December 31, 2007 and 2006, and the related statements of operations, changes in net assets, cash flows and the financial highlights for the year ended December 31, 2007 and for the period December 11, 2006 (inception) through December 31, 2006. These financial statements and financial highlights are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian and selling or agent banks; where replies were not received from selling or agent banks, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Kohlberg Capital Corporation at December 31, 2007 and 2006, and the results of its operations, its changes in net assets, its cash flows and the financial highlights for the year ended December 31, 2007 and for the period December 11, 2006 (inception) through December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the financial statements include investments valued at $505,311,692 (approximately 95% of total assets) and $249,212,379 (approximately 88% of total assets) as of December 31, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management estimates of fair value are based on a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, private and public comparables used to determine enterprise value, overall financial condition, current and projected operating performance and discounted cash flow models.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an unqualified opinion on the Company’s internal control over financial reporting.

DELOITTE & TOUCHE LLP
New York, NY
March 14, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Kohlberg Capital Corporation:

We have audited the internal control over financial reporting of Kohlberg Capital Corporation (the “Company”) as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Company, including the schedules of investments, as of December 31, 2007 and 2006, and the related statements of operations, changes in net assets, cash flows and the financial highlights for the year ended December 31, 2007 and for the period December 11, 2006 (inception) through December 31, 2006 and our report dated March 14, 2008 expressed an unqualified opinion on those financial statements and financial highlights and included an explanatory paragraph regarding investments whose fair values have been estimated by management in the absence of readily determinable fair values.

DELOITTE & TOUCHE LLP
New York, NY
March 14, 2008

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KOHLBERG CAPITAL CORPORATION

BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
Investments at fair value:		
Investments in debt securities (cost: 2007—$423,439,764; 2006—$190,767,384)	$ 410,954,082	$ 190,767,384
Investments in CLO fund securities managed by non-affiliates (cost: 2007—$15,385,580; 2006—$10,970,000)	9,900,000	10,970,000
Investments in CLO fund securities managed by affiliate (cost: 2007—$20,675,684; 2006—$9,900,000)	21,120,000	9,900,000
Investments in equity securities (cost: 2007—$5,043,950; 2006—$0)	4,752,250	—
Investments in asset manager affiliates (cost: 2007—$33,469,995; 2006—$33,394,995)	58,585,360	37,574,995
Total investments at fair value	505,311,692	249,212,379
Cash and cash equivalents	12,088,529	32,404,493
Restricted cash	7,114,364	—
Interest and dividends receivable	5,592,637	602,085
Due from affiliates	540,773	—
Other assets	2,493,964	156,890
Total assets	$ 533,141,959	$ 282,375,847
LIABILITIES		
Borrowings (none maturing within one year)	255,000,000	—
Payable for open trades	5,905,000	24,183,044
Accounts payable and accrued expenses	6,141,892	1,704,548
Due to affiliates	—	87,832
Dividend payable	7,026,903	—
Total liabilities	$ 274,073,795	$ 25,975,424
Commitments and contingencies (note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share, 100,000,000 common shares authorized; 18,017,699 and 17,946,333 common shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	180,177	179,463
Capital in excess of par value	253,253,152	251,550,420
Undistributed (distribution in excess of) net investment income	(1,661,884)	489,463
Undistributed net realized gains	—	1,077
Net unrealized appreciation on investments	7,296,719	4,180,000
Total stockholders' equity	259,068,164	256,400,423
Total liabilities and stockholders' equity	$ 533,141,959	$ 282,375,847
NET ASSET VALUE PER SHARE	$ 14.38	$ 14.29

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

KOHLBERG CAPITAL CORPORATION

STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Investment Income:		
Interest from investments in debt securities	$ 29,606,231	$ 572,065
Interest from cash and cash equivalents	552,509	132,841
Dividends from investments in CLO fund securities managed by non-affiliates	4,528,021	377,503
Dividends from investments in CLO fund securities managed by affiliate	2,532,952	27,700
Dividends from affiliate asset manager	500,000	—
Capital structuring service fees	759,301	41,794
Total investment income	38,479,014	1,151,903
Expenses:		
Interest and amortization of debt issuance costs	7,229,597	—
Compensation	4,104,761	175,186
Professional fees	2,887,515	371,624
Insurance	174,647	12,821
Organizational expenses	—	40,000
Administrative and other	1,323,545	41,647
Total expenses	15,720,065	641,278
Net Investment Income before Income Tax Expense	**22,758,949**	**510,625**
Excise taxes	—	(21,162)
Net Investment Income	**22,758,949**	**489,463**
Realized And Unrealized Gains (Losses) On Investments:		
Net realized gains from investment transactions	266,317	1,077
Net change in unrealized losses on debt securities	(12,485,682)	—
Net change in unrealized loss on equity securities	(291,700)	—
Net change in unrealized gains on affiliate asset manager investments	20,935,365	4,180,000
Net change in unrealized losses on CLO fund securities managed by non-affiliates	(5,485,580)	—
Net change in unrealized gains on CLO fund securities managed by affiliate	444,316	—
Net realized and unrealized gain on investments	3,383,036	4,181,077
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	$ 26,141,985	$ 4,670,540
Earnings Per Common Share—Basic and Diluted	$ 1.45	$ 0.26
Net Investment Income Per Common Share—Basic and Diluted	$ 1.27	$ 0.03
Net Investment Income and Net Realized Gains Per Common Share—Basic and Diluted	$ 1.28	$ 0.03
Weighted Average Shares Of Common Stock Outstanding—Basic and Diluted	17,977,348	17,946,333

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

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KOHLBERG CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Operations:		
Net investment income	$ 22,758,949	$ 489,463
Net realized gains from investment transactions	266,317	1,077
Net change in unrealized gains on investments	3,116,719	4,180,000
Net increase in net assets resulting from operations	26,141,985	4,670,540
Shareholder distributions:		
Dividends from net investment income	(22,758,949)	—
Distributions in excess of net investment income	(2,151,346)	—
Distributions from realized gains	(267,394)	—
Net decrease in net assets resulting from shareholder distributions	(25,177,689)	—
Capital share transactions:		
Issuance of common stock—initial public offering	—	199,451,388
Issuance of common stock—for interest in affiliate company	—	33,394,995
Issuance of common stock—for interest in CLO securities managed by affiliate	—	18,870,000
Issuance of common stock under dividend reinvestment plan	1,103,245	—
Stock based compensation	600,200	13,500
Net increase in net assets resulting from capital share transactions	1,703,445	251,729,883
Net assets at beginning of period	256,400,423	—
Net assets at end of period (including distributions in excess of net investment income of $1,661,884 in 2007 and accumulated undistributed net investment income of $489,463 in 2006	$ 259,068,164	$ 256,400,423
Net asset value per common share	$ 14.38	$ 14.29
Common shares outstanding at end of period	18,017,699	17,946,333

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

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KOHLBERG CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Cash flows from operating activities:		
Net increase in stockholders' equity resulting from operations	$ 26,141,985	$ 4,670,540
Adjustments to reconcile net increase in stockholders' equity resulting from operations to net cash used in operating activities:		
Net realized gain on investment transactions	(266,317)	(1,077)
Net unrealized gain on investments	(3,116,719)	(4,180,000)
Net accretion of discount on securities	(677,112)	(3,819)
Purchases of investments	(360,558,612)	(169,112,759)
Payment-in-kind interest	(502,482)	—
Proceeds from sale and redemption of investments	90,743,885	533,315
Stock based compensation expense	600,200	13,500
Changes in operating assets and liabilities:		
Increase in interest and dividends receivable	(4,990,552)	(602,085)
Increase in other assets	(2,337,074)	(156,890)
Increase in due from affiliate	(540,773)	—
Increase in accounts payable and accrued expenses	4,437,344	1,704,548
Increase (decrease) in due to affiliate	(87,832)	87,832
Net cash used in operating activities	(251,154,059)	(167,046,895)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	—	199,451,388
Dividends and distributions paid in cash	(17,047,541)	—
Borrowings	255,000,000	—
Increase in restricted cash	(7,114,364)	—
Net cash provided by financing activities	230,838,095	199,451,388
Change in cash and cash equivalents	(20,315,964)	32,404,493
Cash and cash equivalents, beginning of period	32,404,493	—
Cash and cash equivalents, end of period	$ 12,088,529	$ 32,404,493
Supplemental Information:		
Interest paid during the period	$ 5,474,198	$ —
Non-cash dividends paid during the period under dividend reinvestment plan	$ 1,103,245	$ —
Cash restricted during the period under terms of secured revolving credit facility	$ 7,093,598	$ —
Issuance of common stock for affiliate investment	$ —	$ 33,394,995
Issuance of common stock for CLO equity investments managed by affiliate	$ —	$ 18,870,000
Non-cash settlement of warehoused loans	$ 13,293,674	$ —

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

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KOHLBERG CAPITAL CORPORATION

SCHEDULES OF INVESTMENTS

As of December 31, 2007

Debt Securities and Bond Portfolio

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Advanced Lighting Technologies, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Revolving Loan 7.5%, Due 6/13	$ —	$ —	$ —
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan—Second Lien Term Loan Note 11.1%, Due 6/14	5,000,000	4,990,905	5,000,000
Advanced Lighting Technologies, Inc.[6] Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured Loan—Term Loan (First Lien) 7.9%, Due 6/13	3,573,000	3,573,000	3,573,000
Advanced Lighting Technologies, Inc.[6] Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured Loan—Deferred Draw Term Loan (First Lien) 7.5%, Due 6/13	650,268	650,268	650,268
Aero Products International, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 8.8%, Due 4/12	3,700,000	3,700,000	3,681,500
Aerostructures Acquisition LLC [6] *Aerospace and Defense*	Senior Secured Loan—Delayed Draw Term Loan 7.9%, Due 3/13	500,000	500,000	497,500
Aerostructures Acquisition LLC [6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 7.8%, Due 3/13	6,378,125	6,378,125	6,378,125
AGA Medical Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche B Term Loan 7.2%, Due 4/13	3,832,209	3,829,343	3,654,970
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Delayed Draw Term Loan 7.7%, Due 5/13	579,194	562,331	550,234
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Initial Term Loan 7.9%, Due 5/13	4,802,419	4,732,592	4,562,298
Allen-Vanguard Corporation[3] Aerospace and Defense	Senior Secured Loan—US Term Loan 12.0%, Due 9/12	2,309,736	2,277,028	2,277,028
AmerCable Incorporated[6] Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	Senior Secured Loan—Initial Term Loan 8.4%, Due 6/14	6,965,000	6,965,000	6,965,000
Astoria Generating Company Acquisitions, LLC[6] *Utilities*	Junior Secured Loan—Second Lien Term Loan C 8.7%, Due 8/13	4,000,000	4,049,430	3,900,000
Atlantic Marine Holding Company[6] *Cargo Transport*	Senior Secured Loan—Term Loan 7.1%, Due 3/14	1,739,465	1,750,599	1,730,768

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Aurora Diagnostics, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche A Term Loan (First Lien) 9.0%, Due 12/12	$ 4,060,000	$ 4,010,521	$ 4,019,823
Awesome Acquisition Company (CiCi's Pizza)[6] *Personal, Food and Miscellaneous Services*	Junior Secured Loan—Term Loan (Second Lien) 9.8%, Due 6/14	4,000,000	3,973,451	3,820,000
AZ Chem US Inc.[6] *Chemicals, Plastics and Rubber*	Junior Secured Loan—Second Lien Term Loan 10.6%, Due 2/14	4,000,000	3,956,582	3,220,000
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan—First Lien Term Loan 7.6%, Due 7/12	1,975,000	1,987,070	1,846,625
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan—Loan (Second Lien) 11.1%, Due 7/13	2,468,750	2,505,651	1,987,344
Bay Point Re Limited[3] [6] *Insurance*	Senior Secured Loan—Loan 9.6%, Due 12/10	3,000,000	3,019,487	3,019,487
Bicent Power LLC[6] *Utilities*	Junior Secured Loan—Advance (Second Lien) 8.8%, Due 12/14	4,000,000	4,000,000	3,730,000
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan A 10.1%, Due 11/11	3,733,691	3,733,691	3,733,691
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Revolving Loan 9.7%, Due 11/10	375,000	375,000	375,000
Caribe Information Investments Incorporated[6] *Printing and Publishing*	Senior Secured Loan—Term Loan 7.3%, Due 3/13	2,815,534	2,803,185	2,709,951
Cast & Crew Payroll, LLC (Payroll Acquisition)[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Initial Term Loan 7.8%, Due 9/12	10,608,400	10,647,600	10,647,600
CEI Holdings, Inc. (Cosmetic Essence)[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 7.5%, Due 3/14	1,850,051	1,751,546	1,665,046
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Term Loan (First Lien) 8.8%, Due 10/12	4,122,807	4,069,243	3,978,509
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Delayed Draw Term Loan 8.7%, Due 10/12	—	—	—
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	Mezzanine Investment - Senior Subordinated Notes 15.5%, Due 6/13	$ 10,127,500	$ 9,945,201	$ 9,945,201
Clarke American Corp.[6] *Printing and Publishing*	Senior Secured Loan—Tranche B Term Loan 7.3%, Due 6/14	2,985,000	2,985,000	2,693,963

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Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Clayton Holdings, Inc[6] *Finance*	Senior Secured Loan—Term Loan 7.0%, Due 12/11	614,320	616,752	552,888
Coastal Concrete Southeast, LLC *Buildings and Real Estate[4]*	Mezzanine Investment—Mezzanine Term Loan 15.0%, Due 3/13	8,120,914	7,711,760	8,120,914
Concord Re Limited[3] *Insurance*	Senior Secured Loan—Term Loan 9.2%, Due 2/12	3,000,000	3,024,013	3,000,000
CST Industries, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 7.9%, Due 8/13	987,500	990,623	990,623
DaimlerChrysler Financial Services Americas LLC[6] *Finance*	Senior Secured Loan—Term Loan (First Lien) 9.0%, Due 8/12	1,995,000	1,903,193	1,923,519
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan—Term Loan (Third Lien) 12.3%, Due 4/14	3,500,000	3,537,846	3,491,250
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan—Term Loan (Second Lien) 10.3%, Due 10/13	1,000,000	1,009,544	990,000
Delta Educational Systems, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 8.3%, Due 6/12	2,876,053	2,876,053	2,876,053
DeltaTech Controls, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—Term Loan (First Lien) 8.0%, Due 7/14	4,000,000	3,980,991	3,980,991
DeltaTech Controls, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Term Loan (Second Lien) 11.7%, Due 1/15	2,000,000	1,961,246	1,961,246
Dresser, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Term Loan (Second Lien) 11.1%, Due 5/15	3,000,000	2,959,031	2,861,250
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Junior Secured Loan—Loan (Second Lien) 10.8%, Due 12/14	5,000,000	5,000,000	5,000,000
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Senior Secured Loan—Term Loan (First Lien) 7.6%, Due 12/13	$ 4,975,000	$ 4,980,828	$ 4,980,828
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Junior Secured Loan—Second Lien Term Loan (Dec. 2007) 12.5%, Due 7/14	10,000,000	10,000,000	10,000,000
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Initial Term Loan (Dec. 2007) 9.0%, Due 7/13	4,970,013	4,970,013	4,970,013
Emerson Reinsurance Ltd.[3] *Insurance*	Senior Secured Loan—Series C Loan 10.2%, Due 12/11	3,000,000	3,000,000	2,985,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Endeavor Energy Resources, L.P. *Oil and Gas*	Junior Secured Loan—Second Lien Term Loan 9.6%, Due 3/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 7.9%, Due 12/12	7,926,391	7,940,720	7,728,231
FD Alpha Acquisition LLC (Fort Dearborn)[6] *Printing and Publishing*	Senior Secured Loan—US Term Loan 8.3%, Due 11/12	915,400	915,400	901,669
First American Payment Systems, L.P.[6] *Finance*	Senior Secured Loan—Term Loan 8.2%, Due 10/13	3,694,000	3,694,000	3,601,650
Flatiron Re Ltd.[3] *Insurance*	Senior Secured Loan—Closing Date Term Loan 9.1%, Due 12/10	3,664,488	3,691,697	3,646,165
Flatiron Re Ltd.[3] *Insurance*	Senior Secured Loan—Delayed Draw Term Loan 9.1%, Due 12/10	1,774,986	1,788,166	1,766,111
Ford Motor Company[6] *Automobile*	Senior Secured Loan—Term Loan 8.0%, Due 12/13	1,989,950	1,987,554	1,845,678
Freescale Semiconductor, Inc. *Electronics*	Senior Subordinated Bond—10.125% - 12/2016 - 35687MAP2 10.1%, Due 12/16	3,000,000	3,009,230	2,490,000
Frontier Drilling USA, Inc.[6] *Oil and Gas*	Senior Secured Loan—Term B Advance 8.7%, Due 6/13	2,000,000	1,997,874	1,960,000
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 8.2%, Due 6/11	1,257,143	1,218,578	1,026,143
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche B Term Loan 8.3%, Due 6/11	$ 2,701,714	$ 2,618,835	$ 2,205,274
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.3%, Due 6/12	3,000,000	2,680,274	1,925,010
Gleason Works, The[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—New US Term Loan 6.8%, Due 6/13	2,437,280	2,444,818	2,324,556
Hawkeye Renewables, LLC[6] *Farming and Agriculture*	Senior Secured Loan—Term Loan (First Lien) 9.0%, Due 6/12	2,962,406	2,894,213	2,346,640
HealthSouth Corporation *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 7.7%, Due 3/13	1,262,594	1,266,540	1,208,403
HMSC Corporation (aka Swett and Crawford)[6] *Insurance*	Junior Secured Loan—Loan (Second Lien) 10.7%, Due 10/14	5,000,000	4,803,383	4,550,000
Huish Detergents Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Loan (Second Lien) 9.1%, Due 10/14	1,000,000	1,000,000	811,660

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Initial Term Loan (First Lien) 7.4%, Due 4/14	4,161,071	3,947,013	3,682,548
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan—Loan (Second Lien) 11.6%, Due 10/14	3,000,000	3,000,000	2,430,000
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Delayed Draw Term Loan 7.2%, Due 4/14	—	—	—
IAL Acquisition Co. (International Aluminum Corporation)[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Term Loan 7.6%, Due 3/13	4,039,700	4,039,700	4,039,700
Infiltrator Systems, Inc.[6] *Ecological*	Senior Secured Loan—Term Loan 8.4%, Due 9/12	3,950,000	3,937,850	3,937,850
Inmar, Inc.[6] *Retail Stores*	Senior Secured Loan—Term Loan 7.3%, Due 4/13	4,962,500	4,962,500	4,813,625
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Senior Secured Loan—1st Lien Term Loan 8.5%, Due 5/12	5,850,000	5,873,152	5,873,152
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Junior Secured Loan—Term Loans (Second Lien) 12.5%, Due 5/13	$ 3,000,000	$ 3,021,907	$ 3,021,907
Jones Stephens Corp.[6] *Buildings and Real Estate* [4]	Senior Secured Loan—Term Loan 8.8%, Due 9/12	10,245,530	10,217,367	10,217,367
JW Aluminum Company[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—Term Loan (2nd Lien) 11.1%, Due 12/13	5,371,429	5,390,350	5,210,286
Kepler Holdings Limited[3] *Insurance*	Senior Secured Loan—Loan 10.3%, Due 6/09	3,000,000	3,000,000	2,985,000
Kepler Holdings Limited[3 6] *Insurance*	Senior Secured Loan—Loan 10.3%, Due 6/09	2,000,000	2,020,139	1,990,000
KIK Custom Products Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Loan (Second Lien) 9.8%, Due 12/14	5,000,000	5,000,000	3,400,000
La Paloma Generating Company, LLC *Utilities*	Junior Secured Loan—Loan (Second Lien) 8.3%, Due 8/13	2,000,000	2,017,210	1,890,000
LBREP/L-Suncal Master I LLC *Buildings and Real Estate*[4]	Junior Secured Loan—Term Loan (Third Lien) 13.8%, Due 2/12	2,254,068	2,254,068	2,006,120
LBREP/L-Suncal Master I LLC[6] *Buildings and Real Estate*[4]	Senior Secured Loan—Term Loan (First Lien) 8.2%, Due 1/10	3,920,000	3,842,022	3,567,200

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
LBREP/L-Suncal Master I LLC[6] *Buildings and Real Estate[4]*	Junior Secured Loan—Term Loan (Second Lien) 12.2%, Due 1/11	2,000,000	1,918,000	1,780,000
Legacy Cabinets, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—First Lien Term Loan 8.6%, Due 8/12	2,955,000	2,955,000	2,955,000
Levlad, LLC & Arbonne International, LLC[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 7.2%, Due 3/14	2,898,451	2,898,451	2,266,589
LN Acquisition Corp. (Lincoln Industrial)[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Initial Term Loan (Second Lien) 10.9%, Due 1/15	2,000,000	2,000,000	1,970,000
LPL Holdings, Inc.[6] *Finance*	Senior Secured Loan—Tranche D Term Loan 6.8%, Due 6/13	5,338,639	5,376,752	5,131,767
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Junior Secured Loan—Term Loan (Second Lien) 12.7%, Due 6/13	$ 1,000,000	$ 1,000,000	$ 1,000,000
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 9.4%, Due 12/12	5,960,018	5,940,018	5,960,018
Murray Energy Corporation[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Tranche B Term Loan (First Lien) 7.9%, Due 1/10	1,969,620	1,979,459	1,890,835
National Interest Security Company, L.L.C.[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 9.7%, Due 12/12	5,000,000	5,000,000	5,000,000
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan—Construction Term Loan 8.5%, Due 6/13	1,365,854	1,368,725	1,229,268
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan—Synthetic LC Term Loan 8.1%, Due 6/13	536,585	537,713	482,927
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Incremental Term Loan Add On 8.5%, Due 6/11	856,741	856,741	856,741
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 8.4%, Due 6/11	4,236,111	4,211,616	4,211,616
Pegasus Solutions, Inc. *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Unsecured Bond—10.500% - 04/2015 - 705908AA9 10.5%, Due 4/15	2,000,000	2,000,000	2,000,000
Pegasus Solutions, Inc.[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Term Loan 8.1%, Due 4/13	5,755,000	5,755,000	5,755,000
Primus International Inc.[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 7.7%, Due 6/12	3,259,279	3,265,878	3,177,797

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
QA Direct Holdings, LLC[6] *Printing and Publishing*	Senior Secured Loan—Term Loan 9.6%, Due 8/14	4,987,469	4,938,587	4,950,063
Resco Products, Inc.[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—2nd Lien Term Loan 13.1%, Due 6/14	5,000,000	4,928,938	4,928,938
Rhodes Companies, LLC, The[6] *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Term Loan 8.3%, Due 11/10	1,878,788	1,780,166	1,647,077
Rhodes Companies, LLC, The[6] *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.6%, Due 11/11	$ 2,000,000	$ 2,011,185	$ 1,266,680
San Juan Cable, LLC[6] *Broadcasting and Entertainment*	Junior Secured Loan—Second Lien Term Loan 10.7%, Due 10/13	3,000,000	2,978,999	2,782,500
Schneller LLC[6] *Aerospace and Defense*	Senior Secured Loan—First Lien Term Loan 8.7%, Due 6/13	4,975,000	4,927,882	4,950,125
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan—Term Loan 7.6%, Due 6/12	995,000	992,532	992,532
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan—Term Loan 7.6%, Due 6/12	1,492,500	1,488,798	1,488,798
Sorenson Communications, Inc.[6] *Electronics*	Senior Secured Loan—Tranche C Term Loan 7.4%, Due 8/13	2,791,551	2,807,105	2,720,897
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan—Term Loan (First Lien) 7.3%, Due 6/14	5,970,000	5,970,000	5,970,000
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan—Loan (Second Lien) 11.8%, Due 12/14	7,500,000	7,500,000	7,500,000
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan—Delayed Draw Term Loan 7.4%, Due 7/12	825,699	831,324	831,324
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan—Initial Term Loan 7.3%, Due 7/12	4,097,298	4,125,208	4,125,208
Standard Steel, LLC[6] *Cargo Transport*	Junior Secured Loan—Loan (Second Lien) 10.8%, Due 7/13	1,750,000	1,760,240	1,760,240
Stolle Machinery Company[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Loan (Second Lien) 11.4%, Due 9/13	1,000,000	1,015,115	975,000
Stolle Machinery Company[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien Term Loan 7.9%, Due 9/12	1,975,000	1,985,124	1,945,375
TLC Funding Corp.[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 9.9%, Due 5/12	3,930,000	3,850,590	3,959,475
TPF Generation Holdings, LLC[6] *Utilities*	Junior Secured Loan—Second Lien Term Loan 9.1%, Due 12/14	$ 2,000,000	$ 2,033,096	$ 1,890,000

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Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
TransAxle LLC *Automobile*	Senior Secured Loan—Revolver 8.2%, Due 8/11	490,909	486,678	488,832
TransAxle LLC[6] *Automobile*	Senior Secured Loan—Term Loan 9.2%, Due 9/12	2,812,500	2,812,500	2,812,500
TUI University, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 8.1%, Due 10/14	3,990,000	3,794,292	3,810,450
Twin-Star International, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Term Loan 7.8%, Due 4/13	4,975,000	4,975,000	4,975,000
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Junior Secured Loan—Term Loan (Second Lien) 12.8%, Due 12/13	4,500,000	4,500,000	4,511,250
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Senior Secured Loan—1st Lien Term Loan 9.0%, Due 12/12	2,000,000	2,000,000	2,000,000
Water PIK, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Loan (First Lien) 8.2%, Due 6/13	2,985,000	2,965,778	2,925,300
Wesco Aircraft Hardware Corp.[6] *Aerospace and Defense*	Junior Secured Loan—Second Lien Term Loan 10.6%, Due 3/14	4,132,887	4,166,447	4,132,887
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment—11.000%—02/2015—97654JAB9 11.0%, Due 2/15	5,000,000	4,762,014	5,000,000
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment—11.000%—02/2015—97654JAA1 11.0%, Due 2/15	10,000,000	10,000,000	10,000,000
Wolf Hollow I, LP[6] *Utilities*	Junior Secured Loan—Term Loan (Second Lien) 9.3%, Due 12/12	2,683,177	2,688,724	2,555,726
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Acquisition Term Loan 7.1%, Due 6/12	783,980	772,832	733,021
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Synthetic Letter of Credit 7.1%, Due 6/12	668,412	658,900	618,280
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Synthetic Revolver Deposits 7.1%, Due 6/12	$ 167,103	$ 164,727	$ 154,570
X-Rite, Incorporated[6] *Electronics*	Senior Secured Loan—Term Loan (First Lien) 8.5%, Due 10/12	1,995,000	1,985,328	1,985,025

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Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
X-Rite, Incorporated[6] *Electronics*	Junior Secured Loan—Loan (Second Lien) 12.4%, Due 10/13	1,000,000	1,000,000	1,000,000
Total Investment in Debt Securities and Bonds (158% of net asset value at fair value)		$ 426,014,170	$ 423,439,764	$ 410,954,082

Equity Portfolio

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Aerostructures Holdings L.P. *Aerospace and Defense*	Partnership Interest	1.2%	$ 1,000,000	$ 1,000,000
eInstruction Acquisition, LLC *Healthcare, Education and Childcare*	Membership Units	1.1%	1,069,810	1,069,810
FP WRCA Coinvestment Fund VII, Ltd.[3] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Class A Shares	0.7%	1,500,000	1,500,000
Park Avenue Coastal Holding, LLC *Buildings and Real Estate*[4]	Common Interests	2.0%	1,000,000	803,000
Coastal Concrete Southeast, LLC *Buildings and Real Estate*[4, 7]	Warrants[8]	0.9%	474,140	379,440
Total Investment in Equity Securities (2% of net asset value at fair value)			$ 5,043,950	$ 4,752,250

CLO Fund Securities

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Grant Grove CLO, Ltd.[3]	Subordinated Securities	22.2%	$ 4,415,580	$ 4,250,000
Katonah III, Ltd.[3]	Preferred Shares	23.1%	4,500,000	2,810,000
Katonah IV, Ltd.[3]	Preferred Shares	17.1%	3,150,000	2,420,000
Katonah V, Ltd.[3]	Preferred Shares	26.7%	3,320,000	420,000
Katonah VII CLO Ltd.[3, 9]	Subordinated Securities	16.4%	4,500,000	3,950,000
Katonah VIII CLO Ltd[3, 9]	Subordinated Securities	10.3%	3,400,000	3,290,000
Katonah IX CLO Ltd[3, 9]	Preferred Shares	6.9%	2,000,000	2,000,000
Katonah X CLO Ltd[3, 9]	Subordinated Securities	33.3%	10,775,684	11,880,000
Total Investment in CLO Fund Securities (12% of of net asset value at fair value)			**$ 36,061,264**	**$ 31,020,000**

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Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah Debt Advisors *Asset Management Company*	Membership Interests	100.0%	33,394,995	58,510,360
PKSI *Distressed Investments*	Class A Shares	100.0%	71,500	71,500
PKSI *Distressed Investments*	Class B Shares	35.0%	$ 3,500	$ 3,500
Total Investment in Portfolio Companies (23% of of net asset value at fair value)			**$ 33,469,995**	**$ 58,585,360**
Total Investments[5]			**$ 498,014,973**	**$ 505,311,692**

1 A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which resets semi-annually, quarterly, or monthly. For each such loan, we have provided the weighted average annual stated interest rate in effect at December 31, 2007.

2 Reflects the fair market value of all existing investments as of December 31, 2007, as determined by our Board of Directors.

3 Non-U.S. company or principal place of business outside the U.S.

4 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2007, we had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through our investments in CLO funds.

5 The aggregate cost of investments for federal income tax purposes is approximately $500 million. The aggregate gross unrealized appreciation is approximately $27 million and the aggregate gross unrealized depreciation is approximately $20 million.

6 Pledged as collateral for the secured revolving credit facility (see Note 6 to the financial statements).

7 Non-income producing.

8 Warrants having a strike price of $0.01 and expiration date of March 2017.

9 An affiliate CLO Fund managed by Katonah Debt Advisors.

KOHLBERG CAPITAL CORPORATION

SCHEDULES OF INVESTMENTS

As of December 31, 2006

Debt Securities and Bond Portfolio

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
AGA Medical Corporation *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche B Term Loan 7.4%, Due 4/13	$ 3,826,751	$ 3,823,346	$ 3,823,346
Astoria Generating Company Acquisitions, LLC *Utilities*	Junior Secured Loan—Second Lien Term Loan C 9.1%, Due 8/13	2,000,000	2,000,000	2,000,000
Atlantic Marine Holding Company *Cargo Transport*	Senior Secured Loan—Term Loan 7.9%, Due 8/13	1,990,000	2,004,839	2,004,839
Bankruptcy Management Solutions, Inc. *Diversified/Conglomerate Service*	Senior Secured Loan—First Lien Term Loan 8.1%, Due 7/12	1,995,000	2,009,860	2,009,860
Bay Point Re Limited[3] *Insurance*	Senior Secured Loan—Term Loan 9.9%, Due 12/10	3,000,000	3,026,001	3,026,001
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Revolver 11.4%, Due 11/11	375,000	375,000	375,000
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan A 11.4%, Due 11/11	4,000,000	4,000,000	4,000,000
Capital Automotive REIT *Automobile*	Senior Secured Loan—Term Loan 7.1%, Due 12/10	3,721,052	3,730,265	3,730,265
Caribe Information Investments Incorporated *Printing and Publishing*	Senior Secured Loan—Term Loan 7.6%, Due 3/13	6,315,895	6,310,527	6,310,527
Cast & Crew Payroll, LLC (Payroll Acquisition) *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Initial Term Loan 8.6%, Due 9/12	7,000,000	7,034,764	7,034,764
Clarke American Corp. *Printing and Publishing*	Senior Secured Loan—Term Loan B 8.6%, Due 12/11	2,478,134	2,508,872	2,508,872
Clayton Holdings, Inc *Finance*	Senior Secured Loan—Term Loan 8.4%, Due 12/11	811,555	815,586	815,586
Concord Re Limited[3] *Insurance*	Senior Secured Loan—Term Loan 9.6%, Due 2/12	3,000,000	3,029,779	3,029,779
CST Industries, Inc. *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 8.5%, Due 8/13	997,500	1,001,219	1,001,219
Dayco Products LLC—(Mark IV Industries, Inc.) *Automobile*	Junior Secured Loan—Second Lien Term Loan 11.1%, Due 12/11	$ 500,000	$ 501,861	$ 501,861

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Dealer Computer Services, Inc. (Reynolds & Reynolds) *Electronics*	Junior Secured Loan—Second Lien Term Loan 10.9%, Due 10/13	1,000,000	1,011,187	1,011,187
Dealer Computer Services, Inc. (Reynolds & Reynolds) *Electronics*	Junior Secured Loan—Third Lien Term Loan 12.9%, Due 4/14	1,500,000	1,518,652	1,518,652
Delta Educational Systems, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 8.9%, Due 6/12	2,985,987	2,985,987	2,985,987
Fasteners For Retail, Inc. *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 8.1%, Due 12/12	5,000,000	5,000,000	5,000,000
First American Payment Systems, L.P. *Finance*	Senior Secured Loan—Term Loan 8.6%, Due 10/13	3,990,000	3,990,000	3,990,000
Flatiron Re Ltd.[2] *Insurance*	Senior Secured Loan—Closing Date Term Loan 9.6%, Due 12/10	4,042,105	4,082,142	4,082,142
Flatiron Re Ltd.[2] *Insurance*	Senior Secured Loan—Delayed Draw Term Loan 9.6%, Due 12/10	1,957,895	1,977,287	1,977,287
Gentiva Health Services, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 7.7%, Due 3/13	1,848,649	1,848,649	1,848,649
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 5.3%, Due 6/11	1,257,143	1,207,290	1,207,290
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche B Term Loan 8.4%, Due 6/11	2,729,143	2,620,917	2,620,917
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.4%, Due 6/12	1,000,000	851,051	851,051
Gleason Works *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien US Term Loan 7.9%, Due 6/13	1,878,788	1,888,127	1,888,127
Hawkeye Renewables, LLC *Farming and Agriculture*	Senior Secured Loan—First Lien Term Loan 9.4%, Due 6/12	2,992,481	2,908,240	2,908,240
HCA Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche B Term Loan 8.1%, Due 11/13	$ 4,000,000	$ 4,037,307	$ 4,037,307
HealthSouth Corporation *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan B 8.6%, Due 3/13	2,985,000	2,996,125	2,996,125
Infiltrator Systems, Inc. *Ecological*	Senior Secured Loan—Term Loan 8.9%, Due 9/12	4,000,000	3,985,099	3,985,099
Intrapac Corporation/Corona Holdco *Containers, Packaging and Glass*	Senior Secured Loan—1st Lien Term Loan 8.4%, Due 5/12	3,854,545	3,864,114	3,864,114

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Intrapac Corporation/Corona Holdco *Containers, Packaging and Glass*	Junior Secured Loan—2nd Lien Term Loan 12.4%, Due 5/13	1,000,000	1,004,970	1,004,970
IPC Systems, Inc. *Diversified/Conglomerate Service*	Junior Secured Loan—Second Lien Term Loan 11.9%, Due 9/14	2,500,000	2,500,000	2,500,000
Jones Stephens Corp. *Buildings and Real Estate*[4]	Senior Secured Loan—Term Loan 9.2%, Due 9/12	7,000,000	6,965,235	6,965,235
JW Aluminum Company *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—Term Loan (2nd Lien) 11.6%, Due 12/13	2,000,000	2,000,000	2,000,000
La Paloma Generating Company, LLC *Utilities*	Junior Secured Loan—Second Lien Term Loan 8.9%, Due 8/13	2,000,000	2,000,000	2,000,000
LBREP/L-Suncal Master I LLC *Buildings and Real Estate*[4]	Senior Secured Loan—1st Lien 8.6%, Due 1/10	3,960,000	3,842,676	3,842,676
LBREP/L-Suncal Master I LLC *Buildings and Real Estate*[4]	Junior Secured Loan—2nd Lien 12.6%, Due 1/11	2,000,000	1,891,032	1,891,032
Legacy Cabinets, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer*	Senior Secured Loan—First Lien Term Loan 9.2%, Due 8/12	2,985,000	2,985,000	2,985,000
Levlad LLC & Arbonne International LLC *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—First Lien Term Loan 8.4%, Due 6/13	1,946,667	1,956,351	1,956,351
Longyear Canada, ULC (Boart Longyear)[3] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—1st Lien Canadian Borrower Term Loan 8.6%, Due 10/12	245,603	245,603	245,603
Longyear Global Holdings, Inc. (Boart Longyear) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First DrillCorp (DDTL) 8.6%, Due 10/12	$ 264,495	$ 264,495	$ 264,495
Longyear Global Holdings, Inc. (Boart Longyear) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien US Term Loan 8.6%, Due 10/12	2,450,264	2,450,264	2,450,264
LPL Holdings, Inc. *Finance*	Senior Secured Loan—Tranche C Term Loan 8.1%, Due 6/13	5,392,462	5,414,881	5,414,881
LSP Kendall Energy, LLC *Utilities*	Senior Secured Loan—Term Loan 7.4%, Due 10/13	1,922,988	1,913,428	1,913,428
MCCI Group Holdings, LLC *Healthcare, Education and Childcare*	Junior Secured Loan—Second Lien Term Loan 14.3%, Due 6/13	1,000,000	1,000,000	1,000,000
MCCI Group Holdings, LLC *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 10.8%, Due 12/12	4,000,000	4,000,000	4,000,000

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Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Metaldyne Corporation *Automobile*	Senior Secured Loan—Term D 10.1%, Due 12/09	1,997,475	1,997,475	1,997,475
Michaels Stores, Inc. *Retail Stores*	Senior Secured Loan—Term Loan 8.4%, Due 10/13	1,958,333	1,958,333	1,958,333
Mirant North America, LLC *Utilities*	Senior Secured Loan—Term Loan 7.1%, Due 1/13	3,960,000	3,950,163	3,950,163
Murray Energy Corporation *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Tranche B Term Loan 8.4%, Due 1/10	1,989,873	2,004,614	2,004,614
Northeast Biofuels, LLC *Farming and Agriculture*	Senior Secured Loan—Construction Term Loan 8.6%, Due 6/13	1,365,854	1,369,248	1,369,248
Northeast Biofuels, LLC *Farming and Agriculture*	Senior Secured Loan—Synthetic LC 8.6%, Due 6/13	634,146	635,722	635,722
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 8.6%, Due 6/11	4,756,944	4,721,569	4,721,569
Primus International Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 7.9%, Due 6/12	3,292,188	3,300,360	3,300,360
Rhodes Companies, LLC (The) *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.9%, Due 11/11	$ 2,000,000	$ 1,910,700	$ 1,910,700
Sorenson Communications, Inc. *Electronics*	Senior Secured Loan—Tranche B Term Loan 8.4%, Due 8/13	2,978,525	2,997,041	2,997,041
Standard Steel, LLC *Cargo Transport*	Senior Secured Loan—Delayed Draw Term Loan 1.0%, Due 6/12	—	4,965	4,965
Standard Steel, LLC *Cargo Transport*	Senior Secured Loan—Initial Term Loan 7.9%, Due 6/12	3,316,667	3,341,369	3,341,369
Standard Steel, LLC *Cargo Transport*	Junior Secured Loan—Second Lien Term Loan 11.4%, Due 6/13	1,000,000	1,009,941	1,009,941
Stolle Machinery Company *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien Term Loan 7.9%, Due 9/12	1,995,000	2,007,386	2,007,386
Stratus Technologies, Inc. *Electronics*	Senior Secured Loan—First Lien Term Loan 8.4%, Due 3/11	1,990,000	1,985,070	1,985,070
Thermal North America, Inc. *Utilities*	Senior Secured Loan—Credit Linked Deposit 8.1%, Due 10/08	400,000	401,469	401,469
Thermal North America, Inc. *Utilities*	Senior Secured Loan—Term Loan 8.1%, Due 10/08	3,600,000	3,617,627	3,617,627
TLC Funding Corp. *Healthcare, Education and Childcare*	Senior Secured Loan—First Lien Term Loan 12.3%, Due 5/12	3,970,000	3,871,451	3,871,451
TransAxle LLC *Automobile*	Senior Secured Loan—Revolver 8.9%, Due 9/12	—	—	—
TransAxle LLC *Automobile*	Senior Secured Loan—Term Loan 8.9%, Due 9/12	2,962,500	2,962,500	2,962,500

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
United Air Lines, Inc. *Personal Transportation*	Senior Secured Loan—Delayed Draw Tranche B Loan 9.1%, Due 2/12	750,000	750,000	750,000
United Air Lines, Inc. *Personal Transportation*	Senior Secured Loan—Tranche B Term Loan 9.1%, Due 2/12	3,250,000	3,250,000	3,250,000
Valleycrest Holding Co. (VCC Holdco) *Diversified/Conglomerate Service*	Junior Secured Loan—Second Lien Term Loan 10.9%, Due 4/14	$ 1,000,000	$ 1,007,461	$ 1,007,461
Water Pik Technologies, Inc. *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—First Lien Term Loan 7.6%, Due 6/13	902,313	902,313	902,313
Water Pik Technologies, Inc. *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Second Lien Term Loan 11.9%, Due 12/13	2,500,000	2,512,432	2,512,432
Wesco Aircraft Hardware Corp. *Aerospace and Defense*	Junior Secured Loan—Second Lien Term Loan 11.1%, Due 3/14	2,000,000	2,044,763	2,044,763
WM. Bolthouse Farms, Inc. *Beverage, Food and Tobacco*	Senior Secured Loan—Term Loan (First Lien) 7.6%, Due 12/12	2,592,462	2,586,023	2,586,023
Wolf Hollow I, LP *Utilities*	Senior Secured Loan—Acquisition Term Loan 7.6%, Due 6/12	792,335	778,545	778,545
Wolf Hollow I, LP *Utilities*	Senior Secured Loan—Synthetic Letter of Credit 7.6%, Due 6/12	668,412	656,779	656,779
Wolf Hollow I, LP *Utilities*	Senior Secured Loan—Synthetic Revolver Deposits 7.6%, Due 6/12	167,103	164,195	164,195
Wolf Hollow I, LP *Utilities*	Junior Secured Loan—Term Loan (Second Lien) 9.9%, Due 12/12	2,683,177	2,689,842	2,689,842
Total Investment in Debt Securities and Bonds (74% of of net asset value at fair value)		$ 191,173,409	$ 190,767,384	$ 190,767,384

CLO Fund Securities

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah III, Ltd.[3]	Preferred Shares	23.1%	$ 4,500,000	$ 4,500,000
Katonah IV, Ltd.[3]	Preferred Shares	17.1%	3,150,000	3,150,000
Katonah V, Ltd.[3]	Preferred Shares	26.7%	3,320,000	3,320,000
Katonah VII CLO Ltd.[3, 6]	Subordinated Securities	16.4%	4,500,000	4,500,000

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah VIII CLO Ltd.[3, 6]	Subordinated Securities	10.3%	3,400,000	3,400,000
Katonah IX CLO Ltd.[3, 6]	Preferred Shares	6.9%	2,000,000	2,000,000
Total Investment in CLO Fund Securities (8% of of net asset value at fair value)			**$ 20,870,000**	**$ 20,870,000**
Katonah Debt Advisors *Asset Management Company*	Membership Interests	100.0%	$ 33,394,995	$ 37,574,995
Total Investment in Portfolio Companies (15% of of net asset value at fair value)			**$ 33,394,995**	**$ 37,574,995**
Total Investments [5]			**$ 245,032,379**	**$ 249,212,379**

1 A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which resets semi-annually, quarterly, or monthly. For each such loan, we have provided the weighted average annual stated interest rate in effect at December 31, 2006.

2 Reflects the fair market value of all existing investments as of December 31, 2006, as determined by our Board of Directors.

3 Non-U.S. company or principal place of business outside the U.S.

4 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2006, we had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through our investments in CLO funds.

5 The aggregate cost of investments for federal income tax purposes is approximately $245 million. The aggregate gross unrealized appreciation is approximately $4 million and there is no gross unrealized depreciation.

6 An affiliate CLO Fund managed by Katonah Debt Advisors.

KOHLBERG CAPITAL CORPORATION

FINANCIAL HIGHLIGHTS
($ per share)

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Per Share Data:		
Net asset value, at beginning of period	$ 14.29	$ 15.00
Underwriting costs	—	(0.97)
Post-IPO net asset value	14.29	14.03
Net investment income(1)	1.27	0.02
Net realized gains	0.01	—
Net change in unrealized appreciation on investments	0.12	0.24
Distribution from net investment income and realized gains—taxable	(1.31)	—
Distribution from net investment income and realized gains—tax return of capital	(0.09)	—
Net increase (decrease) in net assets resulting from operations	—	0.26
Issuance of common stock under dividend reinvestment plan	0.06	—
Stock based compensation expense	0.03	—
Net asset value, end of period	$ 14.38	$ 14.29
Total net asset value return(2)	10.4%	1.9%
Ratio/Supplemental Data:		
Per share market value at beginning of period	$ 17.30	$ 15.00
Per share market value at end of period	$ 12.00	$ 17.30
Total market return(3)	(22.5)%	15.3%
Shares outstanding at end of period	18,017,699	17,946,333
Net assets at end of period	$259,068,164	$256,000,423
Portfolio turnover rate	24.5%	0.3%(4)
Average debt outstanding	$105,616,438	$ —
Average debt outstanding per share	$ 5.86	$ —
Ratio of net investment income to average net assets	8.5%	4.4%(5)
Ratio of total expenses to average net assets	5.9%	4.6%(5)
Ratio of interest expense to average net assets	2.7%	—%(5)
Ratio of non-interest expenses to average net assets	3.2%	6.3%(5)

(1) Based on weighted average number of common shares outstanding for the period.
(2) Total net asset value return (not annualized) equals the change in the net asset value per share over the beginning of period net asset value per share plus dividends, divided by the beginning net asset value per share.
(3) Total market return (not annualized) equals the change in the ending market value over the beginning of period price per share plus dividends, divided by the beginning price.
(4) Not annualized.
(5) Annualized.

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

KOHLBERG CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Kohlberg Capital Corporation (“Kohlberg Capital” or the “Company”) is an internally managed, non-diversified closed-end investment company that is regulated as a business development company (“BDC”) under the Investment Company Act of 1940. The Company originates, structures and invests in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. The Company defines the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization (“EBITDA”), of $10 million to $50 million and/or total debt of $25 million to $150 million. The Company was formed as a Delaware LLC on August 8, 2006 and, prior to the issuance of shares of the Company’s common stock in its initial public offering, converted to a corporation incorporated in Delaware on December 11, 2006. Prior to its initial public offering (“IPO”), the Company did not have material operations. The Company’s IPO of 14,462,000 shares of common stock raised net proceeds of approximately $200 million. Prior to the IPO, the Company issued 3,484,333 shares to affiliates of Kohlberg & Co., LLC (“Kohlberg & Co.”), a leading middle market private equity firm, in exchange for the contribution of their ownership interests in Katonah Debt Advisors and in securities issued by collateralized loan obligation funds (“CLO Funds”) managed by Katonah Debt Advisors and two other asset managers to the Company. Katonah Debt Advisors manages CLO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

The Company’s investment objective is to generate current income and capital appreciation from investments made in senior secured term loans, mezzanine debt and selected equity investments in privately-held middle market companies. The Company also expects to continue to receive distributions of recurring fee income and to generate capital appreciation from its investment in the asset management business of Katonah Debt Advisors. The Company’s investment portfolio as well as the investment portfolios of the CLO Funds in which it has invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

The Company has elected to be treated as a Regulated Investment Company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). To qualify as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to this election, the Company generally will not have to pay corporate-level taxes on any income that it distributes to its stockholders.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements include the accounts of the Company and the accounts of its special purpose financing subsidiary, Kohlberg Capital Funding LLC I. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and Securities Exchange Act of 1934, the Company does not consolidate portfolio company investments, including those in which it has a controlling interest (Katonah Debt Advisors and its affiliates currently is the only company in which the Company has a controlling interest) or its special purpose financing subsidiary.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make significant estimates and assumptions that affect reported amounts and disclosure in the financial statements, including the fair value of investments that do not have a readily available market value valued at approximately $505 million (approximately 95% of total assets) and $249 million (approximately 88% of total assets) as of December 31, 2007 and 2006, respectively. Actual results could differ from those estimates and the differences could be material.

Certain reclassifications were made to prior year's presentation to conform to the current year.

Investments

Investment transactions are recorded on the applicable trade date. Realized gains or losses are computed using the specific identification method.

Loans and Debt Securities. For loans and debt securities for which market quotations are readily available, such as broadly syndicated term loans and bonds, fair value generally is equal to the market price for those loans and securities. For loans and debt securities for which a market quotation is not readily available, such as middle market term loans and mezzanine debt investments, fair value is determined by evaluating the borrower's enterprise value and other methodologies generally used to determine fair value. The analysis of enterprise value or overall financial condition or other factors or methodologies may lead to a determination of fair value at a different amount other than cost; as a general rule, the Company will value such loans or debt securities at cost, however such loans and debt securities will be subject to fair value write-downs when the asset is considered impaired.

Equity and Equity-Related Securities. The Company's equity and equity-related securities in portfolio companies for which there is no liquid public market are carried at fair value based on the enterprise value of the portfolio company, which is determined using various factors, including cash flow from operations of the portfolio company and other pertinent factors, such as recent offers to purchase a portfolio company's securities or other liquidation events. The determined fair values are generally discounted to account for restrictions on resale and minority ownership positions. The value of the Company's equity and equity-related securities in public companies for which market quotations are readily available are based upon the closing public market price on the balance sheet date. Securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security. The Company's investment in its wholly-owned asset management company, Katonah Debt Advisors, is valued based on standard measures such as the percentage of assets under management and a multiple of operating income used to value other asset management companies.

CLO Fund Securities. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. The Company typically makes a minority investment in the most junior class of securities of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies (collectively "CLO Investments"). The Company distinguishes CLO funds managed by Katonah Debt Advisors as "CLO fund securities managed by affiliate." The Company's CLO Investments relate exclusively to credit instruments issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages, or consumer borrowings. It is the Company's intention that its aggregate CLO Investments not exceed 10% of the Company's total investment portfolio. As of December 31, 2007, CLO Investments represented approximately 6% of the Company's investment portfolio.

The Company's investments in CLO Fund securities are carried at fair value, which is based either on (i) the net asset value of the CLO Fund for CLO Funds which are approaching or past the end of their reinvestment period and therefore begin to sell assets and/or use principal repayments to pay-down CLO Fund debt, or (ii) a discounted cash flow model for more recent CLO Funds that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds or preferred shares to those in which the Company has invested. The Company recognizes unrealized appreciation or depreciation on our investments in

CLO Fund securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool is updated and the revised cash flows are used in determining the fair value of the CLO Investment. The Company determines the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Valuation of Portfolio Investments. Kohlberg Capital's Board of Directors is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to the Company's Board of Directors which consisted of certain limited procedures that the Company's Board of Directors identified and requested them to perform. For the year ended December 31, 2007, the Company's Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 21 investments comprising approximately 44% of the total investments at fair value as of December 31, 2007 for which market quotations are not readily available. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable.

The Board of Directors may consider other methods of valuation than those set forth above to determine the fair value of investments as appropriate in conformity with GAAP. 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 ready market existed for such investments, and the differences could be material.

Cash and Cash Equivalents. The Company defines cash equivalents as demand deposits. Cash and cash equivalents are carried at cost which approximates fair value.

Restricted Cash. Restricted cash consists mostly of cash held in an operating account pursuant to the Company's secured revolving credit facility agreement with its lender.

Interest Income. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company generally places a loan on non-accrual status and ceases recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if the Company otherwise does not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. At December 31, 2007, no loans or debt securities were past due or on non-accrual status.

Dividends from Affiliate Asset Manager. The Company records dividend income from its affiliate asset manager on the declaration date.

Dividend Income from CLO Fund Securities. The Company generates dividend income from its investments in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and selective investments in securities issued by funds managed by other asset management companies. The Company's CLO Fund securities are subordinate to senior bond holders who typically receive a fixed rate of return on their investment. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares. The Company makes estimated interim accruals of such dividend income based on recent historical distributions and CLO Fund performance and adjusts such accruals on a quarterly basis to reflect actual distributions.

Capital Structuring Service Fees. The Company may earn ancillary structuring and other fees related to the origination and or investment in debt and investment securities.

Debt Issuance Costs. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized and amortized ratably over the contractual term of the borrowing. At December 31, 2007, there was an unamortized debt issuance cost of approximately $2 million included in other assets in the accompanying balance sheet. Amortization expense for the year ended December 31, 2007 was approximately $319,000. The Company had no borrowing facility in place or amortization of debt issuance costs at and for the period ended December 31, 2006.

Dividends. Dividends and distributions to common stockholders are recorded on the declaration date. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is generally based upon the earnings estimated by management for the period and fiscal year.

The Company has adopted a dividend reinvestment plan that provides for reinvestment of its distributions on behalf of its stockholders, unless a stockholder "opts out" of the plan to receive cash in lieu of having their cash dividends automatically reinvested in additional shares of the Company's common stock.

3. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share for the years ended December 31, 2007:

	Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	$ 26,141,985	$ 4,670,540
Denominator for basic weighted average shares:	17,977,348	17,946,333
Dilutive effect of stock options:	—	—
Denominator for diluted weighted average shares:[1]	17,977,348	17,946,333
Basic net increase (decrease) in stockholders' equity resulting from operations per share:	$ 1.45	$ 0.26
Diluted net increase (decrease) in stockholders' equity resulting from operations per share:	$ 1.45	$ 0.26

[1] All stock options outstanding are anti-dilutive.

4. INVESTMENTS

The Company invests in senior secured loans and mezzanine debt and, in the future and to a lesser extent, equity capital of middle market companies in a variety of industries. The Company generally targets companies that generate positive cash flows because the Company looks to cash flows as the primary source for servicing debt. However, the Company may invest in other industries if it is presented with attractive opportunities.

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The following table shows the Company's portfolio by security type at December 31, 2007 and December 31, 2006:

Security Type	December 31, 2007 Cost	December 31, 2007 Fair Value	December 31, 2007 %[1]	December 31, 2006 Cost	December 31, 2006 Fair Value	December 31, 2006 %[1]
Senior Secured Loan	$ 265,390,844	$ 260,138,674	100%	$ 163,313,492	$ 163,313,492	64%
Junior Secured Loan	120,620,715	113,259,293	44	27,453,892	27,453,892	10
Mezzanine Investment	32,418,975	33,066,115	12	—	—	—
Senior Subordinated Bond	3,009,230	2,490,000	1	—	—	—
Senior Unsecured Bond	2,000,000	2,000,000	1	—	—	—
CLO Fund Securities	36,061,264	31,020,000	12	20,870,000	20,870,000	8
Equity Securities	5,043,950	4,752,250	2	—	—	—
Affiliate Asset Managers	33,469,995	58,585,360	23	33,394,995	37,574,995	15
Total	$ 498,014,973	$ 505,311,692	195%	$ 245,032,379	$ 249,212,379	97%

[1] Calculated as a percentage of net asset value at fair value.

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The unaudited industry concentrations, based on the fair value of the Company's investment portfolio as of December 3, 2007 and December 31, 2006, were as follows:

	December 31, 2007			December 31, 2006		
Security Type	Cost	Fair Value	%[1]	Cost	Fair Value	%[1]
Aerospace and Defense	$ 32,583,716	$ 32,481,819	13%	$ 10,066,692	$ 10,066,692	4%
Asset Management Companies[2]	33,469,995	58,585,360	23	33,394,995	37,574,995	15
Automobile	5,286,731	5,147,010	2	9,192,101	9,192,101	4
Beverage, Food and Tobacco	—	—	—	2,586,023	2,586,023	1
Broadcasting and Entertainment	2,978,999	2,782,500	1	—	—	—
Buildings and Real Estate[3]	37,726,396	34,944,226	13	19,288,901	19,288,901	7
Cargo Transport	14,967,369	14,958,789	6	6,361,114	6,361,114	2
Chemicals, Plastics and Rubber	3,956,582	3,220,000	1	—	—	—
CLO Fund Securities	36,061,264	31,020,000	12	20,870,000	20,870,000	8
Containers, Packaging and Glass	8,895,059	8,895,059	3	4,869,084	4,869,084	2
Diversified/Conglomerate Manufacturing	8,931,343	8,718,855	3	6,001,219	6,001,219	2
Diversified/Conglomerate Service	17,962,721	17,303,969	7	5,517,321	5,517,321	2
Ecological	3,937,850	3,937,850	2	3,985,099	3,985,099	1
Electronics	15,830,382	15,158,502	6	7,511,950	7,511,950	3
Farming and Agriculture	4,800,651	4,058,835	2	4,913,210	4,913,210	2
Finance	11,590,697	11,209,824	4	10,220,467	10,220,467	4
Healthcare, Education and Childcare	46,715,870	46,637,705	18	28,937,865	28,937,865	11
Home and Office Furnishings, Housewares, and Durable Consumer Goods	24,091,185	23,265,816	9	2,985,000	2,985,000	1
Hotels, Motels, Inns and Gaming	9,364,165	9,091,041	4	—	—	—
Insurance	24,346,884	23,941,763	9	12,115,209	12,115,209	5
Leisure, Amusement, Motion Pictures, Entertainment	18,402,600	18,402,600	7	7,034,764	7,034,764	3
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	39,573,338	39,483,418	15	6,855,875	6,855,875	3
Mining, Steel, Iron and Non-Precious Metals	16,338,446	16,069,759	6	4,004,614	4,004,614	2
Oil and Gas	5,997,874	5,960,000	2	—	—	—
Personal and Non Durable Consumer Products (Mfg. Only)	17,315,776	14,750,095	6	5,371,096	5,371,096	2
Personal, Food and Miscellaneous Services	13,918,651	13,765,201	5	—	—	—
Personal Transportation	—	—	—	4,000,000	4,000,000	2
Printing and Publishing	21,622,999	21,236,473	8	8,819,399	8,819,399	3
Retail Stores	4,962,500	4,813,625	2	1,958,333	1,958,333	1
Utilities	16,384,930	15,471,598	6	18,172,048	18,172,048	7
Total	$ 498,014,973	$ 505,311,692	195%	$ 245,032,379	$ 249,212,379	97%

1 Calculated as a percentage of net asset value at fair value.
2 Represents Katonah Debt Advisors and affiliates.

(footnotes continued on following page)

3 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2007 and December 31, 2006, the Company had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities) or companies providing mortgage lending.

The Company may invest up to 30% of the investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. The Company expects that these public companies generally will have debt that is non-investment grade. The Company also may invest in debt of middle market companies located outside of the United States, which investments (excluding the Company's investments in CLO Funds) are not anticipated to be in excess of 10% of the investment portfolio at the time such investments are made. As a result of regulatory restrictions, the Company is not permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment.

At December 31, 2007 and December 31, 2006, approximately 11% and 13%, respectively, of the Company's investments were foreign assets (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 6% of its portfolio on such dates).

At December 31, 2007 and December 31, 2006, the Company's ten largest portfolio companies represented approximately 29% and 35%, respectively, of the total fair value of its investments. The Company's largest investment, Katonah Debt Advisors which is its wholly-owned portfolio company, represented 12% and 15% of the total fair value of the Company's investments at December 31, 2007 and December 31, 2006, respectively. Excluding Katonah Debt Advisors and CLO Fund securities, our ten largest portfolio companies represent approximately 17% and 21% of the total fair value of our investments at December 31, 2007 and December 31, 2006, respectively.

Investment in CLO Fund Securities

The Company typically makes a minority investment in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies. It is the Company's intention that its aggregate CLO Investments not exceed 10% of the Company's total investment portfolio. Preferred shares or subordinated securities issued by CLO Funds are entitled to recurring dividend distributions which generally equal the net remaining cash flow of the payments made by the underlying CLO Fund's securities less contractual payments to senior bond holders and CLO Fund expenses. CLO Funds managed by Katonah Debt Advisors ("CLO fund securities managed by affiliate") invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock. As of December 31, 2007, all of the CLO Funds in which the Company holds investments maintained the original issue credit ratings on all rated classes of their securities and were continuing to make cash payments to all classes of investors. As of December 31, 2007, our CLO Fund securities had an average annual cash yield of 28%. In addition, in connection with the closing of Katonah Debt Advisor's most recent CLO Fund on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of the CLO Fund.

Prior to its IPO, the Company issued an aggregate of 1,258,000 common shares, having a value of approximately $19 million, to affiliates of Kohlberg & Co. to acquire certain subordinated securities and preferred stock securities issued by CLO Funds (Katonah III, Ltd., Katonah IV, Ltd., Katonah V, Ltd., Katonah VII CLO, Ltd., and Katonah VIII CLO, Ltd.) which had previously been raised and are managed by Katonah Debt Advisors and two other asset managers. During the year ended December 31, 2007, the Company invested an additional $11 million in a new CLO Fund managed by Katonah Debt Advisors and another $4 million in a CLO Fund managed by a third party. The subordinated securities and preferred stock securities are considered equity positions in the CLO Funds and, as of December 31, 2007 and December 31, 2006, the Company had approximately $31 million and $21 million, respectively, of such CLO equity investments at fair value.

The cost basis of the Company’s investment in CLO Fund equity securities as of December 31, 2007 was approximately $36 million and aggregate unrealized losses on the CLO Fund securities totaled approximately $5 million. The cost basis of the Company’s investment in CLO Fund equity securities as of December 31, 2006 was approximately $21 million and with no aggregate unrealized losses on the CLO Fund securities.

5. AFFILIATE ASSET MANAGERS

Wholly-Owned Asset Manager

Prior to its IPO, the Company issued an aggregate of 2,226,333 common shares, having a value of approximately $33 million, to affiliates of Kohlberg & Co. to acquire Katonah Debt Advisors. As a result, Katonah Debt Advisors is a wholly-owned portfolio company. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

Katonah Debt Advisors manages CLO Funds primarily for third party investors that invest in broadly syndicated loans, high yield bonds and other credit instruments issued by corporations. These CLO Funds do not invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. At December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management and the Company’s 100% equity interest in Katonah Debt Advisors was valued at approximately $59 million. As a manager of the CLO Funds, Katonah Debt Advisors receives contractual and recurring management fees as well as a one-time structuring fee from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock.

The Company expects to receive distributions of recurring fee income and to generate capital appreciation from its investment in the asset management business of Katonah Debt Advisors. By making investments in CLO Funds raised by Katonah Debt Advisors in the future, for which the Company expects to receive a current cash return, the Company can help Katonah Debt Advisors to raise these funds which in turn will increase its assets under management which will result in additional management fee income.

The revenue that Katonah Debt Advisors generates through the fees it receives for managing CLO Funds and after paying the expenses associated with its operations, including compensation of its employees, may be distributed to the Company. Any distributions of Katonah Debt Advisors’ net income are recorded as dividends from affiliate asset manager. As with all other investments, Katonah Debt Advisors’ fair value is periodically determined. The valuation is primarily based on an analysis of both a percentage of its assets under management and Katonah Debt Advisors’ estimated operating income. Any change in value from period to period is recognized as unrealized gain or loss.

As a separately regarded entity for tax purposes, Katonah Debt Advisors, L.L.C. is taxed at normal corporate rates. For tax purposes, any distributions of taxable net income earned by Katonah Debt Advisors to the Company would generally need to be distributed to the Company's shareholders. Katonah Debt Advisors' taxable net income will differ from GAAP net income for both deferred tax timing adjustments and permanent tax adjustments. Deferred tax timing adjustments may include differences between lease cash payments to GAAP straight line expense and adjustments for the recognition and timing of depreciation, bonuses to employees, stock option expense, and interest rate caps. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties and tax goodwill amortization.

Tax goodwill amortization was created upon the purchase of 100% of the equity interests in Katonah Debt Advisors prior to the Company's IPO in exchange for shares of the Company's stock valued at $33 million. Although this transaction was a stock transaction rather than an asset purchase and thus no goodwill was recognized for GAAP purposes, for tax purposes such exchange was considered an asset purchase under Section 351(a) of the Code. At the time of the transfer, Katonah Debt Advisors had equity of approximately $1 million resulting in tax goodwill of approximately $32 million which will be amortized for tax purposes on a straight-line basis over 15 years, resulting in an annual difference between GAAP income and taxable income by approximately $2 million per year over such period.

At December 31, 2007 a net amount due from affiliates totaled approximately $541,000 and at December 31, 2006, net amounts due to affiliates totaled approximately $88,000, respectively.

Summarized financial information for Katonah Debt Advisors follows:

	For the Years Ended December 31, 2007	2006
Assets:		
Current assets	$ 7,035,155	$ 2,860,329
Noncurrent assets	396,111	661,637
Total assets	$ 7,431,266	$ 3,521,966
Liabilities:		
Current liabilities	4,254,202	2,602,755
Total liabilities	4,254,202	2,602,755

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Gross revenue	$ 11,262,969	$ 200,610
Total expenses	(8,505,115)	(273,320)
Net income (loss)	$ 2,757,854	$ (72,710)
Dividends declared	$ 500,000	$ —

The Company intends to distribute the accumulated net income of Katonah Debt Advisors in the future.

Distressed Debt Platform

In December 2007, the Company committed to make an investment in a new distressed investment platform organized by Steven Panagos and Jonathan Katz and named Panagos and Katz Situational Investing ("PKSI"). Mr. Panagos was most recently national practice leader of Kroll Zolfo Cooper's Corporate Advisory and Restructuring Practice and Mr. Katz was the founding partner of Special Situations Investing, a distressed investing vehicle of JP Morgan. The Company expects that funds managed by PKSI will invest in the debt and equity securities of companies that are restructuring due to financial or operational distress. The Company also expects that PKSI may selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. The Company has committed to invest up to $2.5 million directly in PKSI through an investment in Class A shares. The Company has a 35% economic interest in PKSI through its investment in Class B shares on which it will receive its pro rata share of PKSI's operating income and may make an investment of up to $25 million in the funds managed by PKSI on which the Company will receive investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of December 31, 2007, the Company funded approximately $72,000 of our $2.5 million total commitment to PKSI which is an investment in the Class A shares of PKSI. As of December 31, 2007, PKSI had no significant operations.

6. BORROWINGS

The Company's debt obligations consist of the following:

	At December 31, 2007	At December 31, 2006
Secured revolving credit facility, $275 million commitment due October 1, 2012	$ 255,000,000	$ —

On February 14, 2007, the Company entered into an arrangement under which the Company may obtain up to $200 million in financing (the "Facility"). On October 1, 2007, the Company amended the credit facility to increase the Company's borrowing capacity from $200 million to $275 million, extend the maturity date from February 12, 2012 to October 1, 2012 and increase the interest spread charged on outstanding borrowings by 15 basis points, to 0.85%. The interest rate is based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. Interest is payable monthly.

Advances under the Facility are used by the Company primarily to make additional investments. The Company expects that the Facility will be secured by loans that it currently owns and the loans acquired by the Company with the advances under the Facility. The Company will borrow under the Facility through its wholly-owned, special-purpose bankruptcy remote subsidiary, Kohlberg Capital Funding LLC I.

The weighted average daily debt balance for the year ended December 31, 2007 was approximately $106 million. For the year ended December 31, 2007, the weighted average interest rate on weighted average outstanding borrowings was approximately 5.5%, which excludes the amortization of deferred financing costs and facility and program fees on unfunded balances. The Company is in compliance with all its debt covenants. As of December 31, 2007, the Company had restricted cash balances of approximately $7 million which it maintained in accordance with the terms of the Facility. A portion of these funds, approximately $2 million, were released to the Company in January 2008.

7. DISTRIBUTABLE TAX INCOME

The Company intends to distribute quarterly dividends to its stockholders. The Company's quarterly dividends, if any, will be determined by the Board of Directors. To maintain its RIC status, the Company must timely distribute an amount equal to at least 90% of its taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution, for each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required. As of December 31, 2006, the

Company's undistributed taxable income was approximately $529,000. The Company has distributed this income in 2007. At December 31, 2007, the Company had no current or accumulated undistributed taxable income.

For the quarter ended December 31, 2007, the Company declared a dividend on December 14, 2007 of $0.39 per share for a total of approximately $7 million. The record date was December 24, 2007 and the dividend was distributed on January 24, 2008. Total dividends declared for the year ended December 31, 2007 were $1.40 per share for a total of approximately $25 million.

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2007:

		Year Ended December 31, 2007
Pre-tax net increase in stockholders' equity resulting from operations	$	26,141,985
Net unrealized gain on investments transactions not taxable		(3,116,719)
Expenses not currently deductible		540,159
Taxable income before deductions for distributions	$	23,565,425
Taxable income before deductions for distributions per outstanding share	$	1.31

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 requires the Company to recognize in its financial statements the impact of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. The Company files tax returns with the U.S. Internal Revenue Service and New York state. Based upon its review of tax positions for the Company's open tax year of 2006, the Company has determined that FIN 48 did not have a material impact on the Company's financial statements for the year ended December 31, 2007.

8. COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of the Company's investment in portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on the Company's balance sheet. Prior to extending such credit, the Company attempts to limit its credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of December 31, 2007 and December 31, 2006, the Company had committed to make a total of approximately $4 million and $2 million, respectively, of investments in various revolving senior secured loans, of which approximately $866,000 was funded as of December 31, 2007 and no amount was funded as of December 31, 2006. As of December 31, 2007 and December 31, 2006, the Company had committed to make a total of approximately $8 million and $667,000, respectively, of investments in a delayed draw senior secured loans of which approximately $5 million was funded as of December 31, 2007 and no amount was funded as of December 31, 2006.

The following table summarizes our contractual cash obligations and other commercial commitments as of December 31, 2007:

Contractual Obligations	Payments Due by Period Total	2008	2009	2010	2011	2012	More than 5 Years
Operating lease obligations	$ 1,999,435	$ 422,274	$ 316,816	$ 304,649	$ 311,504	$ 318,513	$ 325,679
Long-term debt obligations	255,000,000	—	—	—	—	255,000,000	—
Unused lending commitments[1]	6,210,232	6,210,232	—	—	—	—	—
Total	$ 263,209,667	$ 6,632,506	$ 316,816	$ 304,649	$ 255,311,504	$ 318,513	$ 325,679

1 Represents the unfunded lending commitment in connection with revolving lines of credit or delayed funding draws on loans made to portfolio companies.

The Company and Katonah Debt Advisors have entered into first loss agreements in connection with warehouse credit lines established to fund the initial accumulation of senior secured corporate loans and certain other debt securities for future CLO Funds that Katonah Debt Advisors will manage, and may enter into similar agreements in the future. Such first loss agreements relate to (i) losses (if any) as a result of individual loan investments being ineligible for purchase by a new CLO Fund (typically due to a payment default on such loan) when such fund formation is completed or sold prior to completion of such fund, (ii) if a new CLO Fund has not been completed before the expiration of the related warehouse credit line, the loss (if any, and net of any accumulated interest income) on the resale of loans and debt securities funded by such warehouse credit line. In return for the Company's first loss commitment, the Company receives net interest income from the underlying assets in the loan warehouse.

Katonah Debt Advisors has engaged Bear Stearns to structure and raise three CLO Funds, to be named Katonah 2007-I CLO Ltd. ("Katonah 2007"), Katonah 2008-I CLO Ltd. ("Katonah 2008-I") and Katonah 2008-II CLO Ltd. ("Katonah 2008-II"), and to be managed by Katonah Debt Advisors (directly or indirectly through a services contract with an affiliate of Katonah Debt Advisors). As part of these engagements, Katonah Debt Advisors entered into warehouse credit lines with Bear Stearns to fund the initial accumulation of assets for Katonah 2007 and Katonah 2008-I, which provided for a first loss obligation of Katonah Debt Advisors, requiring it to reimburse Bear Stearns for (i) certain losses (if any) incurred on the assets warehoused for Katonah 2007 Katonah 2008-I and Katonah 2008-II prior to their completion, or (ii) if one or all of these CLO Funds failed to close at the expiration of the engagement (i.e. December 31, 2008), a portion of the losses (if any) on the resale of the warehoused assets. As of December 31, 2007, Katonah 2007 and Katonah 2008-I had acquired an aggregate of approximately $481 million determined on the basis of the par value of such assets.

On January 23, 2008, Katonah Debt Advisors closed Katonah 2007 in accordance with the terms of the Bear Stearns engagement. Katonah Debt Advisors received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in Katonah 2007. Approximately $212 million of assets were transferred from the loan warehouse into Katonah 2007 and are no longer subject to a first loss guarantee. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of Katonah 2007.

On March 12, 2007, Kohlberg Capital and Katonah Debt Advisors engaged Lehman Commercial Paper Inc. ("Lehman") to structure and raise a CLO Fund to invest in senior secured middle market corporate loans, to be named Ardsley CLO 2007-1 Ltd. and to be managed by Katonah Debt Advisors, and entered into a warehouse credit agreement and ancillary agreements with Lehman to fund the initial accumulation of assets for Ardsley.

Under the warehouse credit agreement, Kohlberg Capital, as the first loss provider, was obligated to reimburse Lehman for (i) certain losses (if any) incurred on loans acquired for Ardsley with advances under the warehouse credit facility prior to the completion of the CLO Fund, or (ii) if the CLO Fund failed to close at the expiration of the engagement on December 19, 2007, a portion of the losses (if any) on the resale of the warehoused assets. On October 3, 2007, Kohlberg Capital, Katonah Debt Advisors and Ardsley agreed with Lehman to terminate the engagement, the warehouse credit facility and Kohlberg Capital's first loss obligation upon payment to Lehman of a payoff amount equal to the amount owed under the warehouse credit facility as of the payoff date minus $1 million, to reflect the estimated current value of the warehoused loans. As part of the termination, Kohlberg Capital purchased all of Ardsley's assets for an aggregate purchase price of approximately $72 million. Approximately $14 million in aggregate principal amount of such assets were purchased and subsequently sold in market transactions with third parties, and the remaining approximately $58 million of debt securities from Ardsley were retained in our investment portfolio. Ardsley used the proceeds from its sale of these loans to us to repay the outstanding obligations under the warehouse credit facility. All outstanding amounts under the warehouse credit facility have been paid off in full, as a result of which the warehouse credit facility and Kohlberg Capital's first loss obligations thereunder have terminated. No losses were incurred by Kohlberg Capital upon the termination of Ardsley.

As a result of the termination of the Ardsley warehouse credit facility, the warehouse credit line with Bear Stearns pursuant to the engagement letter dated October 12, 2007 is the only guarantee arrangement to which Kohlberg Capital is a party with respect to the business of Katonah Debt Advisors.

At December 31, 2006 there were no such first loss commitments or guarantees.

As of December 31, 2007, the Company funded approximately $72,000 of our $2.5 million total commitment to PKSI which is an investment in the Class A shares of PKSI.

9. STOCKHOLDERS' EQUITY

On December 11, 2006, the Company completed its IPO of 14,462,000 shares of common stock at $15.00 per share, less an underwriting discount and IPO expenses paid by the Company totaling $1.22 per share for net proceeds of approximately $200 million. Prior to its IPO, the Company issued to affiliates of Kohlberg & Co. a total of 3,484,333 shares of its common stock for the acquisition of certain subordinated securities issued by CLO Funds and for the acquisition of Katonah Debt Advisors. During the year ended December 31, 2007, the Company issued 71,366 shares of common stock under its dividend reinvestment plan. The total number of shares outstanding as of December 31, 2007 and as of December 31, 2006 was 18,017,699 and 17,946,333, respectively.

10. STOCK OPTIONS

During 2006, the Company established a stock option plan (the "Plan") and reserved 1,500,000 shares of common stock for issuance under the Plan. The purpose of the Plan is to provide officers and prospective employees of the Company with additional incentives and align the interests of its employees with those of its shareholders. Options are exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted.

On December 11, 2006, concurrent with the completion of the Company's IPO, options to purchase a total of 910,000 shares of common stock were granted to the Company's executive officers and directors with an exercise price per share of $15.00 (the public offering price of the common stock). Such options vest equally over two, three or four years from the date of grant and have a ten-year exercise period. During the year ended December 31, 2007, the Company granted 495,000 options to its employees with a weighted average exercise price per share of $16.63, with a risk-free rate ranging between 4.6% to 5.3%, with volatility rates ranging between 20.5% to 22.4% and for which 25% of such options vest on each of the subsequent four grant date anniversaries and have a ten-year exercise period. During the year ended December 31, 2007, 90,000 options granted to employees were forfeited. As of December 31, 2007, 1,315,000 total options were outstanding, 305,000 of which were exercisable. The options have an estimated remaining contractual life of 9 years and 0 months.

During the year ended December 31, 2007, the weighted average grant date fair value per share for options granted during the period was $1.90. For both the year ended December 31, 2007, the weighted average grant date fair value per share for options forfeited during the period was $1.81. Information with respect to options granted, exercised and forfeited under the Plan for the year ended December 31, 2007 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Remaining Term (years)	Aggregate Intrinsic Value[1]
Options outstanding at January 1, 2007	910,000	$ 15.00		
Granted	495,000	$ 16.63		
Exercised	—			
Forfeited	(90,000)	$ 16.36		
Outstanding at December 31, 2007	1,315,000	$ 15.52	9.0	—
Total vested at December 31, 2007	305,000	$ 15.00	2.0	—

1 Represents the difference between the market value of the options at December 31, 2007 and the cost for the option holders to exercise the options.

The Company uses a Binary Option Pricing Model (American, call option) as its valuation model to establish the expected value of all stock option grants. For the year ended December 31, 2007 total stock option expense of approximately $600,000 was recognized and expensed at the Company; of this amount approximately $495,000 was expensed at the Company and approximately $105,000 was expensed at Katonah Debt Advisors. At December 31, 2007, the Company had approximately $1.5 million of compensation cost related to unvested stock-based awards the cost for which is expected to be recognized and allocated between the Company and Katonah Debt Advisors over a weighted average period of 2.5 years.

11. OTHER EMPLOYEE COMPENSATION

The Company adopted a 401(k) plan (“401K Plan”) effective January 1, 2007. The 401K Plan is open to all full time employees. The Plan permits an employee to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. The Company makes contributions to the 401K Plan of up to 2.67% of the employee’s first 74.9% of maximum eligible compensation, which fully vest at the time of contribution. For the year ended December 31, 2007, the Company’s contributions to the 401K Plan were approximately $22,000.

The Company has also adopted a deferred compensation plan (“Pension Plan”) effective January 1, 2007. Employees are eligible for the Pension Plan provided that they are employed and working with the Company for at least 100 days during the year and remain employed as of the last day of the year. Employees do not make contributions to the Pension Plan. On behalf of the employee, the Company contributes to the Pension Plan 1) 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) 5.7% excess contributions on any incremental amounts above the social security wage base limitation and up to the Internal Revenue Service annual maximum. Employees vest 100% in the Pension Plan after five years of service. For the year ended December 31, 2007, the Company’s contributions to the Pension Plan were approximately $138,000.

12. IMPACT OF NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurements. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of SFAS 157 to materially impact the Company's financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of a company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company has determined that adoption of SFAS 159 will not have an impact on the Company's financial position or results of operations.

13. SELECTED QUARTERLY DATA (Unaudited)

	Q1 2007*	Q2 2007*	Q3 2007*	Q4 2007
Total interest and related portfolio income	$ 6,534,567	$ 8,578,364	$ 10,483,244	$ 12,882,839
Net investment income and realized gains	$ 4,892,907	$ 5,425,858	$ 6,018,176	$ 6,688,325
Net increase (decrease) in net assets resulting from operations	$ 13,949,008	$ 16,940,501	$ (4,683,689)	$ (63,835)
Net increase (decrease) in net assets resulting from operations per share—basic and diluted	$ 0.78	$ 0.94	$ (0.26)	$ —
Net investment income and realized gains per share—basic and diluted	$ 0.27	$ 0.30	$ 0.33	$ 0.37

* Certain unaudited Quarterly Data have been reclassified to conform with current presentation.

14. SUBSEQUENT EVENTS

On January 2, 2008, the Company acquired substantially all of the assets of Scott's Cove Capital Management LLC ("Scott's Cove"), an asset manager focused on an event-driven credit long short investment strategy. As a result of the acquisition, we acquired approximately $60 million of fee paying assets under management. The Company plans to integrate the Scott's Cove business within the Katonah Debt Advisors asset management platform. In connection with the acquisition, Katonah Debt Advisors entered into employment agreements with three Scott's Cove investment professionals, and the Company expects these individuals will assist the Company in structuring, raising and investing new funds to be managed by Katonah Debt Advisors.

On January 23, 2008, the Company's wholly-owned asset management company, Katonah Debt Advisors, closed a new $315 million CLO Fund. The Company received a structuring fee upon closing and Katonah Debt Advisors expects to earn an ongoing asset management fee based on the par amount of the underlying investments in the CLO Fund. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of this latest CLO Fund.

KOHLBERG
CAPITAL CORPORATION

Up to 3,100,000 Shares of Common Stock
Issuable Upon Exercise of Rights to Subscribe for Such Shares

PROSPECTUS

Merrill Lynch & Co.

JMP Securities

Stifel Nicolaus

, 2008

PART C—OTHER INFORMATION

Item 25. Financial Statements and Exhibits

1. *Financial Statements*

The following financial statements of Kohlberg Capital Corporation (the "Company" or "Registrant") are included in this registration statement:

AUDITED FINANCIAL STATEMENTS

2. Exhibits

Exhibit Number	Description
a	Form of Certificate of Incorporation of Kohlberg Capital Corporation (the "Company").(1)
b	Form of Bylaws of the Company.(2)
d.1	Specimen certificate of the Company's common stock, par value $0.01 per share.(1)
d.2	Form of Registration Rights Agreement.(3)
d.3	Form of Subscription Certificate.
d.4	Form of Notice of Guaranteed Delivery.
d.5	Form of Beneficial Owner Certification.
d.6	Form of Subscription Agent Agreement.
e	Form of Dividend Reinvestment Plan.(3)
h.1	Form of Dealer Manager Agreement between the Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated.
i.1	Form of the 2006 Equity Incentive Plan.(3)
i.2	Form of Kohlberg Capital Non-Qualified Stock Option Certificate.(3)
j	Form of Custodian Agreement by and among the Company and U.S. Bank National Association.(3)
k.1	Form of License and Referral Agreement between the Company and Kohlberg & Company, LLC.(1)
k.2	Form of Overhead Allocation Agreement between the Company and Katonah Debt Advisors, LLC.(3)
k.3	Form of Employment Agreement between the Company and Dayl W. Pearson.(3)
k.4	Form of Employment Agreement between the Company and Michael I. Wirth.(3)
k.5	Form of Employment Agreement between the Company and R. Jon Corless.(3)
k.6	Form of Employment Agreement between the Company and E.A. Kratzman.(8)

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Exhibit Number	Description
k.7	Form of Employment Agreement between Katonah Debt Advisors and E.A. Kratzman.(9)
k.8	Form of Indemnification Agreement for Officers and Directors of the Company.(4)
k.9	Execution Copy of Loan Funding and Servicing Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(5)
k.10	Execution Copy of Purchase and Sale Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I and the Company.(6)
k.11	Execution Copy of First Amendment to Loan Funding and Servicing Agreement, dated as of May 30, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)
k.12	Execution Copy of Second Amendment to Loan Funding and Servicing Agreement, dated as of October 1, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)
k.13	Execution Copy of Third Amendment to Loan Funding and Servicing Agreement, dated as of November 21, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(10)
l	Opinion of Ropes & Gray LLP, counsel to the Company.
n.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
n.2	Consent of Ropes & Gray LLP, counsel to the Company (included in Exhibit l).
r	Form of Code of Ethics of the Company adopted under Rule 17j-1.(3)

(1) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 6, 2006 (File No. 333-136714).
(2) Incorporated by reference to the similarly lettered exhibit included on Form N-2, as filed on March 16, 2007 (File No. 333-141382).
(3) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 2 on Form N-2, as filed on November 20, 2006 (File No. 333-136714).
(4) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 3 on Form N-2, as filed on November 24, 2006 (File No. 333-136714).
(5) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 29, 2007 (File No. 814-00735).
(6) Incorporated by reference to Exhibit 10.1 included in the Current Report on Form 8-K, as filed on February 16, 2007 (File No. 814-00735).
(7) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 18, 2007 (File No. 333-146190).

(footnotes continued on following page)

(8) Incorporated by reference to Exhibit 10.9 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(9) Incorporated by reference to Exhibit 10.10 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(10) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).

Item 26. Marketing Arrangements

None.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses payable by the Registrant in connection with the offering:

	Amount
SEC registration fee	$ 1,439
FINRA filing fee	4,161
Accounting fees and expenses	100,000
Legal fees and expenses	600,000
Printing expenses	150,000
Reimbursement of dealer manager expenses	100,000
Subscription Agent’s fee	30,000
Information Agent’s fee	10,000
Nasdaq Global Select Market Additional Listing Fee	1,000
Miscellaneous	3,400
Total	$ 1,000,000

The amounts set forth above, except for the Securities and Exchange Commission fee, are in each case estimated. All of the expenses set forth above will be borne by the Registrant.

Item 28. Persons Controlled by or Under Common Control

The following table sets forth each of the Registrant’s direct and indirect subsidiaries, the state under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by the Registrant in such subsidiary. The table excludes the Registrant’s 35% interest in PKSIL LLC, a Delaware limited liability company, which the Registrant does not control.

	Jurisdiction	Ownership Percentage
Katonah Debt Advisors, L.L.C.(1)	Delaware	100%
Kohlberg Capital Funding LLC I(2)	Delaware	100%
Katonah Management Holdings LLC(1)	Delaware	100%
Katonah X Management LLC(3)	Delaware	100%
Katonah 2007-I Management LLC(3)	Delaware	100%
Katonah 2008-II Management, LLC(3)	Delaware	100%
Katonah Scott’s Cove Management LLC(3)	Delaware	100%
KPKSI Management Holdings LLC(1)	Delaware	100%
KPKSI Holdings LLC(4)	Delaware	100%

(footnotes on following page)

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(1) Represents a wholly-owned portfolio company that is not consolidated for financial reporting purposes.
(2) A wholly-owned, special-purpose bankruptcy remote subsidiary that is not consolidated for financial reporting purposes.
(3) A wholly-owned subsidiary of Katonah Management Holdings LLC.
(4) A wholly-owned subsidiary of KPKSI Management Holdings LLC.

Item 29. Number of Holders of Securities

The following table sets forth the number of record holders of the Registrant's common stock at February 29, 2008.

Title of Class	Number of Record Holders
Common Stock	16

Item 30. Indemnification

The information contained under the heading "Description of Capital Stock—Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses" is incorporated herein by reference.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person in the successful defense of an action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The Registrant carries liability insurance for the benefit of its directors and officers (other than with respect to claims resulting from the willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office) on a claims-made basis of up to $10 million.

Item 31. Business and Other Connections of Investment Adviser

Not applicable.

Item 32. Location of Accounts and Records

The Registrant maintains physical possession of each account, book or other document required to be maintained by Section 31(a) of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder at the offices of:

(1) The Registrant, 295 Madison Avenue, 6th Floor, New York, New York 10017;

(2) The Custodian, U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110; and

(3) The Transfer Agent, American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038.

Item 33. Management Services

Not applicable.

Item 34. Undertakings

1. The Registrant undertakes to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of this registration statement, the net asset value declines more than ten percent from the net asset value as of the effective date of this registration statement or (2) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.

2. The Registrant undertakes that:

(a) for purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(b) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 28th day of March, 2008.

KOHLBERG CAPITAL CORPORATION

By: /s/ DAYL W. PEARSON
Name: Dayl W. Pearson
Title: President and CEO

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAYL W. PEARSON Dayl W. Pearson	President and Chief Executive Officer (principal executive officer)	March 28, 2008
/s/ MICHAEL I. WIRTH Michael I. Wirth	Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer (principal financial and accounting officer)	March 28, 2008
* Christopher Lacovara	Director	March 28, 2008
* James A. Kohlberg	Director	March 28, 2008
* Samuel P. Frieder	Director	March 28, 2008
* Gary Cademartori	Director	March 28, 2008
* C. Michael Jacobi	Director	March 28, 2008
* Albert G. Pastino	Director	March 28, 2008
* C. Turney Stevens	Director	March 28, 2008
*By: /s/ DAYL W. PEARSON Dayl W. Pearson	Attorney-in-fact	March 28, 2008

INDEX OF EXHIBITS

Exhibit Number	Description
a	Form of Certificate of Incorporation of Kohlberg Capital Corporation (the "Company").(1)
b	Form of Bylaws of the Company.(2)
d.1	Specimen certificate of the Company's common stock, par value $0.01 per share.(1)
d.2	Form of Registration Rights Agreement.(3)
d.3	Form of Subscription Certificate.
d.4	Form of Notice of Guaranteed Delivery.
d.5	Form of Beneficial Owner Certification.
d.6	Form of Subscription Agent Agreement.
e	Form of Dividend Reinvestment Plan.(3)
h.1	Form of Dealer Manager Agreement between the Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated, JMP Securities LLC and Stifel, Nicolaus & Company, Incorporated.
i.1	Form of the 2006 Equity Incentive Plan.(3)
i.2	Form of Kohlberg Capital Non-Qualified Stock Option Certificate.(3)
j	Form of Custodian Agreement by and among the Company and U.S. Bank National Association.(3)
k.1	Form of License and Referral Agreement between the Company and Kohlberg & Company, LLC.(1)
k.2	Form of Overhead Allocation Agreement between the Company and Katonah Debt Advisors, LLC.(3)
k.3	Form of Employment Agreement between the Company and Dayl W. Pearson.(3)
k.4	Form of Employment Agreement between the Company and Michael I. Wirth.(3)
k.5	Form of Employment Agreement between the Company and R. Jon Corless.(3)
k.6	Form of Employment Agreement between the Company and E.A. Kratzman.(8)
k.7	Form of Employment Agreement between Katonah Debt Advisors and E.A. Kratzman.(9)
k.8	Form of Indemnification Agreement for Officers and Directors of the Company.(4)
k.9	Execution Copy of Loan Funding and Servicing Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(5)
k.10	Execution Copy of Purchase and Sale Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I and the Company.(6)
k.11	Execution Copy of First Amendment to Loan Funding and Servicing Agreement, dated as of May 30, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)
k.12	Execution Copy of Second Amendment to Loan Funding and Servicing Agreement, dated as of October 1, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)

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Exhibit Number	Description
k.13	Execution Copy of Third Amendment to Loan Funding and Servicing Agreement, dated as of November 21, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(10)
l	Opinion of Ropes & Gray LLP, counsel to the Company.
n.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
n.2	Consent of Ropes & Gray LLP, counsel to the Company (included in Exhibit l).
r	Form of Code of Ethics of the Company adopted under Rule 17j-1.(3)

(1) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 6, 2006 (File No. 333-136714).
(2) Incorporated by reference to the similarly lettered exhibit included on Form N-2, as filed on March 16, 2007 (File No. 333-141382).
(3) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 2 on Form N-2, as filed on November 20, 2006 (File No. 333-136714).
(4) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 3 on Form N-2, as filed on November 24, 2006 (File No. 333-136714).
(5) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 29, 2007 (File No. 814-00735).
(6) Incorporated by reference to Exhibit 10.1 included in the Current Report on Form 8-K, as filed on February 16, 2007 (File No. 814-00735).
(7) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 18, 2007 (File No. 333-146190).
(8) Incorporated by reference to Exhibit 10.9 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(9) Incorporated by reference to Exhibit 10.10 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(10) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).

RIGHTS CERTIFICATE #: **NUMBER OF RIGHTS**

THE TERMS AND CONDITIONS OF THE RIGHTS OFFERING ARE SET FORTH IN THE COMPANY'S PROSPECTUS DATED [ ], 2008 (THE "PROSPECTUS") AND ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM THE ALTMAN GROUP, INC., THE INFORMATION AGENT.

KOHLBERG CAPITAL CORPORATION

Incorporated under the laws of the State of Delaware

TRANSFERABLE SUBSCRIPTION RIGHTS CERTIFICATE

cusip 500233 119

Evidencing Transferable Subscription Rights to Purchase Shares of Common Stock of Kohlberg Capital Corporation

Estimated Subscription Price: $[ ] per Share

THE SUBSCRIPTION RIGHTS WILL EXPIRE IF NOT EXERCISED ON OR BEFORE 5:00 P.M., NEW YORK CITY TIME, ON [ ], 2008, UNLESS EXTENDED BY THE COMPANY

REGISTERED OWNER:

THIS CERTIFIES THAT the registered owner whose name is inscribed hereon is the owner of the number of transferable subscription rights ("Rights") set forth above. Each whole Right entitles the holder thereof to subscribe for and purchase one share of Common Stock, with a par value of $0.01 per share, of Kohlberg Capital Corporation, a Delaware corporation, at an estimated subscription price of $[ ] per share (the "Basic Subscription Right"), pursuant to a Rights offering (the "Rights Offering"), on the terms and subject to the conditions set forth in the Prospectus and the "Instructions as to Use of Kohlberg Capital Corporation Subscription Rights Certificates" accompanying this Subscription Rights Certificate. If any shares of Common Stock available for purchase in the Rights Offering are not purchased by other holders of Rights pursuant to the exercise of their Basic Subscription Right (the "Excess Shares"), stockholders of record ("Record Date Stockholders") as of [ ], 2008 (the "Record Date") that have exercised fully their Rights pursuant to the Basic Subscription Right may subscribe for a number of Excess Shares, on the terms and subject to the conditions set forth in the Prospectus, including as to proration. In addition, any holders of Rights other than Record Date Stockholders who exercise Rights are entitled to subscribe for any Excess Shares that are not otherwise subscribed for by Record Date Stockholders as described in the preceding sentence, on the terms and subject to the conditions set forth in the Prospectus, including as to proration. These over-subscription privileges are referred to as the "Over-Subscription Privilege." The Rights represented by this Subscription Rights Certificate may be exercised by completing Form 1 and any other appropriate forms on the reverse side hereof and by retuning the full payment of the estimated subscription price for each share of Common Stock in accordance with the "Instructions as to Use of Kohlberg Capital Corporation Subscription Rights Certificates" that accompany this Subscription Rights Certificate.

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY,
(New York, N.Y.) TRANSFER AGENT
AND REGISTRAR

By:

AUTHORIZED SIGNATURE

This Subscription Rights Certificate is not valid unless countersigned by the subscription agent and registered by the registrar.

Witness the seal of Kohlberg Capital Corporation and the signatures of its duly authorized officers.

Dated:

Dayl W. Pearson	**Michael I. Wirth**
President and Chief Executive Officer	**Secretary**

INSTRUCTIONS AS TO USE OF KOHLBERG CAPITAL CORPORATION SUBSCRIPTION RIGHTS CERTIFICATES

Delivery Options for Subscription Rights Certificate

Delivery other than in the manner or to the addresses listed below will not constitute valid delivery.

If delivering by mail:	If delivering by hand or courier:
American Stock Transfer & Trust Company	American Stock Transfer & Trust Company
Operations Center	Operations Center
Attn: Reorganization Department	Attn: Reorganization Department
P.O. Box 2042	6201 15th Avenue
New York, New York 10272-2042	Brooklyn, New York 11219

PLEASE PRINT ALL INFORMATION CLEARLY AND LEGIBLY.

FORM 1-EXERCISE OF SUBSCRIPTION RIGHTS

To subscribe for shares pursuant to your Basic Subscription Right, please complete lines (a) and (c) and sign under Form 5 below. To subscribe for shares pursuant to your Over-Subscription Privilege, please also complete line (b) and sign under Form 4 below.

(a) EXERCISE OF BASIC SUBSCRIPTION RIGHT:

I apply for _______ shares x $____ = $_________
(no. of new shares) (estimated subscription price) (amount enclosed)

(b) EXERCISE OF OVER-SUBSCRIPTION PRIVILEGE

Note: If you are a Record Date Stockholder, the Over-Subscription Privilege may only be exercised if your Basic Subscription Right is exercised in full.

I apply for _______ shares x $____ = $_________
(no. of new shares) (estimated subscription price) (amount enclosed)

Total Amount of Payment Enclosed = $_____________

METHOD OF PAYMENT (CHECK ONE)

☐ Check or bank draft drawn on a U.S. bank, or postal telegraphic or express money order payable to “American Stock Transfer & Trust Company, as Subscription Agent.” Funds paid by an uncertified check may take at least five business days to clear.

☐ Wire transfer of immediately available funds directly to the account maintained by American Stock Transfer & Trust Company, as Subscription Agent, for purposes of accepting subscriptions in this Rights Offering at JPMorgan Chase Bank, 55 Water Street, New York, New York 10005, ABA #021000021, Account # 323-890113.

FORM 2-SALE OR TRANSFER TO DESIGNATED TRANSFEREE OR THROUGH BANK OR BROKER

To sell or transfer your subscription rights to another person, complete this form and have your signature guaranteed under Form 5. To sell your subscription rights through your bank or broker, sign below under this Form 2 and have your signature guaranteed under Form 5, but leave the rest of this Form 2 blank.

For value received ________ of the subscription rights represented by this Subscription Rights Certificate are assigned to:

____

____

____

Social Security # ________________________

Signature(s): ____________________________

IMPORTANT: The signature(s) must correspond with the name(s) as printed on the reverse of this Subscription Rights Certificate in every particular, without alteration or enlargement, or any other change whatsoever.

FORM 3-DELIVERY TO DIFFERENT ADDRESS

If you wish for the Common Stock underlying your subscription rights, a certificate representing unexercised subscription rights or the proceeds of any sale of subscription rights to be delivered to an address different from that shown on the face of this Subscription Rights Certificate, please enter the alternate address below, sign under Form 4 and have your signature guaranteed under Form 5.

____

____

____

____

FORM 4-SIGNATURE

TO SUBSCRIBE: I acknowledge that I have received the Prospectus for this Rights Offering and I hereby irrevocably subscribe for the number of shares indicated above on the terms and conditions specified in the Prospectus.

Signature(s)

IMPORTANT: The signature(s) must correspond with the name(s) as printed on the reverse of this Subscription Rights Certificate in every particular, without alteration or enlargement, or any other change whatsoever.

FORM 5-SIGNATURE GUARANTEE

This form must be completed if you have completed any portion of Forms 2 or 3.

Signature Guaranteed: ____________________________
(Name of Bank or Firm)

By: ____________________________
(Signature of Officer)

IMPORTANT: The signature(s) should be guaranteed by an eligible guarantor institution (bank, stock broker, savings & loan association or credit union) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Exchange Act Rule 17Ad-15.

FOR ADDITIONAL INSTRUCTIONS ON THE USE OF KOHLBERG CAPITAL CORPORATION SUBSCRIPTION RIGHTS CERTIFICATES, CONSULT THE ALTMAN GROUP, THE INFORMATION AGENT, AT (800) 499-6260.

NOTICE OF GUARANTEED DELIVERY FOR SHARES OF
COMMON STOCK OF KOHLBERG CAPITAL CORPORATION
SUBSCRIBED FOR PURSUANT TO THE BASIC SUBSCRIPTION
AND THE OVER-SUBSCRIPTION PRIVILEGE

Kohlberg Capital Corporation Rights Offering

As set forth in the Prospectus dated [ ], 2008 (the "Prospectus") under "The Rights Offering—Subscription Agent," this form or one substantially equivalent hereto may be used as a means of effecting subscription and payment for all shares of Kohlberg Capital Corporation (the "Company") of common stock (the "Shares") subscribed for by exercise of transferable rights ("Rights") pursuant to the basic subscription right and the over-subscription privilege. Such form may be delivered by hand or sent by facsimile transmission, overnight courier or mail to the Subscription Agent and must be received prior to 5:00 p.m., New York City time, on [ ], 2008 (the "Expiration Date") or, if the offer is extended, by the close of business two business days prior to the extended Expiration Date. The terms and conditions of the offer set forth in the Prospectus are incorporated by reference herein.

The Subscription Agent is:

AMERICAN STOCK TRANSFER & TRUST COMPANY

By Hand or Overnight Courier:

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

By Regular Mail:

American Stock Transfer & Trust Company
Attn: Reorganization Department
59 Maiden Lane
New York, New York 10038

By Facsimile:

(718) 234-5001

with required telephonic confirmation at (877)
248-6417 or (718) 921-8317

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS, OR TRANSMISSION OF INSTRUCTIONS VIA A TELECOPY OR FACSIMILE NUMBER, OTHER THAN AS SET FORTH ABOVE, DOES NOT CONSTITUTE A VALID DELIVERY.

The broker-dealer, trust company, bank or other nominee that completes this form must communicate the guarantee and the number of Shares subscribed for under both the basic subscription right and the over-subscription privilege to the Subscription Agent and must deliver this Notice of Guaranteed Delivery guaranteeing delivery of (i) payment in full of the estimated subscription price for all subscribed Shares and (ii) a properly completed and executed subscription certificate (the "Subscription Certificate") to the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date. The Subscription Certificate and full payment of the estimated subscription price must then be delivered to the Subscription Agent by the close of business on [ ], 2008, which is the third business day after the Expiration Date, unless extended by the Company. Failure to do so will result in a forfeiture of the Rights.

GUARANTEE

The undersigned, a broker-dealer, trust company, bank or other nominee, guarantees delivery of payment to the Subscription Agent by the close of business (5:00 p.m., New York City time) on the close of business on the third business day after the Expiration Date ([ ], 2008, unless extended by the Company) of (i) a properly completed and duly executed Subscription Certificate and (ii) payment in full of the estimated subscription price of $[ ] per share for the Shares subscribed for in the basic subscription right and any additional shares subscribed for pursuant to the over-subscription privilege, if applicable, as subscription for such Shares is indicated herein or in the Subscription Certificate.

1. Basic Subscription	Number of Shares requested for which you are guaranteeing delivery of Rights and Payment: Shares	Payment to be made in connection with Shares $
2. Over-Subscription	Number of Shares requested for which you are guaranteeing payment: Shares	Payment to be made in connection with Shares: $
3. Totals	Total Number of Rights to be Delivered: Rights	$ Total Payment

Method of Delivery of Rights (circle one):

A.Through The Depository Trust Company ("DTC")*

B.Direct to the Subscription Agent

Please note that if you are guaranteeing for Shares subscribed for pursuant to the over-subscription privilege and are a DTC participant, you must also execute and forward to American Stock & Transfer Company a nominee holder over-subscription certificate.

Name of Firm	Authorized Signature
Address	Title
Zip Code	Name (Please Type or Print)
Name of Registered Holder (If Applicable)	
Telephone Number	Date

* **IF THE RIGHTS ARE TO BE DELIVERED THROUGH DTC, CALL THE SUBSCRIPTION AGENT TO OBTAIN A PROTECT IDENTIFICATION NUMBER, WHICH NEEDS TO BE COMMUNICATED BY YOU TO DTC.**

BENEFICIAL OWNER CERTIFICATION

The undersigned acknowledge(s) receipt of your letter and the enclosed materials referred to therein relating to the offering of shares of common stock, par value $0.01 per share (the "Common Stock"), of Kohlberg Capital Corporation (the "Company").

This will instruct you whether to exercise rights to purchase shares of Common Stock distributed with respect to the Common Stock held by you for the account of the undersigned, pursuant to the terms and subject to the conditions set forth in the Company's Prospectus dated [ ], 2008 (the "Prospectus").

Box 1. [ ] Please DO NOT EXERCISE RIGHTS for shares of Common Stock.

Box 2. [ ] Please EXERCISE RIGHTS for shares of Common Stock as set forth below.

	Number of Shares to Purchase		Estimated Subscription Price		Payment	
Basic Subscription Right	____	×	$____	=	____	Line 1
You are entitled to subscribe for one share for every right you hold.						
Over-Subscription Privilege	____	×	$____	=	____	Line 2
The Over-Subscription Privilege is not limited by the number of rights you hold, but issuance is subject to certain limitations, including proration, as described in the Prospectus.						
	(Sum of Lines 1 & 2; must equal total amounts in Box 3)		**Total Payment Required**		$	

Box 3. [ ] Payment in the following amount is enclosed $.

Box 4. [ ] Please deduct payment from the following account maintained by you as follows:

Type of Account	Account Number

Amount to be deducted: $

Signature	*Date*

Please type or print name

SUBSCRIPTION AGENT AGREEMENT

[ ], 2008

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

Ladies and Gentlemen:

In connection with your appointment as Subscription Agent in the transaction described herein, Kohlberg Capital Corporation (the "Company"), hereby confirms its arrangements with you as follows:

1. **Rights Offering -** The Company is offering (the "Rights Offering") transferable rights (the "Rights") pursuant to which the holders thereof (the "Rights Holders") are entitled to subscribe for the Company's regular, free trading and transferable common stock, par value $0.01 per share (the "Common Stock"). Such Rights are being distributed to all shareholders of record of Common Stock ("Record Date Stockholders") as of 5:00 p.m., New York City time, on [ ], 2008 (the "Record Date"). The Rights and Common Stock are described in a prospectus dated [ ], 2008 (the "Prospectus"). Capitalized terms not otherwise defined herein shall have the meaning given to them in the Prospectus.

As described in the Prospectus, the Company is issuing to Record Date Stockholders Rights to subscribe for up to 3,100,000 shares of Common Stock. Each Record Date Stockholder is being issued one Right for each six shares of Common Stock owned on the Record Date (1 for 6). No fractional Rights will be issued, and any fractional Rights resulting from the issuance of the Rights will be rounded up to the next whole Right. The Rights entitle each Rights Holder to acquire one share of the Company's Common Stock for every right held, which is referred to as the basic subscription right (the "Basic Subscription Right"). Except as set forth in Sections 8 and 9 below, Rights may be exercised at any time during the subscription period (the "Subscription Period"), which commences on [ ], 2008, the Record Date, and ends at 5:00 p.m., New York City time, on [ ], 2008, the expiration date, unless extended by the Company (as may be so extended, the "Expiration Date").

The subscription price per share (the "Subscription Price") will be [ ]% of the volume-weighted average of the sales prices of the shares of Common Stock on the Nasdaq Global Select Market ("NGSM") for the [ ] consecutive trading days ending on the Expiration Date. Because it is not possible to determine the Subscription Price until the Expiration Date, a Rights Holder will not know the Subscription Price at the time such Rights Holder exercises any Rights. As a result, the Company is requiring that a Rights Holder deliver the estimated Subscription Price of $[ ] per share in connection with the exercise of any Rights pursuant to the Basic Subscription Right.

Shares not subscribed for by Rights Holders (the "Remaining Shares") will be offered, by means of the over-subscription privilege (the "Over-Subscription Privilege"), first to Record Date Stockholders and then to Rights Holders who were not Record Date Stockholders, in each case only to the extent such Rights Holder has fully exercised the Rights issued to it (or, in the case of a Rights Holder that is not a Record Date Stockholder, has exercised Rights) and wish to acquire more than the number of shares they are entitled to purchase pursuant to the Basic Subscription Right and on the terms and subject to the conditions set forth in the Prospectus, including as to proration. For the reasons noted above, the Company is requiring that Rights Holders deliver the estimated Subscription Price in connection with the exercise of any Over-Subscription Privilege. The Rights will be evidenced by subscription certificates (the "Subscription Certificates").

2. **Appointment of Subscription Agent** - You are hereby appointed as Subscription Agent to effect the Rights Offering in accordance with the Prospectus. Each reference to you in this letter is to you in your capacity as Subscription Agent unless the context indicates otherwise.

3. **Delivery of Documents** - Enclosed herewith are the following, the receipt of which you acknowledge by your execution hereof:

(a) a copy of the Prospectus;
(b) the form of Subscription Certificate (with instructions);
(c) resolutions adopted by the Board of Directors of the Company in connection with the Rights Offering, certified by the secretary of the Company; and
(d) Notice of Guaranteed Delivery.

As soon as is reasonably practical, you shall mail or cause to be mailed to each Record Date Stockholder a Subscription Certificate evidencing the Rights to which such Record Date Stockholder is entitled, a Notice of Guaranteed Delivery, the Prospectus and an envelope addressed to you. Prior to mailing, the Company will provide you with blank Subscription Certificates which you will prepare and issue in the names of Record Date Stockholders and for the number of Rights to which they are entitled. The Company will also provide you with a sufficient number of copies of each of the documents to be mailed with the Subscription Certificates.

4. **Subscription Procedure** -

(a) Upon your receipt prior to 5:00 p.m., New York City time, on the Expiration Date (by mail or delivery), as Subscription Agent, of (i) any Subscription Certificate completed and endorsed for exercise, as provided on the reverse side of the Subscription Certificate, and (ii) payment in full of the estimated Subscription Price in U.S. funds by check, bank draft or money order payable at par (without deduction for bank service charges or otherwise) to the order of American Stock Transfer & Trust Company, you shall as soon as practicable after the Expiration Date, but after performing the procedures described in subsections (b), (c) and (d) below, and only after receipt of the full Subscription Price therefor, mail to the Rights Holder's registered address on the books of the Company certificates representing the shares of Common Stock duly subscribed for (pursuant to the Basic Subscription Right and the Over-Subscription Privilege) and furnish a list of all such information to the Company.

(b) As soon as practicable after the Expiration Date you shall calculate the number of shares of Common Stock to which each Rights Holder is entitled pursuant to the Over-Subscription Privilege. The Over-Subscription Privilege may only be exercised by (i) Rights Holders who are Record Date Stockholders and subscribe to all the shares that can be subscribed for under the Basic Subscription Right and (ii) the other Rights Holders who exercise Rights. As long as there are sufficient Remaining Shares to satisfy all additional subscriptions by Rights Holders exercising their Rights under the Over-Subscription Privilege, all of such Rights Holders shall be allotted the number of Remaining Shares subscribed for. If the aggregate number of shares subscribed for under the Over-Subscription Privilege exceeds the number of Remaining Shares, the Remaining Shares shall be allotted to the participants in the Over-Subscription Privilege as follows: First, to the participants in the Over-Subscription Privilege who were Record Date Stockholders and, to the extent there are insufficient Remaining Shares to cover the allotments to such participants, on a pro-rata basis among such participants based on the number of shares of Common Stock held by such participants on the Record Date; and, second, to the participants in the Over-Subscription Privilege who were not Record Date Stockholders and, to the extent there are insufficient Remaining Shares to cover the allotments to such participants, on a pro-rata basis among such participants based on the number of Rights held by such participants on the Expiration Date; provided, however, that if this allocation results in any participant being allocated a greater number of shares than such participant subscribed for pursuant to the exercise of the Over-Subscription Privilege, then such participant shall be allocated only such number of shares pursuant to the Over-Subscription Privilege as such participant subscribed for. No fractional shares of Common Stock will be issued pursuant to the exercise of the Rights.

(c) Upon calculating the number of shares to which each Rights Holder is entitled pursuant to the Over-Subscription Privilege and the amount overpaid or underpaid, if any, by each Rights Holder, you shall, as soon as practicable, furnish a list of all such information to the Company.

(d) Upon calculating the number of shares to which each Rights Holder is entitled pursuant to the Over-Subscription Privilege and subject to payment of the full Subscription Price for the additional subscribed shares being received by you, you shall mail, as contemplated in subsection (a) above, the certificates representing the additional shares which the Rights Holder has been allotted. If a lesser number of shares is allotted to a Rights Holder under the Over-Subscription Privilege than the Rights Holder has tendered payment for, you shall remit the difference to the Rights Holder without interest or deduction at the same time as certificates representing the shares allotted pursuant to the Over-Subscription Privilege are mailed.

(e) Funds received by you pursuant to the Basic Subscription Right and the Over-Subscription Privilege shall be held by you in a segregated account. Upon mailing certificates representing the shares and refunding Rights Holders for additional shares subscribed for but not allocated, if any, you shall promptly remit to the Company all funds received in payment of the Subscription Price for shares sold in the Rights Offering.

5. **Subdivision. Sale or Transfer of Rights** - Until 5:00 p.m., New York City time, one business day prior to the Expiration Date, you shall facilitate subdivision or transfers of Subscription Certificates by issuing new Subscription Certificates in accordance with the instructions set forth on the reverse side of the Subscription Certificates.

6. **Defective Exercise of Rights Lost Subscription Certificates** - The Company shall have the absolute right to reject any defective exercise of Rights or to waive any defect in exercise. Unless requested to do so by the Company, you shall not be under any duty to give notification to holders of Subscription Certificates of any defects or irregularities in subscriptions. Subscriptions will not be deemed to have been made until any such defects or irregularities have been cured or waived within such time as the Company shall determine. You shall as soon as practicable return Subscription Certificates with the defects or irregularities which have not been cured or waived to the Rights Holders. If any Subscription Certificate is alleged to have been lost, stolen or destroyed, you should follow the same procedures followed for lost stock certificates representing Common Stock you use in your capacity as transfer agent for the Company's Common Stock.

7. **Late Delivery** - If prior to 5:00 p.m., New York City time, on the Expiration Date you receive (i) payment of the estimated Subscription Price for the shares being subscribed for and (ii) a guarantee notice substantially in the form of the Notice of Guaranteed Delivery delivered with the Subscription Certificate, from a financial institution having an office or correspondent in the United States, or a member firm of any registered United States national securities exchange or of the Financial Industry Regulatory Authority stating the certificate number of the Subscription Certificate relating to the Rights, the name and address of the exercising Rights Holder, the number of Rights represented by the Subscription Certificate held by such exercising Rights Holder, the number of shares being subscribed for pursuant to the Rights and guaranteeing the delivery to you of the Subscription Certificate evidencing such Rights within three NGSM trading days following the date of the Notice of Guaranteed Delivery, then the Rights may be exercised even though the Subscription Certificate was not delivered to you prior to 5:00 p.m., New York City time, on the Expiration Date, provided that within three NGSM trading days following the date of the Notice of Guaranteed Delivery you receive the properly completed Subscription Certificate evidencing the Rights being exercised, with signatures guaranteed if required.

8. **Delivery** - You shall deliver to the Company the exercised Subscription Certificates in accordance with written directions received from the Company and shall deliver to the Rights Holders who have duly exercised Rights and paid in full the Subscription Price therefor at their registered addresses certificates representing the shares of Common Stock subscribed for as instructed on the reverse side of the Subscription Certificates.

9. **Reports** - You shall notify the Company by telephone on or before the close of business on each business day during the period commencing 5 business days after the mailing of the Subscription Certificates and ending at the Expiration Date (and in the case of guaranteed deliveries ending three NGSM trading days after the Expiration Date) (a "daily notice"), which notice shall thereafter be confirmed in writing, of (i) the number of Rights exercised on the day covered by such daily notice and the name and address of each such exercising Rights Holder, (ii) the number of Rights subject to guaranteed exercises on the day covered by such daily notice, (iii) the number of Rights for which defective exercises have been received on the day covered by such daily notice, (iv) the cumulative total of the information set forth in clauses (i) through (iii) above, (v) for each soliciting broker dealer, the number of Rights exercised on Subscription Certificates indicating such broker dealer as the broker dealer with respect to such exercise, and (vi) such other information as the Company may reasonably request. At or before 5:00 p.m., New York City time, on the first NGSM trading day following the Expiration Date you shall certify in writing to the Company the cumulative total through the Expiration Date of all the information set forth in clauses (i) through (v) above. At or before 10:00 a.m., New York City time, on the fifth NGSM trading day following the Expiration Date you will execute and deliver to the Company a certificate setting forth the number of Rights exercised pursuant to a Notice of Guaranteed Delivery and as to which Subscription Certificates have been timely received. You shall also maintain and update a listing of Rights Holders who have fully or partially exercised their Rights, Rights Holders who have transferred their Rights and their transferees, and Rights Holders who have not exercised their Rights. You shall provide the Company or its designees with such information compiled by you pursuant to this Section 9 as any of them shall request.

10. **Future Instructions** - With respect to notices or instructions to be provided by the Company hereunder, you may rely and act on any written instruction signed by any one or more of the following authorized officers or employees of the Company:

Dayl W. Pearson
Christopher Lacovara
Michael I. Wirth

11. **Payment of Expenses** - The Company will pay you compensation for acting in your capacity as Subscription Agent hereunder in the amount specified in the Fee Schedule attached hereto. The Company will pay an additional fee equal to one-third of the Subscription Agent fee for each extension of the Expiration Date of the Rights Offering, plus any reasonable out-of-pocket expenses associated with such extension.

12. **Counsel** - You may consult with counsel satisfactory to you, which may be counsel to the Company, and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by you hereunder in good faith and in accordance with such advice or opinion of such counsel.

13. **Indemnification** - The Company covenants and agrees to indemnify and hold you harmless against any costs, expenses (including reasonable fees of legal counsel), losses or damages, which may be paid, incurred or suffered by or to which you may become subject arising from or out of, directly or indirectly, any claim or liability resulting from your actions as Subscription Agent pursuant hereto; provided that such covenant and agreement does not extend to such costs, expenses, losses and damages incurred or suffered by you as a result of, or arising out of, your own gross negligence, misconduct or bad faith or that of any employees,

agents or independent contractors used by you in connection with performance of your duties as Subscription Agent hereunder.

14. **Notices** - Unless otherwise provided herein, all reports, notices and other communications required or permitted to be given hereunder shall be in writing and delivered by hand or confirmed telecopy or by first class U.S. mail, postage prepaid, shall be deemed given if by hand or telecopy, upon receipt or if by U.S. mail, three business days after deposit in the U.S. mail and shall be addressed as follows

(a) If to the Company, to:

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, NY 10017
Attention: Michael I. Wirth
Facsimile: (212) 983-7654

with a copy, which shall not constitute notice under this Section 14, to:

Ropes & Gray LLP
One International Place
Boston, MA 02110
Attention: Craig E. Marcus, Esq.
Facsimile: (617) 951-7050

(b) If to you, to:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, N.Y. 10038
Attention: George Karfunkel
Telephone: (718) 921-8200
Telecopy: (718) 236-4588

[Remainder of page intentionally left blank]

Yours truly,

KOHLBERG CAPITAL CORPORATION

By: ______________________________
Name: Michael I. Wirth
Title: Chief Financial Officer

Agreed & Accepted:

AMERICAN STOCK TRANSFER & TRUST COMPANY

By: ______________________________

Name: ______________________________

Title: ______________________________

Fee Schedule

Flat fee of $
Plus reasonable out-of-pocket expenses.

Exhibit h.1

Up to 3,100,000 Shares of Common Stock
Issuable Upon Exercise of Transferable Rights
to Subscribe for such Shares

DEALER MANAGER AGREEMENT

New York, New York
[ ], 2008

Merrill Lynch, Pierce, Fenner & Smith Incorporated
4 World Financial Center
New York, NY 10080

JMP Securities LLC
600 Montgomery Street, Suite 1100
San Francisco, CA 94111

Stifel, Nicolaus & Company, Incorporated
One Financial Plaza
501 North Broadway
St. Louis, MO 63102

Ladies and Gentlemen:

Kohlberg Capital Corporation, a Delaware corporation (the "Company"), hereby confirms the agreement with and appointment of each of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), JMP Securities LLC ("JMP") and Stifel, Nicolaus & Company, Incorporated ("Stifel") to act as a dealer manager (each a "Dealer Manager" and, collectively, the "Deal Managers") in connection with the issuance by the Company to the holders of record (the "Record Date Stockholders") at the close of business on the record date set forth in the Prospectus (as defined herein) (the "Record Date") transferable rights entitling such Record Date Stockholders, and any transferees of rights thereof (such transferees and the Record Date Stockholders, collectively, the "Holders"), to collectively subscribe for up to 3,100,000 shares (each a "Share" and, collectively, the "Shares") of common stock, par value $0.01 per share (the "Common Shares"), of the Company (the "Offer"). Pursuant to the terms of the Offer, the Company is issuing each Record Date Stockholder one transferable right (each a "Right" and, collectively, the "Rights") for each six (6) Common Shares held by such Record Date Stockholder on the Record Date. Such Rights entitle their holders to acquire during the subscription period set forth in the Prospectus (the "Subscription Period"), at the price of [ ]% of the volume-weighted average of the sales prices of a share of the Company's Common Shares on The NASDAQ Global Select Market for the [ ] consecutive trading days ending on the Expiration Date (as hereinafter defined) (the "Subscription Price"), one Share for each Right exercised, on the terms and subject to the conditions set forth in such Prospectus. No fractional Rights will be issued; fractional Rights will be rounded up to the next whole Right. Pursuant to the over-subscription privilege in connection with the Offer (the "Over-Subscription Privilege"), (i) Record Date Stockholders who fully exercise all Rights issued to them may subscribe for additional Shares not subscribed for by other Holders, on the terms and subject to the conditions set forth in the Prospectus, including as to proration, and (ii) any Holders other than Record Date Stockholders who exercise Rights transferred to them may subscribe for additional Shares not subscribed for by other Holders or by Record Date Stockholders pursuant to their Over-Subscription Privilege, on the terms and subject to the conditions set forth in the

Prospectus, including as to proration. The Rights are transferable and are expected to be listed on The NASDAQ Global Select Market under the symbol "KCAPR".

The Company has prepared a registration statement on Form N-2 (File No. 333-149121) under the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations of the Commission under the Securities Act (the "Securities Act Rules and Regulations"), and has filed such registration statement and any amendments to such registration statement on Form N-2 with the Securities and Exchange Commission (the "Commission"), as may have been required as of the date hereof. If the registration statement has not become effective, a further amendment to such registration statement, including forms of a final prospectus necessary to permit such registration statement to become effective, will promptly be filed by the Company with the Commission. If the registration statement has become effective and any prospectus contained therein omits certain information at the time of effectiveness pursuant to Rule 430A or Rule 430C, as applicable, of the Securities Act Rules and Regulations, a final prospectus containing such omitted information will promptly be filed by the Company with the Commission in accordance with Rule 497 of the Securities Act Rules and Regulations. The term "Registration Statement" means the registration statement, as amended, at the time it becomes or became effective, including financial statements and all exhibits and all documents, if any, incorporated therein by reference, and any information deemed to be included by Rule 430A or Rule 430C, as applicable, of the Securities Act Rules and Regulations. The term "Prospectus" means (except as otherwise specified herein) the final prospectus in the form filed with the Commission pursuant to Rule 497 of the Securities Act Rules and Regulations, as from time to time amended or supplemented pursuant to the Securities Act.

The Prospectus and letters to Record Date Stockholders of the Company, subscription certificates and other forms used to exercise rights, brochures, wrappers, any letters from the Company to securities dealers, commercial banks and other nominees and any newspaper announcements, press releases and other offering materials and information that the Company may use, approve, prepare or authorize for use in connection with the Offer are collectively referred to hereinafter as the "Offering Materials".

1. Representations and Warranties.

(a) The Company represents and warrants to, and agrees with, the Dealer Managers as of the date hereof and as of the date and time of the commencement of the Offer (such later date and time being hereinafter referred to as the "Representation Date") and as of the date and time of the expiration of the Offer set forth in the Prospectus, as it may be extended as provided in the Prospectus (the "Expiration Date") that:

(i) The Company is eligible to use Form N-2 under the Securities Act and the Securities Act Rules and Regulations. At the time the Registration Statement became or becomes effective, the Registration Statement did or will contain all statements required to be stated therein in accordance with, and did or will comply, and any amendment to thereto will comply, in all material respects with the requirements of the Securities Act, the Securities Act Rules and Regulations, the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the rules and regulations of the Commission under the Investment Company Act (the "Investment Company Act Rules and Regulations," and, together with the Securities Act Rules and Regulations, the "Rules and Regulations"), and did not or will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. From the time the Registration Statement became or becomes effective through the Expiration

Date, the Prospectus and the Offering Materials did or will comply, and any amendment thereto will comply, in all material respects with the Securities Act, the Investment Company Act and the Rules and Regulations, and did not or will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; provided, however, that the representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, Prospectus or Offering Materials made in reliance upon and in conformity with information relating to the Dealer Managers furnished to the Company in writing by the Dealer Managers expressly for use in the Registration Statement, Prospectus or Offering Materials.

(ii) The Commission has not issued any order preventing or suspending the use of the Prospectus or the Offering Materials, or suspended the effectiveness of the Registration Statement, and no proceeding or examination for such purpose has been instituted or, to the knowledge of the Company, threatened by the Commission.

(iii) The Prospectus and Offering Materials delivered to the Dealer Managers in connection with the offering were identical to the electronically transmitted copies filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval System ("EDGAR"), except as may be permitted by Regulation S-T under the Securities Act.

(iv) The Company has been duly organized, is validly existing and is in good standing as a corporation in the State of Delaware and is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a material adverse effect on the condition (financial or otherwise), results of operations, stockholders' equity, properties or business of the Company (a "Material Adverse Effect"); the Company has all corporate power and authority necessary to own or hold its properties and to conduct the businesses in which it is engaged.

(v) The Company's only subsidiaries are listed on Exhibit 21.1 of the Company's Form 10-K for the year ended December 31, 2007 (each, a "Subsidiary" and collectively, the "Subsidiaries") Each of the Subsidiaries has been duly organized, is validly existing as a limited liability company under the laws of the State of Delaware and is duly qualified to do business and in good standing as a foreign limited liability company in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; the Subsidiaries have all limited liability company power and authority necessary to own or hold their properties and to conduct the businesses in which they are engaged.

(vi) The Company has an authorized capitalization as set forth in the Registration Statement and the Prospectus under the caption "Capitalization," and all of the issued shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable, conform to the description thereof contained in the Prospectus and were issued in compliance with federal and state securities laws and not in violation of any preemptive right, resale right, right of first refusal or similar right. No options, warrants or other rights to purchase or exchange any securities for shares of the Company's capital stock are outstanding, except as disclosed in the Registration Statement and the Prospectus, and except for subsequent issuances, if any, pursuant to this Agreement, pursuant to the Company's Dividend Reinvestment Plan or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus. All of the limited liability company interests of the Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims, except for such liens, encumbrances, equities or claims as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(vii) The Rights and the Shares to be issued by the Company hereunder have been duly authorized and, upon payment and delivery in accordance with this dealer manager agreement (the "Agreement"), the Shares will be validly issued, fully paid and non-assessable, will conform to the description thereof contained in the Registration Statement and the Prospectus, will be issued in compliance with federal and state securities laws and will be free of statutory and contractual preemptive rights, rights of first refusal and similar rights.

(viii) The Company has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement;

(ix) This Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid, binding and enforceable instrument of the Company (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law);

(x) The execution, delivery and performance of this Agreement by the Company, the consummation of the transactions contemplated thereby and the application of the proceeds from the sale of the Shares as described under "Use of Proceeds" in the Registration Statement and the Prospectus will not (A) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Company, Katonah Debt Advisors, L.L.C., a Delaware limited liability company ("KDA") or Kohlberg Capital Funding LLC I, a Delaware limited liability company ("Kohlberg Funding"), or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Company, KDA or Kohlberg Funding is a party or by which the Company, KDA or Kohlberg Funding is bound or to which any of the property or assets of the Company, KDA or Kohlberg Funding is subject, except for such conflicts, breaches or violations that would not, in the aggregate, reasonably be expected to result in a Material Adverse Effect;

(B) result in any violation of the provisions of the charter or bylaws or other organizational documents of the Company, KDA or Kohlberg Funding; or (C) to the knowledge of the Company, KDA or Kohlberg Funding, result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets.

(xi) No consent, approval, authorization or order of, or filing or registration with, any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets is required to be obtained by the Company for the execution, delivery and performance of this Agreement by the Company, the consummation of the transactions contemplated hereby and the application of the proceeds from the sale of the Rights as described under "Use of Proceeds" in the Registration Statement and the Prospectus, except for the registration of the Rights and the Shares under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and applicable state securities laws in connection with the sale of the transfer of the Rights and sale of the Shares.

(xii) Except as identified in the Registration Statement and the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement.

(xiii) The Company has not sold or issued any securities that would be required to be integrated with the Offer of the Rights and the sale and delivery of the Shares contemplated by this Agreement pursuant to the Securities Act or the Securities Act Rules and Regulations.

(xiv) Since December 31, 2007, except as disclosed in the Registration Statement and the Prospectus, there has not been any material change in the capital stock or long term debt of the Company, KDA or Kohlberg Funding or any material adverse change in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management or business of the Company, KDA and Kohlberg Funding taken as a whole, in each case except as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xv) Since the date as of which information is given in the Prospectus and except as may otherwise be described in the Prospectus, the Company has not (A) incurred any material liability or obligation, direct or contingent, other than liabilities and obligations that were incurred in the ordinary course of business; (B) entered into any material transaction not in the ordinary course of business; or (C) declared or paid any dividend on its capital stock.

(xvi) The financial statements (including the related notes and supporting schedules) included in the Registration Statement and the Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby at the dates and for the periods indicated and have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved.

(xvii) Deloitte & Touche LLP, who has audited certain financial statements of the Company, whose report appears in the Prospectus and who have delivered their letter referred to in Section 6(e) hereof, are independent public accountants as required by the Securities Act, The Investment Company Act, the Rules and Regulations and the rules of the Public Company Accounting Oversight Board.

(xviii) The Company, KDA and Kohlberg Funding have good and marketable title in fee simple to all real property, have valid rights to lease or otherwise use and have good and marketable title to all personal property owned by them, material to the respective businesses of each of the Company, KDA and Kohlberg Funding, in each case free and clear of all liens, encumbrances and defects, except such as (A) are described in the Registration Statement and the Prospectus; (B) do not materially interfere with the use made and proposed to be made of such property by the Company, KDA and Kohlberg Funding; or (C) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and all assets held under lease by the Company, KDA and Kohlberg Funding are held by them under valid, subsisting and enforceable leases, with such exceptions as do not materially interfere with the use made and proposed to be made of such assets by the Company, KDA and Kohlberg Funding.

(xix) The statistical and market related data included under the caption “Business” in the Registration Statement and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate in all material respects.

(xx) Neither the Company, KDA nor Kohlberg Funding is, and after the Expiration Date, after giving effect to the offer and sale of the Shares and the application of the proceeds therefrom as described under “Use of Proceeds” in the Registration Statement and the Prospectus, will be, required to register as a “registered management investment company” under the Investment Company Act.

(xxi) (A) The Company has duly elected to be regulated by the Commission as a business development company (“BDC”) under the Investment Company Act, and no order of suspension or revocation has been issued or proceedings therefor initiated or, to the knowledge of the Company, threatened by the Commission. Subject to the filing of the Registration Statement and the Prospectus, all required action has been taken by the Company under the Securities Act and the Investment Company Act to make the public offering and consummate the sale of the Shares as provided in this Agreement; (B) the provisions of the Company’s charter and bylaws and the investment objective, policies and restrictions described in the Registration Statement and the Prospectus, assuming they are implemented as described, will comply in all material respects with the requirements of the Investment Company Act; and (C) the operations of the Company are in compliance in all material respects with the provisions of the Investment Company Act applicable to BDCs.

(xxii) When the notification of election was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of the Investment Company Act and (B) did not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

(xxiii) There are no legal or governmental proceedings pending to which the Company, KDA or Kohlberg Funding is a party or of which any property or assets of the Company, KDA or Kohlberg Funding is the subject that would, in the aggregate, reasonably be expected to have a Material Adverse Effect or would, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of the transactions contemplated hereby; and to the Company's knowledge, no such proceedings are threatened by governmental authorities or others.

(xxiv) There are no legal or governmental proceedings or contracts or other documents of a character required to be described in the Registration Statement or the Prospectus or, in the case of documents, to be filed as exhibits to the Registration Statement that are not described and filed as required; and that statements made in the Registration Statement and the Prospectus under the captions "Election to be Regulated as a Business Development Company and a Regulated Investment Company," "Distributions," "Determination of Net Asset Value," "Regulation," "Certain U.S. Federal Income Tax Considerations," "Description of Capital Stock" and "Shares Eligible for Future Sale," insofar as they purport to constitute summaries of the terms of statutes, rules or regulations, legal or governmental proceedings or contracts and other documents, constitute accurate summaries of the terms of such statutes, rules and regulations, legal and governmental proceedings and contracts and other documents in all material respects.

(xxv) Except as described in the Registration Statement and the Prospectus, no relationship, direct or indirect, exists between or among the Company, on the one hand, and the directors, officers or stockholders of the Company, on the other hand, that is required to be described in the Registration Statement or the Prospectus which is not so described.

(xxvi) No labor disturbance by the employees of the Company, KDA or Kohlberg Funding exists or, to the knowledge of the Company, is threatened that would reasonably be expected to have a Material Adverse Effect.

(xxvii) (A) Each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended ("ERISA")) for which the Company or any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "Code"), would have any liability (each a "Plan"), has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code except where failure to so comply would not reasonably be expected to have Material Adverse Effect; (B) with respect to each Plan subject to Title IV of ERISA (1) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur, (2) no "accumulated funding deficiency" (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guaranty Corporation in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan" within the meaning of Section 4001(c)(3) of ERISA); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a prototype determination or opinion letter to the effect that the form of such Plan is so qualified and the company and, as to the form of such Plan, the Plan may rely on such letter or opinion (without an individual application) under applicable the rules of the Internal Revenue Service, and, to the knowledge of the Company nothing has occurred, whether by action or by failure to act, which would reasonably be expected to cause the loss of such qualification.

(xxviii) The Company, KDA and Kohlberg Funding have (A) filed all Federal, state, local and foreign tax returns required to be filed through the date hereof, subject to permitted extensions, and all such tax returns are true, complete and correct in all material respects; and (B) paid all material taxes required to be paid, and no tax deficiency has been determined adversely to the Company, KDA or Kohlberg Funding, nor does the Company, KDA or Kohlberg Funding have any knowledge of any tax deficiencies that would, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxix) Commencing with its short taxable year ended December 31, 2006, the Company has qualified as a regulated investment company ("RIC") (within the meaning of Section 851(a) of the Code).

(xxx) Neither the Company, KDA nor Kohlberg Funding (A) is in violation of its charter, bylaws or other organizational documents; (B) is in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject; or (C) is in violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except in the case of clauses (B) and (C), to the extent any such conflict, breach, violation or default would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxxi) The Company makes and keeps accurate books and records and the Company maintains effective internal control over financial reporting as defined in Rule 13a-15 under the Exchange Act and a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States and to maintain accountability for its assets; (C) access to the Company's assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxxii) (A) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 under the Exchange Act); (B) such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it will file or submit under the Exchange Act is accumulated and communicated to management of the Company, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure to be made; and (C) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(xxxiii) There is and has been no failure on the part of the Company and any of the Company's directors or officers, in their capacities as such, to comply with the applicable provisions of the Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act") and the rules and regulations promulgated thereunder.

(xxxiv) The Company, KDA and Kohlberg Funding have such permits, licenses, patents, franchises, certificates of need and other approvals or authorizations of governmental or regulatory authorities ("Permits") as are necessary under applicable law to own their properties and conduct their businesses in the manner described in the Registration Statement and the Prospectus, except for any of the foregoing that would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; each of the Company, KDA and Kohlberg Funding has fulfilled and performed all of its obligations with respect to the Permits, and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other impairment of the rights of the holder or any such Permits, except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(xxxv) The Company, KDA and Kohlberg Funding own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, know how, software, systems and technology (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(xxxvi) Neither the Company, KDA nor Kohlberg Funding is in violation of or has received notice of any violation with respect to any federal or state law relating to discrimination in the hiring, promotion or pay of employees, nor any applicable federal or state wage and hour laws, nor any state law precluding the denial of credit due to the neighborhood in which a property is situated, the violation of any of which would reasonably be expected to have a Material Adverse Affect.

(xxxvii) KDA is not currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on its limited liability company interests, from repaying to the Company any loans or advances to it from the Company or from transferring any of its property or assets to the Company, except as described in or contemplated in the Registration Statement and the Prospectus.

(xxxviii) Neither the Company, KDA nor Kohlberg Funding, nor, to the knowledge of the Company, any director, officer, agent, employee or other person acting on behalf of the Company, KDA or Kohlberg Funding, has (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (C) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or (D) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xxxix) The operations of the Company, KDA and Kohlberg Funding are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company, KDA or Kohlberg Funding with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(xl) Neither the Company, KDA nor Kohlberg Funding nor, to the knowledge of the Company, any director, officer, agent, or employee of the Company, KDA or Kohlberg Funding is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly knowingly use the proceeds of the offering, or lend, contribute or otherwise knowingly make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xli) The Company has not distributed and, prior to the occurrence of the Expiration Date and completion of the distribution of the Shares, will not distribute any offering material in connection with the Offer of the Rights and the sale and delivery of the Shares other than any Prospectus, Offering Materials or any statement made in accordance with Rule 482 of the Securities Act (a "Rule 482 Statement") to which the Dealer Managers have consented.

(xlii) The Company (A) has not taken, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the issuance of the Rights or the sale or resale of the Rights and the Shares; (B) has not since the filing of the Registration Statement sold, bid for or purchased, or paid anyone any compensation for soliciting purchases of, Common Shares of the Company (except for the solicitation of exercises of the Rights pursuant to this Agreement); and (C) will not, until the later of the expiration of the Rights or the completion of the distribution (within the meaning of the anti-manipulation rules under the Exchange Act) of the Shares, sell, bid for or purchase, pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the solicitation of exercises of the Rights pursuant to this Agreement).

(xliii) The Rights have been approved for inclusion, subject to official notice of issuance and evidence of satisfactory distribution, in The NASDAQ Global Select Market.

(b) Any certificate signed by any officer of the Company and delivered to the Dealer Managers in connection with the Offer of the Rights and the sale and delivery of the Shares shall be deemed a representation and warranty by the Company as to matters covered thereby, to such Dealer Managers.

2. Agreement to Act as Dealer Managers.

(a) On the basis of the representations and warranties herein contained, and subject to the terms and conditions herein set forth:

(i) The Company hereby authorizes the Dealer Managers and other soliciting dealers entering into a Soliciting Dealer Agreement, in the form attached hereto as Exhibit A, with the Dealer Managers (each a "Soliciting Dealer" and, collectively, the "Soliciting Dealers"), to solicit, in accordance with the Securities Act, the Investment Company Act and the Exchange Act, the rules and regulations under those acts, any applicable securities laws of any state or jurisdiction, the applicable rules and regulation of any self-regulatory organization or registered national securities exchange and the customary practice of investment banking firms engaged in connection with similar transactions, the exercise of the Rights and the Over-Subscription Privilege, and the Dealer Managers agree to act in such capacity, and in accordance with such terms and the procedures described in the Prospectus and, where applicable, the terms and conditions of such Soliciting Dealer Agreement; and

(ii) To the extent available, the Company agrees to furnish, or cause to be furnished, to the Dealer Managers lists, or copies of those lists, showing (to the knowledge of the Company) the names and addresses of, and number of shares of Common Stock held by, Record Date Holders and the Dealer Managers agree to use such information only in connection with the Offer, and not to furnish the information to any other person or entity, except that the Dealer Managers may furnish necessary and appropriate information to the Soliciting Dealers.

(b) The Dealer Managers agree to provide to the Company, in addition to the services described in Section 2(a), financial advisory and marketing services in connection with the Offer. No fee or reimbursement, other than the fees provided for in Section 3 of this Agreement and the reimbursement of the Dealer Managers' out-of-pocket expenses as described in Section 5 of this Agreement, will be payable by the Company to the Dealer Managers in connection with any services provided or costs or expenses incurred by the Dealer Managers pursuant to this Agreement.

(c) The Company and the Dealer Managers agree that each of the Dealer Managers is an independent contractor with respect to the solicitation of the exercise of the Rights and the Over-Subscription Privilege, and that each Dealer Manager's performance of financial advisory, marketing and soliciting services for the Company is pursuant to a contractual relationship created solely by this Agreement entered into on an arm's length basis, and in no event do the parties intend that any of the Dealer Managers act or be responsible as a fiduciary to the Company, its management, stockholders, creditors or any other person, including Soliciting Dealers, in connection with any activity that a Dealer Manager may undertake or has undertaken in furtherance of its engagement pursuant to this Agreement, either before or after the date hereof. It is understood that the Dealer Managers are being engaged hereunder solely to provide the services described herein on behalf of the Company and that the Dealer Managers are not acting as agents or fiduciaries of, and shall have no duties or liability to, the equity holders of the Company or any other third party in connection with their engagement hereunder. It is further understood that the Dealer Managers may independently offer for sale Common Shares, including shares of the Common Shares acquired through the purchase and exercise of the Rights, at prices they set. They may realize profits or losses from such sales independent of the fees set forth in Section 3 hereof.

(d) The Dealer Managers agree to perform those services with respect to the Offer in accordance with customary practice of investment banking firms engaged in connection with similar transactions, including (but not limited to) using their reasonable best efforts to solicit the exercise of Rights and the Over-Subscription Privilege pursuant to the Offer and in communicating with the Soliciting Dealers.

(e) In rendering the services contemplated by this Agreement, the Dealer Managers will not be subject to any liability to the Company or KDA or any of their affiliates, for any act or omission on the part of any securities broker or dealer (except with respect to any Dealer

Manager acting in such capacity) or any other person, and the Dealer Managers will not be liable for acts or omissions in performing its obligations under this Agreement, except for any losses, claims, damages, liabilities and expenses that are finally judicially determined to have resulted primarily from the bad faith, willful misfeasance or gross negligence of the Dealer Managers or by reason of the reckless disregard of the obligations and duties of the Dealer Managers under this Agreement (including, in each case, the employees and authorized agents of the Dealer Managers); provided, however, that the foregoing shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission, or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by the Dealer Managers expressly for use in the Registration Statement (or any amendment thereto) or the Prospectus (or any amendment or supplement thereto) or in any Offering Materials.

3. Dealer Managers' and Soliciting Fees. In full payment for the financial advisory, marketing, soliciting and other services rendered and to be rendered hereunder by the Dealer Managers, the Company agrees to pay the Dealer Managers a fee (the "Dealer Managers' Fee") equal to 4.00% of the aggregate Subscription Price for the Shares issued pursuant to the exercise of Rights, including pursuant to the Over-Subscription Privilege. In full payment for the soliciting efforts to be rendered, the Dealer Managers agree to reallow soliciting fees (the "Soliciting Fees") to Soliciting Dealers of up to 4.00% of the Subscription Price per Share for each Share issued pursuant to the exercise of Rights, including pursuant to the Over-Subscription Privilege, where such Soliciting Dealer is so designated on the subscription form, subject to a maximum fee based on the number of Common Shares held by such Soliciting Dealer through The Depository Trust Company ("DTC") on the Record Date. The Dealer Managers agree to pay the Soliciting Fees to the Soliciting Dealer designated on the applicable portion of the form used by the Holder to exercise Rights, including pursuant to the Over-Subscription Privilege, and if no Soliciting Dealer is so designated or a Soliciting Dealer is otherwise not entitled to receive compensation pursuant to the terms of the Soliciting Dealer Agreement, then the Dealer Managers shall retain such Soliciting Fee for Shares issued pursuant to the exercise of Rights, including pursuant to the Over-Subscription Privilege; the Company shall have no obligation to pay (or reimburse the Dealer Managers) for any Soliciting Fees. Payment to the Dealer Managers by the Company will be in the form of a wire transfer of same day funds to an account or accounts identified by the Dealer Managers. Such payment will be made on the day following each date on which the Company issues Shares after the Expiration Date. Payment to Soliciting Dealer will be made by the Dealer Managers directly to such Soliciting Dealer by check to an address identified by such Soliciting Dealer. Such payments to Soliciting Dealers shall be made on or before the tenth (10th) business day following each date on which the Company issues Shares after the Expiration Date.

4. Further Agreements of the Company and the Dealer Managers.

(a) The Company covenants with the Dealer Managers as follows:

(i) The Company will use its best efforts to cause the Registration Statement to become effective and maintain its effectiveness under the Securities Act, and will advise the Dealer Managers promptly as to the time at which the Registration Statement and any amendments thereto (including any post-effective amendment) become so effective.

(ii) The Company will notify, and confirm the notice in writing to, the Dealer Managers promptly (A) of the effectiveness of the Registration Statement and any amendment thereto (including any post-effective amendment), (B) of the receipt of any comments from the Commission relating to the Registration Statement, (C) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, (D) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings or examination for that purpose and (E) of the receipt of any written notice regarding the suspension of the qualification of the Shares or the Rights for offering or sale in any jurisdiction. The Company will make every reasonable effort to prevent the issuance of any stop order described in subsection (D) hereunder and, if any such stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(iii) During any period that a prospectus relating to the Rights or the Shares is required to be delivered under the Securities Act (but in any event through the Expiration Date), the Company will give the Dealer Managers notice of its intention to file any amendment to the Registration Statement (including any post-effective amendment) or any amendment or supplement to the Prospectus (including any revised Prospectus which the Company proposes for use by the Dealer Managers in connection with the Offer, which differs from the prospectus on file at the Commission at the time the Registration Statement becomes effective, whether or not such revised prospectus is required to be filed pursuant to Rule 497(c), (e) or (h) of the Rules and Regulations), whether pursuant to the Investment Company Act, the Securities Act, or otherwise, and will furnish the Dealer Managers with copies of any such amendment or supplement a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file any such amendment or supplement to which the Dealer Managers or counsel for the Dealer Managers shall reasonably object.

(iv) The Company has furnished or will, without charge, deliver to the Dealer Managers, as soon as practicable, the number of conformed copies of the Registration Statement as originally filed and of each amendment thereto as it may reasonably request, in each case with the exhibits filed therewith.

(v) The Company will, without charge, furnish to the Dealer Managers, from time to time during the period when the Prospectus is required to be delivered under the Securities Act, such number of copies of the Prospectus (as amended or supplemented) as the Dealer Managers may reasonably request for the purposes contemplated by the Securities Act or the Securities Act Rules and Regulations.

(vi) If any event shall occur as a result of which it is necessary, in the reasonable opinion of counsel for the Dealer Managers or for the Company, to amend or supplement the Registration Statement or the Prospectus (or the other Offering Materials) to make the Registration Statement or the Prospectus (or such other Offering Materials) not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the Securities Act or the Securities Act Rules and Regulations, the Company will promptly prepare and file with the Commission, subject to Section 4(a)(iii), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Dealer Managers such number of copies of such amendment or supplement as the Dealer Managers may reasonably request.

(vii) The Company will use its commercially reasonable efforts, in cooperation with the Dealer Managers and their counsel, to qualify the Rights and the Shares for offering and sale under the applicable securities laws of such states and other jurisdictions of the United States as the Dealer Managers may designate and to maintain such qualifications in effect for the duration of the Offer; provided, however, that the Company will not be obligated to file any general consent to service of process, or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not now so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(viii) During the period during which the Prospectus is required to be delivered under the Securities Act, to file all documents required to be filed with the Commission pursuant to the Exchange Act within the time period required by the Exchange Act and the rules and regulations of the Commission thereunder.

(ix) The Company will use the net proceeds from the Offer in the manner set forth under “Use of Proceeds” in the Registration Statement and the Prospectus.

(x) For a period of sixty (60) days from the date of the Prospectus (the “Lock Up Period”), the Company will not, without the prior consent of the Dealer Managers, offer or sell, or enter into any agreement to sell, any equity or equity related securities of the Company or securities convertible into such securities, other than the Rights and the Shares and the Common Shares issued in reinvestment of dividends or distributions or pursuant to reservations, agreements or employee benefits plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus; notwithstanding the foregoing, if (1) during the last 17 days of the Lock Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the Lock Up Period, the Company announces that it will release earnings results during the 16 day period beginning on the last day of the Lock Up Period, then the restrictions imposed in the preceding paragraph shall continue to apply until the expiration of the 18 day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event, unless the Dealer Managers, waive such extension in writing. In addition, the Company will cause each officer and director of the Company set forth on Schedule 2 hereto to furnish to the Dealer Managers, prior to the Expiration Date, a letter or letters, substantially in the form of Exhibit D hereto (the “Lock Up Agreements”).

(xi) The Company will use its commercially reasonable efforts to cause the Rights and the Shares to be duly authorized for listing by The NASDAQ Global Select Market prior to the time the Rights and the Shares are issued, respectively.

(xii) The Company will apply the net proceeds from the Offer in such a manner as to continue to comply with the requirements of the Registration Statement, the Prospectus and the Investment Company Act.

(xiii) The Company will advise or cause American Stock Transfer & Trust Company (the "Subscription Agent") to advise the Dealer Managers, from day to day during the period of, and promptly after the termination of, the Offer, as to the names and addresses of all Holders exercising Rights, the total number of Rights exercised by each Holder during the immediately preceding day, indicating the total number of Rights verified to be in proper form for exercise, rejected for exercise and being processed and, for each Dealer Manager and each Soliciting Dealer, the number of Rights exercised on exercise forms indicating such Dealer Manager or such Soliciting Dealer, as the case may be, as the broker-dealer with respect to such exercise, and as to such other information as such Dealer Manager may reasonably request; and will use its commercially reasonable efforts to cause the Subscription Agent to notify the Dealer Managers and each Soliciting Dealer, not later than 5:00 P.M., New York City time, on the first business day following the Expiration Date, of the total number of Rights exercised and Shares related thereto, the total number of Rights verified to be in proper form for exercise, rejected for exercise and being processed and, for each Dealer Manager and each Soliciting Dealer, the number of Rights exercised on exercise forms indicating such Dealer Manager or such Soliciting Dealer, as the case may be, as the broker-dealer with respect to such exercise, and as to such other information as the Dealer Managers may reasonably request.

(xiv) The Company will use its commercially reasonable efforts to establish and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (A) material information relating to the Company and the assets managed by KDA is promptly made known to the officers responsible for establishing and maintaining the system of internal accounting controls; and (B) any significant deficiencies or weaknesses in the design or operation of internal accounting controls which could adversely affect the Company's ability to record, process, summarize and report financial data, and any fraud whether or not material that involves management or other employees who have a significant role in internal controls, are adequately and promptly disclosed to the Company's independent auditors and the audit committee of the Company's board of directors.

(xv) To, during a period of at least 12 months from the Expiration Date, use its commercially reasonable efforts to maintain its status as a BDC under the Investment Company Act; provided, however, the Company may cease to be, or withdraw its election as a BDC under the Investment Company Act, with the approval of its board of directors and a vote of its stockholders as required by Section 58 of the Investment Company Act, or a successor provision.

(xvi) To use its commercially reasonable efforts to maintain its qualification as a RIC under the Code for each taxable year during which it is a BDC under the Investment Company Act.

(b) The Company will not take, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the issuance of the Rights or the sale or resale of the Rights or the Shares; provided that any action in connection with the Company's dividend reinvestment plan will not be deemed to be within the meaning of this Section 4(b).

(c) Except as required by applicable law, the use of any reference to the Dealer Managers in any Offering Materials or any other document or communication prepared, approved or authorized by the Company in connection with the Offer is subject to the prior approval of the Dealer Managers, provided that if such reference to the Dealer Managers is required by applicable law, the Company agrees to notify the Dealer Managers within a reasonable time prior to such use but the Company is nonetheless permitted to use such reference. The Dealer Managers hereby confirm they have consented to all references to them in the Registration Statement, the Prospectus and the Offering Materials as filed with the Commission on the date hereof.

5. Payment of Expenses.

(a) The Company will pay all expenses incident to the performance of its obligations under this Agreement and in connection with the Offer, including, but not limited to, (i) the preparation, printing and filing of the Registration Statement as originally filed and of each amendment thereto; (ii) the preparation, issuance and delivery of the exercise forms relating to the Rights and the certificates for the Shares; (iii) the fees and disbursements of the Company's counsel and accountants; (iv) expenses relating to the qualification of the Rights and the Shares under securities laws in accordance with the provisions of Section 4(a)(vii) of this Agreement, including filing fees; (v) expenses relating to the printing or other production and delivery to the Dealer Managers of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus and any amendments or supplements thereto; (vi) the filing fees incidental to, and, subject to Section 5(b), the reasonable fees and disbursement of counsel to the Dealer Managers in connection with, the review by the Financial Industry Regulatory Authority ("FINRA") of the terms of the Offer and the sale of the Shares; (vii) the fees and expenses incurred in connection with the listing of the Rights and the Shares on The NASDAQ Global Select Market; (viii) the printing or other production, mailing and delivery expenses incurred in connection with Offering Materials; (ix) subject to Section 5(b), all reasonable out-of-pocket fees and expenses, if any, incurred by the Dealer Managers and Soliciting Dealers in connection with their customary mailing and handling of materials related to the Offer to their customers; (x) the fees and expenses incurred by the Company under the Subscription Agent Agreement and the Information Agent Agreement; and (xi) all other fees and expenses (excluding the announcement, if any, of the Offer in The Wall Street Journal) incurred in connection with or relating to the Offer.

(b) In addition to any fees that may be payable to the Dealer Managers under this Agreement, whether or not the Offer is consummated, the Company agrees to reimburse the Dealer Managers upon request made from time to time for their reasonable expenses incurred in connection with their activities under this Agreement, including the reasonable fees and disbursements of their legal counsel (inclusive of any reimbursement pursuant to Section 5(a)(iv)), upon proper presentation of documentation therefor, in an amount not to exceed $100,000. The Company shall not be obligated to reimburse the Dealer Managers for any expenses arising under or in connection with this Agreement in excess of $100,000.

6. Conditions of the Dealer Managers' Obligations. The obligations of the Dealer Managers hereunder are subject to the accuracy of the representations and warranties of the Company contained in Section 1 hereof or in certificates of any officer of the Company, to the performance by the Company of its obligations hereunder, and to the following further conditions:

(a) The Registration Statement has become effective and no stop order suspending the effectiveness of the Registration Statement shall have been issued under the Securities Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Dealer Managers. A prospectus with respect to the Rights Offering shall have been filed with the Commission in accordance with Rule 497.

(b) The Dealer Managers shall have received from Ropes & Gray LLP, counsel for the Company, such favorable written opinions or letters, dated the Representation Date and the Expiration Date, in form and substance reasonably satisfactory to counsel for the Dealer Managers, to the effect set forth in Exhibit B and Exhibit C, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters. Ropes & Gray LLP may state that, insofar as such opinion or letter involves factual matters, it has relied upon certificate of officers of the Company and/or any subsidiary and certificates of public officials.

(c) The Dealer Managers shall have received from Clifford Chance US LLP, counsel for the Dealer Managers, such favorable written opinions or letters, dated the Representation Date and the Expiration Date, with respect to the Offer, the Registration Statement, the Prospectus, the Offering Materials and other related matters as the Dealer Managers may reasonably require. Clifford Chance US LLP may state that, insofar as such opinion involves factual matters, it has relied upon certificate of officers of the Company and/or any subsidiary and certificates of public officials.

(d) The Company shall have furnished to the Dealer Managers certificates of the Company, signed on behalf of the Company by (1) the Chief Executive Officer or President of the Company and (2) the Chief Financial Officer of the Company, dated the Representation Date and the Expiration Date, to the effect that:

(i) the representations and warranties of the Company in Section 1(a) of this Agreement are true and correct in all material respects on and as of the Representation Date or the Expiration Date, as the case may be, with the same effect as if made on the Representation Date or the Expiration Date, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Representation Date or the Expiration Date, as the case may be;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to their knowledge, threatened; and

(iii) since the date of the most recent balance sheet included or incorporated by reference in the Registration Statement and the Prospectus, there has been no material adverse change in the condition (financial or otherwise), business prospects, earnings or results of operations of the Company (excluding fluctuations in the Company's net asset value due to investment activities in the ordinary course of business), except as set forth in the Registration Statement and the Prospectus.

(e) Deloitte & Touche LLP shall have furnished to the Dealer Managers letters, dated the Representation Date and the Expiration Date, in form and substance satisfactory to the Dealer Managers and Deloitte & Touche LLP, stating in effect that:

(i) it is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the applicable Securities Act Rules and Regulations, and the rules and regulations adopted by the Commission and the Public Accounting Oversight Board (United States);

(ii) in its opinion, the audited financial statements examined by it and included or incorporated by reference in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Investment Company Act and the respective Rules and Regulations with respect to registration statements on Form N 2;

(iii) it has performed procedures specified by the Public Accounting Oversight Board for a review of the interim financial information for the period ended December 31, 2007;

(iv) it has performed specified procedures, not constituting an audit in accordance with generally accepted auditing standards, including a reading of the latest available unaudited financial information of the Company, a reading of the minute books of the Company, and inquiries of officials of the Company responsible for financial and accounting matters, and on the basis of such inquiries and procedures nothing came to its attention that caused it to believe that at a specified date prior to the Representation Date or the Expiration Date, as the case may be, there was any change in the Common Shares, any decrease in net assets or any increase in long term debt of the Company as compared with amounts shown in the most recent statement of assets and liabilities included or incorporated by reference in the Registration Statement, except as the Registration Statement discloses has occurred or may occur, or they shall state any specific changes, increases or decreases; and

(v) in addition to the procedures referred to in clause (iii) above, it has compared certain dollar amounts (or percentages as derived from such dollar amounts) and other financial information regarding the operations of the Company appearing in the Registration Statement, which have previously been specified by the Dealer Managers and which shall be specified in such letter, and have found such items to be in agreement with the accounting and financial records of the Company.

(f) Prior to their issuance, the Shares and the Rights will have been duly approved for listing, subject to official notice of issuance, on The NASDAQ Global Select Market.

(g) The FINRA has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the terms and arrangements of the Offer.

(h) At the Representation Date and the Expiration Date, counsel for the Dealer Managers shall have been furnished with such documents as they may reasonably require for the purpose of enabling them to pass upon the issuance of the Rights and the issuance and sale of the Shares as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance of the Rights and the issuance and sale of the Shares as herein contemplated shall be reasonably satisfactory in form and substance to the Dealer Managers and counsel for the Dealer Managers.

(i) A Lock Up Agreement, in substantially the form attached hereto as Exhibit D, shall have been signed by each of the Company and each officer or director of the Company listed on Schedule 2 and delivered to the Dealer Managers on or before the date of this Agreement.

(j) If any condition specified in this Section 6 shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Dealer Managers by notice to the Company at any time at or prior to the Expiration Date and such termination shall be without liability of any party to any other party except as provided in Section 5 and except that Sections 7, 8 and 9 shall survive any such termination and remain in full force and effect.

7. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Dealer Manager and each person, if any, who controls any of the Dealer Managers within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), Rule 482 Statement, if any, any preliminary prospectus, the Prospectus or any Offering Materials, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 7(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by the Dealer Managers), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by the Dealer Managers expressly for use in the Registration Statement (or any amendment thereto), Rule 482 Statement, if any, any preliminary prospectus, the Prospectus or any Offering Materials.

(b) The Dealer Managers agree to indemnify and hold harmless the Company, its directors, each of the Company's officers, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), Rule 482 Statement, if any, any preliminary prospectus, the Prospectus or any Offering Materials in reliance upon and in conformity with written information furnished to the Company by the Dealer Managers expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus, any Offering Materials or such Rule 482 Statement, if any.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 7(a) above, counsel to the indemnified parties shall be selected by such indemnified Dealer Manager(s), and, in the case of parties indemnified pursuant to Section 7(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution may be sought under this Section 7 or Section 8 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Notwithstanding anything to the contrary herein, neither the assumption of the defense of any such action nor the payment of any fees or expenses related thereto shall be deemed to be an admission by the indemnifying party that it has an obligation to indemnify any person pursuant to this Agreement.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into, and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

8. Contribution.

(a) If the indemnification provided for in Section 7 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, claims, damages, liabilities or expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Dealer Managers on the other hand from the Offer of the Rights and the delivery of the Shares pursuant to the Offer, or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Dealer Managers on the other in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Dealer Managers on the other hand in connection with the Offer of the Rights and the delivery of the Shares pursuant to the Offer shall be deemed to be in the same respective proportions as the total net proceeds from the Offer (before deducting expenses) received by the Company bears to the total fees received by the Dealer Managers in connection with the Offer (whether from the Company or otherwise). The relative fault of the Company on the one hand and the Dealer Managers on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Dealer Managers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(b) The Company and the Dealer Managers agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 8. The aggregate amount of the losses, claims, damages, liabilities and expenses incurred by an indemnified party and referred to above in this Section 8 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 8, no Dealer Manager shall be required to contribute any amount in excess of the fees received by it. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person, if any, who controls any Dealer Manager within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as each Dealer Manager, and each director of the Company, each officer of the Company, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Company. Notwithstanding any other provision of Section 7 and this Section 8, no party shall be entitled to indemnification or contribution under this Agreement in violation of Section 17(i) of the Investment Company Act. The Dealer Managers’ respective obligations to contribute pursuant to this Section 8 are several and not joint. The Company agrees to indemnify each Soliciting Dealer and controlling person to the same extent and subject to the same conditions, including with respect to contribution, provided for in Section 7 hereof and this Section 8, to the extent that a court of competent jurisdiction determines that such Soliciting Dealer or such controlling person is a statutory underwriter under the Securities Act.

9. Representations, Warranties and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company submitted pursuant hereto shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the Dealer Managers or the Company, any person controlling any of the Dealer Managers or the Company or their respective officers or directors, (ii) issuance of the Rights and (iii) delivery of and payment for the Shares pursuant to the Offer.

10. Termination of Agreement.

(a) The Dealer Managers may terminate this Agreement, by notice to the Company, at any time at or prior to the Expiration Date (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Registration Statement, the Prospectus or the Offering Materials, a Material Adverse Effect, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Dealer Managers, impracticable or inadvisable to market the Rights or the Shares, or (iii) if trading in the Rights or Common Stock has been suspended or materially limited by the Commission or the NASDAQ Global Select Market, or (iv) if trading generally on the American Stock Exchange or the New York Stock Exchange or in the NASDAQ Global Select Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, FINRA or any other governmental authority, or (v) a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, or (vi) if a banking moratorium has been declared by either Federal or New York authorities. The Company may in its sole discretion, at any time prior to delivery of the Securities, terminate the Offer and this Agreement if the Subscription Price is less than 75% of the net asset value attributable to a share of Common Stock disclosed in the Company's most recent periodic report filed with the Commission. In addition, at any time prior to the Expiration Date, upon providing five days' prior written notice specifying the grounds for such termination, the Company may terminate this Agreement with respect to any or all of the Dealer Managers in the event such Dealer Manager(s) is in breach of its obligations set forth in Section 2.

(b) If this Agreement is terminated pursuant to this Section with respect to any party, such termination shall be without liability of any party to any other party except as provided in Section 5 hereof; provided, further, that Sections 7, 8 and 9 hereof shall survive such termination and remain in full force and effect.

11. Tax Disclosure. Notwithstanding any other provision of this Agreement, from the commencement of discussions with respect to the transactions contemplated hereby, the Company (and each employee, representative or other agent of the Company) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the Code and the Treasury Regulations promulgated thereunder) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

12. Notices. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Dealer Managers, shall be delivered or sent by mail or facsimile transmission to:

Merrill Lynch & Co.
4 World Financial Center
New York, New York 10080
Attention: [ ]
Facsimile: [ ]

JMP Securities LLC
600 Montgomery Street, Suite 1100
San Francisco, CA 94111
Attention: [ ]
Facsimile: [ ]

Stifel, Nicolaus & Company, Incorporated
One Financial Plaza
501 North Broadway
St. Louis, MO 63102
Attention: [ ]
Facsimile: [ ]

With a copy (for informational purposes only) to:

Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019

Attention: Jay L. Bernstein, Esq.
Facsimile: (212) 878-8375

And in the case of any notice pursuant to Section 7(d), a copy to:

Director of Litigation
Merrill Lynch & Co.
4 World Financial Center
New York, New York 10080
Attention: [ ]
Facsimile: [ ]

JMP Securities LLC
600 Montgomery Street, Suite 1100
San Francisco, CA 94111
Attention: [ ]
Facsimile: [ ]

Stifel, Nicolaus & Company, Incorporated
One Financial Plaza
501 North Broadway
St. Louis, MO 63102
Attention: [ ]
Facsimile: [ ]

(b) if to the Company, shall be delivered or sent by mail or facsimile transmission to:

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017
Attention: Michael I. Wirth
Facsimile: (212) 455-8300

With a copy (for informational purposes only) to:

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
Attention: Craig E. Marcus, Esq.
Facsimile: (617) 951-7050

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

13. <u>Persons Entitled to Benefit of Agreement</u>. This Agreement shall inure to the benefit of and be binding upon the Dealer Managers and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Dealer Managers and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 7 and 8 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Dealer Managers and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, corporation or other entity.

14. Definition of the Terms “Business Day” and “Subsidiary.” For purposes of this Agreement, (a) “business day” means each Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close and (b) “subsidiary” has the meaning set forth in Rule 405 under the Securities Act.

15. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York.

16. Submission to Jurisdiction. Except as set forth below, no claim (a “Claim”) which relates to the terms of this Agreement or the transactions contemplated hereby may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and both the Dealer Managers and the Company consent to the jurisdiction of such courts and personal service with respect thereto. The Company hereby consents to personal jurisdiction, service and venue in any court in which any Claim arising out of or in any way relating to this Agreement is brought by any third party against any Dealer Manager or any indemnified party. Each of the Dealer Managers and the Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement.

17. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

18. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

[*Remainder of Page Intentionally Left Blank.*]

If the foregoing is in accordance with your understanding of our agreement, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the Dealer Managers.

Very truly yours,

KOHLBERG CAPITAL CORPORATION

By: ___________________________________
Name:
Title:

The foregoing Agreement is hereby confirmed
and accepted as of the date first above written.

MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED

By: ______________________________________
Name:
Title:

JMP SECURITIES LLC

By: ______________________________________
Name:
Title:

STIFEL, NICOLAUS & COMPANY, INCORPORATED

By: ______________________________________
Name:
Title:

Exhibit l

ROPES & GRAY LLP
ONE INTERNATIONAL PLACE
BOSTON, MA 02110-2624
WWW.ROPESGRAY.COM

March 28, 2008

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017

Re: Kohlberg Capital Corporation

Ladies and Gentlemen:

This opinion is furnished to you in connection with the registration statement on Form N-2 (the "Registration Statement") filed by Kohlberg Capital Corporation, a Delaware corporation (the "Company"), with the Securities and Exchange Commission under the Securities Act of 1933, as amended, for the registration of 3,100,000 transferable subscription rights (the "Rights"), and 3,100,000 shares (the "Shares") of the Company's common stock, $.01 par value per share (the "Common Stock"), issuable upon exercise of such Rights.

We have acted as counsel for the Company in connection with the proposed issuance of the Rights and the proposed issuance and sale of the Shares issuable upon exercise of such Rights. For purposes of this opinion, we have examined and relied upon such documents, records, certificates and other instruments as we have deemed necessary.

The opinions expressed below are limited to the Delaware General Corporation Law, including the applicable provisions of the Delaware Constitution and the reported cases interpreting those laws.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Rights have been duly authorized by the Company.

2. The Shares have duly authorized by the Company and, when issued and delivered by the Company upon exercise of the Rights in accordance with the terms as described in the Registration Statement against payment of the consideration therefor as set forth in the Registration Statement, will be validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus included therein. In giving such consent we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder. This opinion may be used only in connection with the offer and sale of the Shares while the Registration Statement is in effect.

Very truly yours,

/s/ Ropes & Gray LLP
Ropes & Gray LLP

EXHIBIT n.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Pre-Effective Amendment No. 2 to Registration Statement No. 333-149121 on Form N-2 of our reports dated March 14, 2008, relating to the financial statements and financial highlights of Kohlberg Capital Corporation (which expresses an unqualified opinion and includes an explanatory paragraph relating to the valuation of investments whose fair values have been estimated by management in the absence of readily determinable fair values), and the effectiveness of Kohlberg Capital Corporation's internal control over financial reporting, appearing in the Prospectus, which is part of such Registration Statement, and to the references to us under the headings "Selected Financial Data" and "Independent Registered Public Accounting Firm."

/s/ Deloitte & Touche LLP

New York, New York
March 28, 2008