

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2012
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 814-00735

Kohlberg Capital Corporation

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

20-5951150
(I.R.S. Employer
Identification Number)

295 Madison Avenue, 6th Floor
New York, New York 10017
(Address of principal executive offices)

(212) 455-8300
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of outstanding shares of common stock of the registrant as of May 4, 2012 was 26,635,285.

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KOHLBERG CAPITAL CORPORATION

BALANCE SHEETS

	<u>As of</u> <u>March 31, 2012</u> <u>(unaudited)</u>	<u>As of</u> <u>December 31, 2011</u>
ASSETS		
Investments at fair value:		
Time deposits (cost: 2012 - \$12,343; 2011 - \$229,152)	\$ 12,343	\$ 229,152
Money market account (cost: 2012 - \$9,746,435; 2011 - \$31,622,134)	9,746,435	31,622,134
Debt securities (cost: 2012 - \$157,076,916; 2011 - \$134,311,238)	136,356,490	114,673,506
CLO Fund securities managed by non-affiliates (cost: 2012 - \$12,689,004; 2011 - \$12,756,449)	3,012,800	3,110,367
CLO Fund securities managed by affiliate (cost: 2012 - \$66,465,470; 2011 - \$53,772,033)	60,391,545	45,327,950
Equity securities (cost: 2012 - \$16,559,610; 2011 - \$16,559,610)	6,721,881	6,040,895
Asset manager affiliates (cost: 2012 - \$83,421,984; 2011 - \$44,338,301)	74,594,000	40,814,000
Total Investments at fair value	290,835,491	241,818,004
Cash	2,032,121	2,555,259
Restricted cash	98,068	—
Interest receivable	734,172	522,578
Receivable for open trades	2,992,120	—
Accounts receivable	955,029	859,156
Due from affiliates	—	3,517
Other assets	2,580,980	2,375,147
Total assets	<u>\$ 300,227,981</u>	<u>\$ 248,133,661</u>
LIABILITIES		
Convertible Senior Notes	60,000,000	60,000,000
Payable for open trades	31,546,430	—
Accounts payable and accrued expenses	1,727,035	3,527,682
Dividend payable	—	4,080,037
Total liabilities	<u>\$ 93,273,465</u>	<u>\$ 67,607,719</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 26,609,963 and 22,992,211 common shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively.	\$ 262,825	\$ 226,648
Capital in excess of par value	310,390,861	284,571,466
Accumulated undistributed net investment income	4,457,530	821,904
Accumulated net realized losses	(52,499,666)	(52,802,400)
Net unrealized depreciation on investments	(55,657,034)	(52,291,676)
Total stockholders' equity	<u>\$ 206,954,516</u>	<u>\$ 180,525,942</u>
Total liabilities and stockholders' equity	<u>\$ 300,227,981</u>	<u>\$ 248,133,661</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 7.78</u>	<u>\$ 7.85</u>

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,	
	2012	2011
Investment Income:		
Interest from investments in debt securities	\$ 2,501,613	\$ 1,968,906
Interest from cash and time deposits	2,562	5,837
Dividends from investments in CLO Fund securities managed by non-affiliates	419,165	489,380
Dividends from investments in CLO Fund securities managed by affiliate	3,613,639	2,856,155
Dividends from affiliate asset manager	825,000	—
Capital structuring service fees	39,561	1,248
Other Income	—	2,000,000
Total investment income	7,401,540	7,321,526
Expenses:		
Interest and amortization of debt issuance costs	1,442,286	297,460
Compensation	947,735	841,442
Professional fees	916,660	769,965
Insurance	129,603	117,577
Administrative and other	325,975	312,615
Total expenses	3,762,259	2,339,059
Net Investment Income	3,639,281	4,982,467
Realized And Unrealized Gains (Losses) On Investments:		
Net realized gains (losses) from investment transactions	302,734	(1,826,723)
Net change in unrealized appreciation (depreciation) on:		
Debt securities	(1,082,695)	2,669,255
Equity securities	680,986	(16,985)
CLO Fund securities managed by affiliate	2,366,876	1,656,259
CLO Fund securities managed by non-affiliate	(26,843)	1,298,486
Affiliate asset manager investments	(5,303,682)	841,875
Net realized and unrealized appreciation (depreciation) on investments	(3,062,624)	4,622,167
Net Increase In Net Assets Resulting From Operations	\$ 576,657	\$ 9,604,634
Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share:		
Basic:	\$ 0.02	\$ 0.42
Diluted:	\$ 0.02	\$ 0.40
Net Investment Income Per Common Share:		
Basic:	\$ 0.15	\$ 0.22
Diluted:	\$ 0.15	\$ 0.21
Weighted Average Shares of Common Stock Outstanding—Basic	24,270,825	22,791,242
Weighted Average Shares of Common Stock Outstanding—Diluted	24,282,699	23,987,407

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
(unaudited)

	Three Months Ended	
	2012	2011
Operations:		
Net investment income	\$ 3,639,281	\$ 4,982,467
Net realized loss from investment transactions	302,734	(1,826,722)
Net change in unrealized appreciation (depreciation) on investments	(3,365,358)	6,448,890
Net increase (decrease) in net assets resulting from operations	576,657	9,604,635
Stockholder distributions:		
Dividends in excess of net investment income to restricted stockholders	(3,654)	—
Net decrease in net assets resulting from stockholder distributions	(3,654)	—
Capital transactions:		
Issuance of common stock for:		
Interest in affiliate company	25,560,000	—
Issuance of common stock for dividend reinvestment plan	122,843	294,904
Stock based compensation	172,729	222,266
Net increase in net assets resulting from capital transactions	25,855,572	517,170
Net assets at beginning of period	180,525,941	186,925,667
Net assets at end of period (including undistributed net investment income of \$4,457,530 in 2012 and \$5,801,131 in 2011)	\$ 206,954,516	\$ 197,047,472
Net asset value per common share	\$ 7.78	\$ 8.64
Common shares outstanding at end of period	26,609,963	22,803,233

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
(unaudited)

Three Months Ended
March 31,

	2012	2011
OPERATING ACTIVITIES:		
Net increase (decrease) in stockholders' equity resulting from operations	\$ 576,657	\$ 9,604,634
Adjustments to reconcile net increase in stockholders' equity resulting from operations to net cash provided by (used in) operations:		
Net realized losses on investment transactions	(302,734)	1,826,723
Net change in unrealized (appreciation) depreciation on investments	3,365,358	(6,448,890)
Net accretion of interest	(680,795)	(19,992)
Amortization of debt issuance cost	—	22,908
Amortization of convertible notes offering cost	118,020	22,092
Purchases of investments	(35,794,253)	(8,063,534)
Capital contribution from (to) affiliate asset manager	(523,682)	138,875
Payment-in-kind interest income	—	(185,431)
Proceeds from sale and redemption of investments	39,032,930	29,311,167
Stock based compensation expense	172,729	222,266
Changes in operating assets and liabilities:		
(Increase) decrease in interest and dividends receivable	(211,593)	56,648
Increase in accounts receivable	(95,874)	2,814
Decrease in other assets	(323,790)	60,217
Decrease in due from affiliates	3,454	—
Increase (decrease) in accounts payable and accrued expenses	(1,800,648)	(401,167)
Net cash provided by operating activities	3,535,779	26,149,330
FINANCING ACTIVITIES:		
Dividends paid in cash	(3,960,849)	(3,517,767)
Cash paid on repayment of debt	—	(86,746,582)
Convertible notes offering costs	—	(2,336,424)
Issuance of Convertible Senior Notes	—	60,000,000
(Increase) Decrease in restricted cash	(98,068)	67,023,170
Net cash provided by (used in) financing activities	(4,058,917)	34,422,397
CHANGE IN CASH	(523,138)	60,571,727
CASH, BEGINNING OF PERIOD	2,555,259	10,175,488
CASH, END OF PERIOD	\$ 2,032,121	\$ 70,747,215
Supplemental Information:		
Interest paid during the period	\$ 2,625,000	\$ 252,318
Non-cash dividends paid during the period under the dividend reinvestment plan	\$ 122,844	\$ 294,904
Issuance of common stock for affiliate investment	\$ 25,560,000	\$ —

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
As of March 31, 2012
(unaudited)

Debt Securities Portfolio

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Advanced Lighting Technologies, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Secured Loan — Revolving Loan 4.8% Cash, Due 6/13	\$ 80,000	\$ 78,040	\$ 75,498
Advanced Lighting Technologies, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Junior Secured Loan — Second Lien Term Loan Note 6.3% Cash, Due 6/14	5,000,000	5,000,000	4,997,000
Alaska Communications Systems Holdings, Inc. <i>Telecommunications</i>	Senior Secured Loan — Term Loan 5.5% Cash, Due 10/16	2,962,500	2,977,774	2,763,360
Allison Transmission, Inc. ¹² <i>Automobile</i>	Senior Secured Loan — Term B-2 Loan 3.8% Cash, Due 8/17	2,000,000	1,987,500	1,991,500
Aramark Corporation ¹² <i>Diversified/Conglomerate Service</i>	Senior Secured Loan — LC-3 Facility 3.7% Cash, Due 7/16	61,707	61,552	61,601
Aramark Corporation ¹² <i>Diversified/Conglomerate Service</i>	Senior Secured Loan — U.S. Term C Loan 3.7% Cash, Due 7/16	938,293	935,946	936,692
Atlantic Broadband Finance, LLC ¹² <i>Broadcasting and Entertainment</i>	Senior Secured Loan — Tranche B Term Loan 5.0% Cash, Due 3/16	2,000,000	2,005,000	1,999,310
Avis Budget Car Rental, LLC ¹² <i>Personal Transportation</i>	Senior Secured Loan — Tranche C Term Loan 4.3% Cash, Due 3/19	2,000,000	2,031,250	1,998,500
Bankruptcy Management Solutions, Inc. <i>Diversified/Conglomerate Service</i>	Junior Secured Loan — Loan (Second Lien) 1.2% Cash, 7.0% PIK, Due 8/15	1,330,445	1,217,437	19,463
Bankruptcy Management Solutions, Inc. <i>Diversified/Conglomerate Service</i>	Senior Secured Loan — Term Loan B 6.5% Cash, 1.0% PIK, Due 8/14	1,438,922	1,426,755	410,092

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Berry Plastics Holding Corporation ¹² <i>Containers, Packaging and Glass</i>	Senior Secured Loan — Term C Loan 2.2% Cash, Due 4/15	\$ 1,994,751	\$ 1,954,855	\$ 1,952,361
Bicent Power LLC ⁸ <i>Utilities</i>	Junior Secured Loan — Advance (Second Lien) 6.3% Cash, Due 12/14	4,000,000	4,000,000	80,000
Burger King Corporation ¹² <i>Personal, Food and Miscellaneous Services</i>	Senior Secured Loan — Tranche B Term Loan 4.5% Cash, Due 10/16	1,952,611	1,948,976	1,954,720
Burger King Corporation <i>Personal, Food and Miscellaneous Services</i>	Senior Secured Loan — Tranche B Term Loan 4.5% Cash, Due 10/16	851,827	851,827	852,746
Caribe Media Inc. (fka Caribe Information Investments Incorporated) <i>Printing and Publishing</i>	Senior Secured Loan — Loan 10.0% Cash, Due 11/14	668,849	668,849	668,849
Catalina Marketing Corporation ¹² <i>Diversified/Conglomerate Service</i>	Senior Secured Loan — 2014 Term Loan 3.0% Cash, Due 10/14	2,000,000	1,957,500	1,927,510
Chrysler Group LLC ¹² <i>Automobile</i>	Senior Secured Loan — Tranche B Term Loan 6.0% Cash, Due 5/17	2,000,000	2,000,000	2,035,230
CoActive Technologies LLC (fka CoActive Technologies, Inc.) <i>Machinery (Non-Agriculture, Non-Construction, Non-Electronic)</i>	Junior Secured Loan — Term Loan (Second Lien) 7.2% Cash, Due 1/15	2,000,000	1,984,540	1,504,200
Del Monte Foods Company ¹² <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Initial Term Loan 4.5% Cash, Due 3/18	1,994,975	1,971,327	1,969,897
Del Monte Foods Company <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Initial Term Loan 4.5% Cash, Due 3/18	982,525	984,637	970,175
eInstruction Corporation <i>Healthcare, Education and Childcare</i>	Junior Secured Loan — Term Loan (Second Lien) 11.5% Cash, Due 7/14	10,000,000	10,000,000	7,800,000
First Data Corporation ¹² <i>Finance</i>	Senior Secured Loan — 2018 Dollar Term Loan 4.5% Cash, Due 3/18	2,000,000	1,780,000	1,827,000

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Fram Group Holdings Inc./Prestone Holdings Inc. ¹² <i>Automobile</i>	Senior Secured Loan — Term Loan (First Lien) 6.5% Cash, Due 7/17	\$ 1,000,000	\$ 1,007,500	\$ 1,008,335
Freescall Semiconductor, Inc. <i>Electronics</i>	Senior Subordinated Bond — 10.125% - 12/2016 - 35687MAP2 10.1% Cash, Due 12/16	1,036,000	1,038,199	1,108,520
Getty Images, Inc. ¹² <i>Printing and Publishing</i>	Senior Secured Loan — Initial Term Loan 5.3% Cash, Due 11/16	2,000,000	2,025,000	2,011,500
Ginn LA Conduit Lender, Inc. ⁸ <i>Buildings and Real Estate</i> ⁴	Senior Secured Loan — First Lien Tranche A Credit-Linked Deposit 7.8% Cash, Due 6/11	1,257,143	1,224,100	75,428
Ginn LA Conduit Lender, Inc. ⁸ <i>Buildings and Real Estate</i> ⁴	Junior Secured Loan — First Lien Tranche B Term Loan 7.8% Cash, Due 6/11	2,694,857	2,624,028	161,690
Ginn LA Conduit Lender, Inc. ⁸ <i>Buildings and Real Estate</i> ⁴	Senior Secured Loan — Loan (Second Lien) 11.8% Cash, Due 6/12	3,000,000	2,715,997	15,000
Gymboree Corporation., The ¹² <i>Retail Stores</i>	Senior Secured Loan — Term Loan 5.0% Cash, Due 2/18	1,500,000	1,421,250	1,424,820
HMSC Corporation (aka Swett and Crawford) <i>Insurance</i>	Junior Secured Loan — Loan (Second Lien) 5.7% Cash, Due 10/14	5,000,000	4,926,801	4,061,500
Hunter Defense Technologies, Inc. <i>Aerospace and Defense</i>	Junior Secured Loan — Term Loan (Second Lien) 7.0% Cash, Due 2/15	5,000,000	4,923,461	4,964,500
Hunter Fan Company <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Junior Secured Loan — Loan (Second Lien) 7.0% Cash, Due 10/14	3,000,000	3,000,000	2,742,600
International Architectural Products, Inc. ⁸ <i>Mining, Steel, Iron and Non-Precious Metals</i>	Senior Secured Loan — Term Loan 8.8% Cash, Due 5/15	525,678	499,114	289,122
Jones Stephens Corp. <i>Personal and Non Durable Consumer Products (Mfg. Only)</i>	Senior Secured Loan — Term Loan 7.0% Cash, Due 9/15	4,385,397	4,385,397	4,385,397

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Kaseman Holdings and Sallyport Holdings <i>Aerospace and Defense</i>	Mezzanine Investment — Mezzanine Notes 14.5% Cash, Due 6/17	\$ 11,250,597	\$ 10,940,849	\$ 11,588,115
KIK Custom Products Inc. <i>Personal and Non Durable Consumer Products (Mfg. Only)</i>	Junior Secured Loan — Loan (Second Lien) 5.2% Cash, Due 12/14	5,000,000	5,000,000	3,383,350
LBREP/L-Suncal Master I LLC ⁸ <i>Buildings and Real Estate⁴</i>	Senior Secured Loan — Term Loan (First Lien) 7.5% Cash, Due 1/10	3,401,921	3,401,921	359,922
Legacy Cabinets, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Secured Loan — Term Loan 1.0% Cash, 6.3% PIK, Due 5/14	500,605	463,380	262,317
Lord & Taylor Holdings LLC (LT Propco LLC) ¹² <i>Retail Stores</i>	Senior Secured Loan — Term Loan 5.8% Cash, Due 1/19	1,303,467	1,309,984	1,314,468
Merisant Company <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Loan 7.5% Cash, Due 1/14	4,582,190	4,567,307	4,582,190
Metropolitan Health Networks, Inc. <i>Healthcare, Education and Childcare</i>	Junior Secured Loan — Term Loan (Second Lien) 13.5% Cash, Due 10/17	5,000,000	4,908,086	5,000,000
Michael Foods Group, Inc. (f/k/a M-Foods Holdings, Inc.) ¹² <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term B Facility 4.3% Cash, Due 2/18	1,925,767	1,929,349	1,927,721
Neiman Marcus Group Inc., The ¹² <i>Retail Stores</i>	Senior Secured Loan — Term Loan 4.8% Cash, Due 5/18	2,000,000	1,983,915	2,000,470
Pegasus Solutions, Inc. <i>Leisure, Amusement, Motion Pictures, Entertainment</i>	Junior Secured Loan — Senior Subordinated Second Lien PIK Notes 13.0% PIK, Due 4/14	1,490,892	1,490,892	1,490,892

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Perseus Holding Corp. <i>Leisure, Amusement, Motion Pictures, Entertainment</i>	Preferred Stock — Preferred Stock 14.0% PIK, Due 4/14	\$ 400,000	\$ 400,000	\$ 400,000
PetCo Animal Supplies, Inc. ¹² <i>Retail Stores</i>	Senior Secured Loan — New Loan 4.5% Cash, Due 11/17	2,000,000	2,000,000	2,001,630
Pinnacle Foods Finance LLC ¹² <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan 2.8% Cash, Due 4/14	1,137,316	1,135,895	1,136,890
Potters Holdings, II, L.P. <i>Diversified/Conglomerate Manufacturing</i>	Junior Secured Loan — Term B Loan (Second Lien) 10.3% Cash, Due 11/17	7,000,000	6,909,475	7,148,400
TPF Generation Holdings, LLC ¹² <i>Utilities</i>	Senior Secured Loan — Synthetic LC Deposit (First Lien) 2.2% Cash, , Due 12/13	540,806	539,454	540,579
TPF Generation Holdings, LLC ¹² <i>Utilities</i>	Senior Secured Loan — Term Loan (First Lien) 2.2% Cash, , Due 12/13	1,459,194	1,455,546	1,458,581
Trinseo Materials Operating S.C.A. (fka Styron S.A.R.L.) ³ <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Term Loan 6.0% Cash, , Due 8/17	1,984,925	1,827,287	1,817,854
TriZetto Group, Inc. (TZ Merger Sub, Inc.) ¹² <i>Electronics</i>	Senior Secured Loan — Term Loan 4.8% Cash, , Due 5/18	1,346,608	1,340,777	1,346,608
TriZetto Group, Inc. (TZ Merger Sub, Inc.) <i>Electronics</i>	Senior Secured Loan — Term Loan 4.8% Cash, , Due 5/18	628,175	603,380	628,175
TUI University, LLC <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term Loan (First Lien) 3.7% Cash, , Due 10/14	3,040,242	2,983,828	2,637,410
TWCC Holding Corp. ¹² <i>Broadcasting and Entertainment</i>	Senior Secured Loan — Term Loan 4.3% Cash, , Due 2/17	2,000,000	2,015,000	2,005,360
Twin-Star International, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Subordinated Bond — Senior Subordinated Note 13.0% Cash, , Due 4/14	5,500,000	5,500,000	5,500,000

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
U.S. Foodservice, Inc. ¹² <i>Personal, Food and Miscellaneous Services</i>	Senior Secured Loan — Term Loan 2.7% Cash, , Due 7/14	\$ 2,000,000	\$ 1,947,500	\$ 1,935,000
Univar Inc. <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Term B Loan 5.0% Cash, , Due 6/17	2,977,387	2,977,387	2,986,691
Vertafore, Inc. ¹² <i>Electronics</i>	Senior Secured Loan — Term Loan (First Lien) 5.3% Cash, , Due 7/16	1,246,845	1,241,472	1,242,170
Vertafore, Inc. <i>Electronics</i>	Senior Secured Loan — Term Loan (First Lien) 5.3% Cash, , Due 7/16	738,088	718,367	735,321
Walker Group Holdings LLC <i>Cargo Transport</i>	Junior Secured Loan — Term Loan B 13.3% Cash, , Due 12/13	316,413	316,413	316,413
Walker Group Holdings LLC <i>Cargo Transport</i>	Junior Secured Loan — Term Loan B 13.3% Cash, , Due 12/13	3,004,875	3,004,875	3,004,875
Warner Chilcott Company, LLC <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term B-2 Loan 4.3% Cash, , Due 3/18	453,706	454,729	453,914
Warner Chilcott Corporation <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term B-1 Loan 4.3% Cash, , Due 3/18	907,411	909,459	907,829
WC Luxco S.A.R.L. (Warner Chilcott) ³ <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term B-3 Loan 4.3% Cash, , Due 3/18	623,845	625,253	624,132
Wesco Aircraft Hardware Corp. <i>Aerospace and Defense</i>	Senior Secured Loan — Tranche B Term Loan 4.3% Cash, , Due 4/17	2,590,244	2,584,829	2,598,183
WM. Bolthouse Farms, Inc. ¹² <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan (First Lien) 5.5% Cash, , Due 2/16	1,965,866	1,975,695	1,976,914
Total Investment in Debt Securities (66% of net asset value at fair value)		\$ 158,973,865	\$ 157,076,916	\$ 136,356,490

Equity Portfolio

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value²
Aerostructures Holdings L.P. ⁶ <i>Aerospace and Defense</i>	Partnership Interests	1.2%	\$ 1,000,000	\$ 1,000
Aerostructures Holdings L.P. ⁶ <i>Aerospace and Defense</i>	Series A Preferred Interests	1.2%	250,961	250,961
Bankruptcy Management Solutions, Inc. ⁶ <i>Diversified/Conglomerate Service</i>	Common Stock	1.2%	218,592	1,000
Bankruptcy Management Solutions, Inc. ⁶ <i>Diversified/Conglomerate Service</i>	Warrants	0.1%	-	-
Coastal Concrete Holding II, LLC ⁶ <i>Buildings and Real Estate⁴</i>	Class A Units	10.8%	8,625,626	1,000
eInstruction Acquisition, LLC ⁶ <i>Healthcare, Education and Childcare</i>	Membership Units	1.1%	1,079,617	1,000
FP WRCA Coinvestment Fund VII, Ltd. ^{3, 6} <i>Machinery (Non-Agriculture, Non-Construction, Non-Electronic)</i>	Class A Shares	1,500	1,500,000	2,790,000
International Architectural Products, Inc. ⁶ <i>Mining, Steel, Iron and Non-Precious Metals</i>	Common	2.5%	292,851	1,000
Legacy Cabinets, Inc. ⁶ <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Equity	4.0%	115,580	1,000
Perseus Holding Corp. ⁶ <i>Leisure, Amusement, Motion Pictures, Entertainment</i>	Common	0.2%	400,000	133,685
Plumbing Holdings Corporation ⁶ <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Common	7.8%	-	28,009

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value²
Plumbing Holdings Corporation <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Preferred Stock	9.0%	\$ 2,716,618	\$ 3,033,974
Caribe Media Inc. (fka Caribe Information Investments Incorporated) ⁶ <i>Printing and Publishing</i>	Common	1.3%	359,765	479,252
Total Investment in Equity Securities (3% of net asset value at fair value)			\$ 16,559,610	\$ 6,721,881

CLO Fund Securities

CLO Equity Investments

Portfolio Company	Investment	Percentage Interest	Cost	Value²
Grant Grove CLO, Ltd. ^{3, 10}	Subordinated Securities	22.2%	\$ 4,892,074	\$ 3,010,800
Katonah III, Ltd. ^{3, 10, 11}	Preferred Shares	23.1%	4,476,930	1,000
Katonah V, Ltd. ^{3, 10, 11}	Preferred Shares	26.7%	3,320,000	1,000
Katonah VII CLO Ltd. ^{3, 7, 10}	Subordinated Securities	16.4%	4,593,193	2,413,500
Katonah VIII CLO Ltd. ^{3, 7, 10}	Subordinated Securities	10.3%	3,444,905	2,009,000
Katonah IX CLO Ltd. ^{3, 7, 10}	Preferred Shares	6.9%	2,065,887	1,420,600
Katonah X CLO Ltd. ^{3, 7, 10}	Subordinated Securities	33.3%	11,839,406	9,119,600
Katonah 2007-I CLO Ltd. ^{3, 7, 10}	Preferred Shares	100.0%	30,841,623	25,731,000
Trimaran CLO IV, Ltd. ^{3, 7, 10}	Preferred Shares	18.9%	3,623,700	3,493,700
Trimaran CLO V, Ltd. ^{3, 7, 10}	Subordinate Notes	20.8%	2,757,300	2,707,300
Trimaran CLO VI, Ltd. ^{3, 7, 10}	Income Notes	16.2%	2,914,723	2,854,723
Trimaran CLO VII, Ltd. ^{3, 7, 10}	Income Notes	10.5%	3,160,200	3,060,200
Total Investment in CLO Equity Securities			\$ 77,929,941	\$ 55,822,423

CLO Rated-Note Investment

Portfolio Company	Investment	Percentage Interest	Cost	Value²
Katonah 2007-I CLO Ltd. ^{3, 7, 10}	Class B-2L Notes Par Value of \$10,500,000 5.2%, Due 4/22	5.2%	\$ 1,224,533	\$ 7,581,919
Total Investment in CLO Rated-Note			\$ 1,224,533	\$ 7,581,919
Total Investment in CLO Fund Securities (31% of net asset value at fair value)			\$ 79,154,474	\$ 63,404,342

Asset Manager Affiliates

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value²
Asset Manager Affiliates (Katonah Debt Advisors and Trimaran Advisors)	Asset Management Company	100.0%	\$ 83,421,984	\$ 74,594,000
Total Investment in Asset Manager Affiliates (36% of net asset value at fair value)			\$ 83,421,984	\$ 74,594,000

Time Deposits and Money Market Account

Time Deposits and Money Market Account	Investment	Yield	Par / Cost	Value²
JP Morgan Asset Account	Time Deposit	0.0%	\$ 12,343	\$ 12,343
JP Morgan Business Money Market Account ⁹	Money Market Account	0.2%	203,834	203,834
US Bank Money Market Account	Money Market Account	0.4%	9,542,601	9,542,601
Total Investment in Time Deposit and Money Market Accounts (5% of net asset value at fair value)			\$ 9,758,778	\$ 9,758,778
Total Investments⁵ (141% of net asset value at fair value)			\$ 345,971,762	\$ 290,835,491

See accompanying notes to financial statements.

- 1 A majority of the variable rate loans to the Company's 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 typically resets semi-annually, quarterly, or monthly. Interest rates and floors may contain fixed rate payment-in-kind provisions. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at March 31, 2012.
- 2 Reflects the fair market value of all existing investments as of March 31, 2012, as determined by the Company's board of directors (the "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 March 31, 2012, the Company 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 the Company's investments in CLO Funds.
- 5 The aggregate cost of investments for federal income tax purposes is approximately \$346 million. The aggregate gross unrealized appreciation is approximately \$9 million, the aggregate gross unrealized depreciation is approximately \$65 million and the net unrealized depreciation is approximately \$56 million.
- 6 Non-income producing.
- 7 An affiliate CLO Fund managed by an Asset Manager Affiliate.
- 8 Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- 9 Money market account holding restricted cash and security deposits for employee flexible spending and payroll related accounts.
- 10 These securities were acquired in a transaction that was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Rule 144A thereunder. These securities may be resold only in transactions that are exempt from the registration requirements of the Securities Act, normally to qualified institutional buyers.
- 11 As of March 31, 2012, this CLO Fund security was not providing a dividend distribution.
- 12 Pledged as collateral for the secured revolving credit facility (see Note 6 to the financial statements).

KOHLBERG CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
As of December 31, 2011

Debt Securities Portfolio

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Advanced Lighting Technologies, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Secured Loan — Revolving Loan .5% Cash, Due 6/13	\$ -	\$ -	\$ -
Advanced Lighting Technologies, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Junior Secured Loan — Second Lien Term Loan Note 6.3% Cash, Due 6/14	5,000,000	4,997,622	4,965,000
Alaska Communications Systems Holdings, Inc. <i>Telecommunications</i>	Senior Secured Loan — Term Loan 5.5% Cash, Due 10/16	2,970,000	2,986,151	2,776,950
Avis Budget Car Rental, LLC <i>Personal Transportation</i>	Senior Secured Loan — Extended Term Loan 5.8% Cash, Due 4/14	2,974,338	2,993,092	2,983,648
Bankruptcy Management Solutions, Inc. <i>Diversified/Conglomerate Service</i>	Junior Secured Loan — Loan (Second Lien) 1.4% Cash, 7.0% PIK, Due 8/15	1,291,447	1,217,438	39,822
Bankruptcy Management Solutions, Inc. <i>Diversified/Conglomerate Service</i>	Senior Secured Loan — Term Loan B 6.5% Cash, 1.0% PIK, Due 8/14	1,442,478	1,434,611	331,777
Bicent Power LLC <i>Utilities</i>	Junior Secured Loan — Advance (Second Lien) 4.6% Cash, Due 12/14	4,000,000	4,000,000	137,500
Burger King Corporation <i>Personal, Food and Miscellaneous Services</i>	Senior Secured Loan — Tranche B Term Loan 4.5% Cash, Due 10/16	2,872,500	2,872,500	2,827,359
Caribe Media Inc. (fka Caribe Information Investments Incorporated) <i>Printing and Publishing</i>	Senior Secured Loan — Loan 10.0% Cash, Due 11/14	684,774	684,774	684,774
CoActive Technologies LLC (fka CoActive Technologies, Inc.) <i>Machinery (Non-Agriculture, Non-Construction, Non-Electronic)</i>	Junior Secured Loan — Term Loan (Second Lien) 7.3% Cash, Due 1/15	2,000,000	1,983,174	1,552,200

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Del Monte Foods Company <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Initial Term Loan 4.5% Cash, Due 3/18	\$ 2,985,000	\$ 2,991,687	\$ 2,843,212
eInstruction Corporation <i>Healthcare, Education and Childcare</i>	Junior Secured Loan — Term Loan (Second Lien) 11.5% Cash, Due 7/14	10,000,000	10,000,000	9,489,000
Freescale Semiconductor, Inc. <i>Electronics</i>	Senior Subordinated Bond — 10.125% - 12/2016 - 35687MAP2 10.3% Cash, Due 12/16	3,000,000	3,007,007	3,135,000
Ginn LA Conduit Lender, Inc. ⁸ <i>Buildings and Real Estate</i> ⁴	Senior Secured Loan — First Lien Tranche A Credit-Linked Deposit 7.8% Cash, Due 6/11	1,257,143	1,224,101	91,142
Ginn LA Conduit Lender, Inc. ⁸ <i>Buildings and Real Estate</i> ⁴	Senior Secured Loan — First Lien Tranche B Term Loan 7.8% Cash, Due 6/11	2,694,857	2,624,028	195,377
Ginn LA Conduit Lender, Inc. ⁸ <i>Buildings and Real Estate</i> ⁴	Junior Secured Loan — Loan (Second Lien) 11.8% Cash, Due 6/12	3,000,000	2,715,997	15,000
HMSC Corporation (aka Swett and Crawford) <i>Insurance</i>	Junior Secured Loan — Loan (Second Lien) 5.8% Cash, Due 10/14	5,000,000	4,919,522	3,753,000
Hunter Defense Technologies, Inc. <i>Aerospace and Defense</i>	Junior Secured Loan — Term Loan (Second Lien) 7.3% Cash, Due 2/15	5,000,000	4,916,872	5,000,000
Hunter Fan Company <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Junior Secured Loan — Loan (Second Lien) 7.0% Cash, Due 10/14	3,000,000	3,000,000	2,724,300
International Architectural Products, Inc. ⁸ <i>Mining, Steel, Iron and Non-Precious Metals</i>	Senior Secured Loan — Term Loan 12.0% Cash, 3.3% PIK, Due 5/15	530,803	504,240	437,913
Jones Stephens Corp. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Secured Loan — Term Loan 7.0% Cash, Due 9/15	4,889,912	4,889,912	4,889,912

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
Kaseman Holdings and Sallyport Holdings <i>Aerospace and Defense</i>	Mezzanine Investment — Mezzanine Notes 14.5% Cash, Due 6/17	11,250,597	10,931,428	11,588,115
KIK Custom Products Inc. <i>Personal and Non Durable Consumer Products (Mfg. Only)</i>	Junior Secured Loan — Loan (Second Lien) 5.3% Cash, Due 12/14	\$ 5,000,000	5,000,000	3,250,000
LBREP/L-Suncal Master I LLC ⁸ <i>Buildings and Real Estate⁴</i>	Senior Secured Loan — Term Loan (First Lien) 7.5% Cash, Due 1/10	3,401,921	3,401,921	359,923
Legacy Cabinets, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Secured Loan — Term Loan 1.0% Cash, 6.3% PIK, Due 5/14	492,944	463,380	253,817
Merisant Company <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Loan 7.5% Cash, Due 1/14	5,049,291	5,030,584	5,043,232
Metropolitan Health Networks, Inc. <i>Healthcare, Education and Childcare</i>	Junior Secured Loan — Term Loan (Second Lien) 13.5% Cash, Due 10/17	5,000,000	4,903,929	5,000,000
Michael Foods Group, Inc. (f/k/a M-Foods Holdings, Inc.) <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term B Facility 4.3% Cash, Due 2/18	1,925,767	1,870,004	1,910,120
Neiman Marcus Group Inc., The <i>Retail Stores</i>	Senior Secured Loan — Term Loan 4.8% Cash, Due 5/18	2,000,000	1,885,086	1,932,500
Pegasus Solutions, Inc. <i>Leisure, Amusement, Motion Pictures, Entertainment</i>	Senior Subordinated Bond — Senior Subordinated Second Lien PIK Notes 13.0% PIK, Due 4/14	1,490,892	1,490,892	1,490,892
Perseus Holding Corp. ⁶ <i>Leisure, Amusement, Motion Pictures, Entertainment</i>	Preferred Stock — Preferred Stock 14.0% PIK	400,000	400,000	400,000
Potters Holdings, II, L.P. <i>Diversified/Conglomerate Manufacturing</i>	Junior Secured Loan — Term B Loan (Second Lien) 10.3% Cash, Due 11/17	7,000,000	6,905,447	7,000,000
Trinseo Materials Operating S.C.A. (fka Styron S.A.R.L.) ³ <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Term Loan 6.0% Cash, Due 8/17	1,989,950	1,824,534	1,728,779

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Cost	Value²
TriZetto Group, Inc. (TZ Merger Sub, Inc.) <i>Electronics</i>	Senior Secured Loan — Term Loan 4.8% Cash, Due 5/18	1,979,757	1,898,410	1,950,554
TUI University, LLC <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term Loan (First Lien) 3.5% Cash, Due 10/14	\$ 3,040,242	2,978,384	2,626,161
Twin-Star International, Inc. <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Senior Subordinated Bond — Senior Subordinated Note 13.0% Cash, Due 4/14	5,500,000	5,500,000	5,500,000
Univar Inc. <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Term B Loan 5.0% Cash, Due 6/17	2,984,925	2,984,925	2,886,049
Vantiv, LLC (fka Fifth Third Processing Solutions, LLC) <i>Electronics</i>	Senior Secured Loan — Term B-1 Loan (First Lien) 4.5% Cash, Due 11/16	1,989,975	1,992,299	1,988,482
Vertafore, Inc. <i>Electronics</i>	Senior Secured Loan — Term Loan (First Lien) 5.3% Cash, Due 7/16	1,989,956	1,933,723	1,952,147
Walker Group Holdings LLC <i>Cargo Transport</i>	Junior Secured Loan — Term Loan B 13.3% Cash, Due 12/13	416,737	416,737	416,737
Walker Group Holdings LLC <i>Cargo Transport</i>	Junior Secured Loan — Term Loan B 13.3% Cash, Due 12/13	3,957,614	3,957,614	3,957,614
Warner Chilcott Company, LLC <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term B-2 Loan 4.3% Cash, Due 3/18	454,851	455,921	449,450
Warner Chilcott Corporation <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term B-1 Loan 4.3% Cash, Due 3/18	909,703	911,841	898,900
WC Luxco S.A.R.L. (Warner Chilcott) ³ <i>Healthcare, Education and Childcare</i>	Senior Secured Loan — Term B-3 Loan 4.3% Cash, Due 3/18	625,421	626,891	617,994
Wesco Aircraft Hardware Corp. <i>Aerospace and Defense</i>	Senior Secured Loan — Tranche B Term Loan 4.3% Cash, Due 4/17	2,590,244	2,584,560	2,599,154
Total Investment in Debt Securities (55% of net asset value at fair value)		\$ 136,034,039	\$ 134,311,238	\$ 114,673,506

Equity Portfolio

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value ²
Aerostructures Holdings L.P. ⁶ <i>Aerospace and Defense</i>	Partnership Interests	1.2%	\$ 1,000,000	\$ 1,000
Aerostructures Holdings L.P. ⁶ <i>Aerospace and Defense</i>	Series A Preferred Interests	1.2%	250,961	250,961
Bankruptcy Management Solutions, Inc. ⁶ <i>Diversified/Conglomerate Service</i>	Common Stock	1.2%	218,592	1,005
Bankruptcy Management Solutions, Inc. ⁶ <i>Diversified/Conglomerate Service</i>	Warrants	0.1%	-	-
Coastal Concrete Holding II, LLC ⁶ <i>Buildings and Real Estate</i> ⁴	Class A Units	10.8%	8,625,626	1,000
eInstruction Acquisition, LLC ⁶ <i>Healthcare, Education and Childcare</i>	Membership Units	1.1%	1,079,617	442,319
FP WRCA Coinvestment Fund VII, Ltd. ^{3, 6} <i>Machinery (Non-Agriculture, Non-Construction, Non-Electronic)</i>	Class A Shares	1,500	\$ 1,500,000	2,339,700
International Architectural Products, Inc. ⁶ <i>Mining, Steel, Iron and Non-Precious Metals</i>	Common	2.5%	292,851	1,000
Legacy Cabinets, Inc. ⁶ <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Equity	4.0%	115,580	1,000
Perseus Holding Corp. ⁶ <i>Leisure, Amusement, Motion Pictures, Entertainment</i>	Common	0.2%	400,000	193,120
Plumbing Holdings Corporation ⁶ <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Common	7.8%	-	-
Plumbing Holdings Corporation ⁶ <i>Home and Office Furnishings, Housewares, and Durable Consumer Products</i>	Preferred Stock	1550.0%	2,716,618	2,270,821

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value²
Caribe Media Inc. (fka Caribe Information Investments Incorporated) ⁶	Common	1.3%	359,765	538,969

Total Investment in Equity Securities (3% of net asset value at fair value)			\$ 16,559,610	\$ 6,040,895
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CLO Fund Securities

CLO Equity Investments

Portfolio Company	Investment	Percentage Interest	Cost	Value²
Grant Grove CLO, Ltd. ^{3, 10}	Subordinated Securities	22.2%	\$ 4,893,552	\$ 3,042,400
Katonah III, Ltd. ^{3, 10}	Preferred Shares	23.1%	4,476,930	1,000
Katonah V, Ltd. ^{3, 10, 11}	Preferred Shares	26.7%	3,320,000	1,000
Katonah VII CLO Ltd. ^{3, 7, 10}	Subordinated Securities	16.4%	4,614,123	2,358,700
Katonah VIII CLO Ltd. ^{3, 7, 10}	Subordinated Securities	10.3%	3,450,583	1,888,700
Katonah IX CLO Ltd. ^{3, 7, 10}	Preferred Shares	6.9%	2,060,697	1,336,800
Katonah X CLO Ltd. ^{3, 7, 10}	Subordinated Securities	33.3%	11,840,297	8,645,600
Katonah 2007-I CLO Ltd. ^{3, 7, 10}	Preferred Shares	100.0%	30,659,688	24,488,400

Total Investment in CLO Equity Securities			\$ 65,315,870	\$ 41,762,600
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CLO Rated-Note Investment

Portfolio Company	Investment	Percentage Interest	Cost	Value²
Katonah 2007-I CLO Ltd. ^{3, 7, 10}	Class B-2L Notes Par Value of \$10,500,000 100.0%, Due 4/22	100.0%	\$ 1,212,612	\$ 6,675,717

Total Investment in CLO Rated-Note			\$ 1,212,612	\$ 6,675,717
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Total Investment in CLO Fund Securities (23% of net asset value at fair value)			\$ 66,528,482	\$ 48,438,317
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Asset Manager Affiliates

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value²
Asset Manager Affiliates (Katonah Debt Advisors and Trimaran Advisors)	Asset Management Company	100.0%	\$ 44,338,301	\$ 40,814,000
Total Investment in Asset Manager Affiliates (20% of net asset value at fair value)			\$ 44,338,301	\$ 40,814,000

Time Deposits and Money Market Account

Time Deposits and Money Market Account	Investment	Yield	Par / Cost	Value²
JP Morgan Asset Account	Time Deposit	0.0%	\$ 229,152	\$ 229,152
JP Morgan Business Money Market Account ⁹	Money Market Account	0.2%	164,573	164,573
US Bank Money Market Account	Money Market Account	0.4%	31,457,561	31,457,561
Total Investment in Time Deposit and Money Market Accounts (15% of net asset value at fair value)			\$ 31,851,286	\$ 31,851,286
Total Investments⁵ (117% of net asset value at fair value)			\$ 293,588,917	\$ 241,818,004

See accompanying notes to financial statements.

- 1 A majority of the variable rate loans to the Company's 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 typically resets semi-annually, quarterly, or monthly. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at December 31, 2011.
- 2 Reflects the fair market value of all existing investments as of December 31, 2011, as determined by the Company's 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, 2011, the Company 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 the Company's investments in CLO funds.
- 5 The aggregate cost of investments for federal income tax purposes is approximately \$294 million. The aggregate gross unrealized appreciation is approximately \$8 million, the aggregate gross unrealized depreciation is approximately \$59 million, and the net unrealized depreciation is approximately \$51 million.
- 6 Non-income producing.
- 7 An affiliate CLO Fund managed by an Asset Manager Affiliate.
- 8 Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- 9 Money market account holding restricted cash and security deposits for employee flexible spending and payroll related accounts.
- 10 These securities were acquired in a transaction that was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Rule 144A thereunder. These securities may be resold only in transactions that are exempt from the registration requirements of the Securities Act, normally to qualified institutional buyers.
- 11 As of December 31, 2011, this CLO Fund Security was not providing a dividend distribution.

KOHLBERG CAPITAL CORPORATION
FINANCIAL HIGHLIGHTS
(unaudited)
(\$ per share)

	Three Months Ended	
	March 31,	
	2012	2011
Per Share Data:		
Net asset value, at beginning of period	\$ 7.85	\$ 8.21
Net income (loss)		
Net investment income ¹	0.15	0.22
Net realized losses ¹	0.01	(0.08)
Net change in unrealized appreciation/depreciation on investments ¹	(0.25)	0.27
Net income (loss)	(0.09)	0.41
Net decrease in net assets resulting from distributions		
Net increase in net assets relating to stock-based transactions		
Issuance of common stock under dividend reinvestment plan	0.01	0.01
Stock based compensation expense	0.01	0.01
Net increase in net assets relating to stock-based transactions	0.02	0.02
Net asset value, end of period	<u>\$ 7.78</u>	<u>\$ 8.64</u>
Total net asset value return ²	(0.9)%	5.2%
Ratio/Supplemental Data:		
Per share market value at beginning of period	\$ 6.31	\$ 6.97
Per share market value at end of period	\$ 6.91	\$ 8.26
Total market return ³	9.5%	18.5%
Shares outstanding at end of period	26,609,963	22,803,233
Net assets at end of period	\$ 206,954,516	\$ 197,046,824
Portfolio turnover rate ⁴	6.9%	2.6%
Average debt outstanding	\$ 60,000,000	\$ 35,561,620
Asset coverage ratio	445%	428%
Ratio of net investment income to average net assets ⁵	7.5%	9.8%
Ratio of total expenses to average net assets ⁵	7.8%	4.6%
Ratio of interest expense to average net assets ⁵	3.0%	0.6%
Ratio of non-interest expenses to average net assets ⁵	4.8%	4.0%

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 price over the beginning of period price per share plus dividends, divided by the beginning price.

⁴ Not annualized. Portfolio turnover rate equals the year-to-date sales and paydowns over the average of the invested assets at fair value.

⁵ Annualized

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited)

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’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.

Katonah Debt Advisors, L.L.C., a registered investment adviser, and its asset manager affiliates (collectively, “Katonah Debt Advisors”) is a wholly-owned portfolio company of the Company. Katonah Debt Advisors manages collateralized loan obligation funds (“CLO Funds”) which invest in broadly syndicated loans, high-yield bonds and other credit instruments. On February 29, 2012, the Company purchased Trimaran Advisors, L.L.C. (“Trimaran Advisors”), a registered investment adviser and CLO manager similar to Katonah Debt Advisors with assets under management of approximately \$1.5 billion, for total consideration of \$13.0 million in cash and 3,600,000 shares of the Company’s common stock. Contemporaneously with the acquisition of Trimaran Advisors, the Company acquired from Trimaran Advisors equity interests in certain CLO Funds managed by Trimaran Advisors for an aggregate purchase price of \$12.0 million in cash. As of March 31, 2012 Katonah Debt Advisors and Trimaran Advisors are the Company’s only wholly-owned portfolio companies (collectively, “Asset Manager Affiliates”) and have approximately \$3.4 billion of par value assets under management.

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. As a RIC, the Company generally will not have to pay corporate-level taxes on any income that it distributes in a timely manner to its stockholders.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required for annual financial statements. The unaudited interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto in the Company’s Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (the “Commission” or the “SEC”).

The financial statements reflect all adjustments, both normal and recurring 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 preparation of the financial statements requires management to make significant estimates and assumptions including the fair value of investments that do not have a readily available market value. Actual results could differ from those estimates, and the differences could be material. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for the full year.

In accordance with Article 6 of Regulation S-X under the Securities Act of 1933, as amended (the “Securities Act”) and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company does not consolidate portfolio company investments, including those in which it has a controlling interest (the Asset Manager Affiliates are currently the only companies in which the Company has a controlling interest). Effective January 1, 2010, the Asset Manager Affiliates adopted guidance encompassed in Accounting Standards Codification Topic 810, “Consolidation.” Although the Company cannot consolidate portfolio company investments, the adoption of this new guidance affected the required disclosures relating to the Asset Manager Affiliates, as it requires the Asset Manager Affiliates to consolidate their managed CLO Funds that are deemed to be variable interest entities (“VIEs”) and for which the Asset Manager Affiliates are considered to be the primary beneficiaries. As a result of the consolidation of these CLOs into the Asset Manager Affiliates, each Asset Manager Affiliates qualifies as a “significant subsidiary” and, as a result, the Company is required to include additional disclosures regarding the Asset Manager Affiliates in its filings. The additional disclosure is included in Note 5 - Asset Manager Affiliates below.

The Asset Manager Affiliates are valued and presented on a combined basis as they are all asset managers for CLO Funds, economically linked, under common control, dependent on one another for shared resources and represent unconsolidated subsidiaries of the Company.

During the first quarter 2012, the Company recognized dividend income from CLO Fund securities based on effective interest determined by using anticipated yield and estimated cash flows as updated quarterly for changes in prepayments, re-investment, credit losses and other items that may impact distributions. Previous cash distributions were previously recognized as dividends. The Company's financial statements contain reclassifications of prior period amounts to conform with such presentation; the effect of such reclassifications had no impact on the net increase in net assets resulting from operations, total assets or net assets.

Investments

Investment transactions are recorded on the applicable trade date. Realized gains or losses are determined using the specific identification method.

Valuation of Portfolio Investments. The Company's board of directors (the "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. Debt and equity securities for which market quotations are readily available are generally valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued by the Board of Directors based on detailed analyses prepared by management, the Valuation Committee of the Board of Directors, and, in certain circumstances, third parties with valuation expertise. Valuations are conducted by management on 100% of the investment portfolio at the end of each quarter. The Company follows the provisions of ASC Fair Value Measurements and Disclosures ("*Fair Value Measurements and Disclosures*"). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. *Fair Value Measurements and Disclosures* defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to the adoption of *Fair Value Measurements and Disclosures*, the FASB has issued various staff positions clarifying the initial standard as noted below.

In May 2011, the FASB issued additional guidance that clarifies and requires new disclosures about fair value measurements. Information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and a narrative description of the sensitivity of Level III measurements to changes in unobservable inputs were adopted by the Company in the first quarter of 2012. Note 4 below reflects the amended disclosure requirements. Since this new guidance only amends the disclosures requirements, it did not impact our balance sheet, statements of operations, or cash flow statement.

Fair Value Measurements and Disclosures requires the disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.

Beginning with the period ended June 30, 2011, the Company has engaged an independent valuation firm to provide third party valuation consulting services to the Company's Board of Directors. Each quarter, the independent valuation firm will perform third party valuations on the Company's investments in illiquid securities such that they are reviewed at least once during a trailing 12 month period. These third party valuation estimates were considered as one of the relevant data inputs in the Company's determination of fair value. The Board of Directors intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

In 2011 and 2010, the Company engaged an independent valuation firm, to provide a third-party review of the Company's CLO fair value model relative to its functionality, model inputs and calculations as a reasonable method to determine fair values, in the absence of Level I or Level II trading activity or observable market inputs. The independent valuation firm concluded that the Company's CLO model appropriately factored in all the necessary inputs required to build a CLO equity cash flow for fair value purposes and that the inputs were being employed correctly.

The Board of Directors may consider other methods of valuation than those set forth above to determine the fair value of Level III 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 the Company's investments may differ materially from the values that would have been used had a ready market existed for such investments. Further, such investments may be generally subject to legal and other restrictions on resale or otherwise be less liquid than publicly traded securities. In addition, changes in the market environment and other events may occur over the life of the investments that may cause the value realized on such investments to be different from the currently assigned valuations.

The Company's valuation methodology and procedures are as follows:

- 1) Each portfolio company or investment is cross-referenced to an independent pricing service to determine if a current market quote is available. The nature and quality of such quote is reviewed to determine reliability and relevance of the quote. Factors considered in this determination include whether the quote is from a transaction or is a broker quote, the date and aging of such quote, whether the transaction is arms-length, whether it is of a liquidation or distressed nature and certain other factors judged to be relevant by management within the framework of Fair Value Measurements and Disclosures.
- 2) If an investment does not have a market quotation on either a broad market exchange or from an independent pricing service, the investment is initially valued by the Company's investment professionals responsible for the portfolio investment in conjunction with the portfolio management team.
- 3) Preliminary valuation conclusions are discussed and documented by management.
- 4) Illiquid loans, junior and mezzanine securities, equity investments, CLO Fund securities and Asset Manager Affiliates may be selected for review by an independent valuation firm, which is engaged by the Company's Board of Directors. Such independent valuation firm reviews management's preliminary valuations and makes their own independent valuation assessment.
- 5) The Valuation Committee of the Board of Directors reviews the portfolio valuations, as well as the input and report of such independent valuation firm, as applicable.
- 6) Upon approval of the investment valuations by the Valuation Committee of the Board of Directors, the Audit Committee of the Board of Directors reviews the results for inclusion in the Company's quarterly and annual financial statements, as applicable.
- 7) The Board of Directors discusses the valuations and determines in good faith that the fair values of each investment in the portfolio is reasonable based upon any applicable independent pricing service, input of management, estimates from independent valuation firms (if any) and the recommendations of the Valuation Committee of the Board of Directors.

The majority of the Company's investment portfolio is composed of debt and equity securities with unique contract terms and conditions and/or complexity that requires a valuation of each individual investment that considers multiple levels of market and asset specific inputs, including historical and forecasted financial and operational performance of the individual investment, projected cash flows, market multiples, comparable market transactions, the priority of the security compared with those of other securities for such issuers, credit risk, interest rates, and independent valuations and reviews.

Loans and Debt Securities. To the extent that the Company's investments are exchange traded and are priced or have sufficient price indications from normal course trading at or around the valuation date (financial reporting date), such pricing will determine fair value. Pricing service marks from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the marks, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity. However, most of the Company's investments are illiquid investments with little or no trading activity. Further, the Company has been unable to identify directly comparable market indices or other market guidance that correlate directly to the types of investments the Company owns. As a result, for most of its assets, the Company determines fair value using alternative methodologies using available market data, as adjusted, to reflect the types of assets the Company owns, their structure, qualitative and credit attributes and other asset specific characteristics.

The Company derives fair value for its illiquid investments that do not have indicative fair values based upon active trades primarily by using a present value technique that discounts the estimated contractual cash flows for the underlying assets with discount rates imputed by broad market indices, bond spreads and yields for comparable issuers relative to the subject assets (the "Market Yield Approach") and also considers recent loan amendments or other activity specific to the subject asset. Discount rates applied to estimated contractual cash flows for an underlying asset vary by specific investment, industry, priority and nature of the debt security (such as the seniority or security interest of the debt security) and are assessed relative to two indices, a leveraged loan index and a high-yield bond index, at the valuation date. The Company has identified these two indices as benchmarks for broad market information related to its loan and debt investments. Because the Company has not identified any market index that directly correlates to the loan and debt investments held by the Company and therefore uses the two benchmark indices, these market indices may require significant adjustment to better correlate such market data for the calculation of fair value of the investment under the Market Yield Approach. Such adjustments require judgment and may be material to the calculation of fair value. Further adjustments to the discount rate may be applied to reflect other market conditions or the perceived credit risk of the borrower. When broad market indices are used as part of the valuation methodology, their use is subject to adjustment for many factors, including priority, collateral used as security, structure, performance and other quantitative and qualitative attributes of the asset being valued. The resulting present value determination is then weighted along with any quotes from observable transactions and broker/pricing quotes. If such quotes are indicative of actual transactions with reasonable trading volume at or near the valuation date that are not liquidation or distressed sales, relatively more reliance will be put on such quotes to determine fair value. If such quotes are not indicative of market transactions or are insufficient as to volume, reliability, consistency or other relevant factors, such quotes will be compared with other fair value indications and given relatively less weight based on their relevancy. Other significant assumptions, such as coupon and maturity, are asset-specific and are noted for each investment in the Schedules of Investments.

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 EBITDA and cash flows from operations less capital expenditures 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 values 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 prices 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 significant inputs used to determine the fair value of equity and equity-related securities include prices, earnings, EBITDA and cash flows after capital expenditures for similar peer comparables and the investment entity itself. Equity and equity related securities are classified as Level III, as described in Note 4 below, when there is limited activity or less transparency around inputs to the valuation given the lack of information related to such equity investments held in nonpublic companies. Significant assumptions observed for comparable companies are applied to relevant financial data for the specific investment. Such assumptions, such as model discount rates or price/earnings multiples, vary by the specific investment, equity position and industry and incorporate adjustments for risk premiums, liquidity and company specific attributes. Such adjustments require judgment and may be material to the calculation of fair value.

Asset Manager Affiliates. The Company's investments in its wholly-owned Asset Manager Affiliates are carried at fair value, which is determined after taking into consideration a percentage of assets under management and a discounted cash flow model incorporating different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Such valuation includes an analysis of comparable asset management companies. The Asset Manager Affiliates are classified as a Level III investment (as described below). Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation.

CLO Fund Securities. The Company typically makes a minority investment in the most junior class of securities of CLO Funds raised and managed by the Asset Manager Affiliates and may selectively invest in securities issued by funds managed by other asset management companies (collectively, "CLO Fund securities"). The Company's CLO Fund securities 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.

The Company's investments in CLO Fund securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and cash outflows for interest expense, debt paydown and other fund costs for the CLO Funds that are approaching or past the end of their reinvestment period and therefore are selling assets and/or using principal repayments to pay down CLO Fund debt (or will begin to do so shortly), and for which there continue to be net cash distributions to the class of securities owned by the Company, or (ii) 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 securities or preferred shares to those in which the Company has invested. The Company recognizes unrealized appreciation or depreciation on the Company's 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 are updated and the revised cash flows are used in determining the fair value of the CLO Fund investment. The Company determines the fair value of its investments in CLO Fund securities on an individual security-by-security basis.

Due to the individual attributes of each CLO Fund security, they are classified as a Level III investment unless specific trading activity can be identified at or near the valuation date. When available, observable market information will be identified, evaluated and weighted accordingly in the application of such data to the present value models and fair value determination. Significant assumptions to the present value calculations include default rates, recovery rates, prepayment rates, investment/reinvestment rates and spreads and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterization of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund security's underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. The Company evaluates the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented.

For bond rated tranches of CLO Fund securities (those above the junior class) without transactions to support a fair value for the specific CLO Fund and tranche, fair value is based on discounting estimated bond payments at current market yields, which may reflect the adjusted yield on the leveraged loan index for similarly rated tranches, as well as prices for similar tranches for other CLO Funds and also other factors such as the default and recovery rates of underlying assets in the CLO Fund, as may be applicable. Such model assumptions may vary and incorporate adjustments for risk premiums and CLO Fund specific attributes. Such adjustments require judgment and may be material to the calculation of fair value.

Cash. The Company defines cash as demand deposits. The Company places its cash with financial institutions and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Restricted Cash. Restricted cash consisted of cash held in an operating account pursuant to the Company's secured credit facility agreement with its lender.

Time Deposits and Money Market Accounts. Time deposits primarily represent investments of cash held in non-demand deposit accounts. Money market accounts primarily represent short term interest-bearing deposit accounts including an account that contains restricted cash held for employee flexible spending accounts.

Interest Income. Interest income, including the 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 or security on non-accrual status and ceases recognizing cash 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. As of March 31, 2012, four issuers representing less than 1% of total investments at fair value were considered in default and on non-accrual.

Dividends from Asset Manager Affiliates. The Company records dividend income from the Asset Manager Affiliates on the declaration date, which represents the ex-dividend 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 the Asset Manager Affiliates and selective investments in securities issued by funds managed by other asset management companies using the effective interest method based on anticipated yield and estimated cash flows as updated quarterly for changes in prepayments, re-investment, credit losses and other items that may impact distributions. The Company's CLO Fund junior class securities are subordinated 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 recognizes dividend income from CLO Fund securities based on effective interest determined by using anticipated yield and estimated cash flows as updated quarterly for changes in prepayments, re-investment, credit losses and other items that may impact distributions.

For non-junior class CLO Fund securities, such as the Company's investment in the Class B-2L Notes of the Katonah 2007-1 CLO, interest is earned at a fixed spread relative to the LIBOR index.

Capital Structuring Service Fees. The Company may earn ancillary structuring and other fees related to the origination, investment, disposition or liquidation of debt and investment securities. Generally, the Company will capitalize loan origination fees, then amortize these fees into interest income over the term of the loan using the effective interest rate method, recognizes prepayment and liquidation fees upon receipt and equity structuring fees as earned, which generally occurs when an investment transaction closes.

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. In January 31, 2011, the Company fully repaid its outstanding secured credit borrowing facility which had a balance of \$86.7 million as of December 31, 2010 and, at repayment, all related debt issuance costs were fully amortized.

During March 2011, the Company issued \$60 million of convertible senior notes (the "Convertible Senior Notes") and incurred debt issuance costs of approximately \$2.4 million which will be amortized over a five-year period. At March 31, 2012, there was an unamortized debt issuance cost of approximately \$1.9 million included in other assets in the accompanying balance sheet. Amortization expense for the three months ended March 31, 2012 and 2011 was approximately \$118,000 and \$45,000, respectively.

On February 24, 2012, the Company entered into a three year financing arrangement under which the Company may obtain up to \$30 million in financing. In connection with the Facility, the Company incurred approximately \$424,000 of debt origination costs which are being amortized over the term of the Facility on a straight-line basis of which approximately \$412,000 remains to be amortized.

Expenses. The Company is internally managed and expenses costs, as incurred, with regard to the running of its operations. Primary operating expenses include employee salaries and benefits, the costs of identifying, evaluating, negotiating, closing, monitoring and servicing the Company's investments and related overhead charges and expenses, including rental expense, and any interest expense incurred in connection with borrowings. The Company and the Asset Manager Affiliates share office space and certain other operating expenses. The Company has entered into an Overhead Allocation Agreement with the Asset Manager Affiliates which provides for the sharing of such expenses based on an equal sharing of office lease costs and the ratable usage of other shared resources. The aggregate net payments of such expenses under the Overhead Allocation Agreement are not material.

Dividends. Dividends and distributions to common stockholders are recorded on the ex-dividend 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 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.

Recent Accounting Pronouncements

Improved Disclosures Regarding Fair Value Measurements. In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Improving Disclosures About Fair Value Measurements (Topic 820)*, which provides for improving disclosures about fair value measurements, primarily significant transfers in and out of Levels I and II, and activity in Level III fair value measurements. The new disclosures and clarifications of existing disclosures are effective for the interim and annual reporting periods beginning after December 15, 2009, while the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and for the interim periods within those fiscal years. Except for certain detailed Level III disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company's fiscal 2010 second quarter. The adoption of this disclosure-only guidance is included in Note 4 "— Portfolio Investments" and did not have a material impact on the Company's financial results.

In May 2011, the FASB issued FASB Accounting Standards Update ("ASU") 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments in this ASU are applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Management believes that the adoption of this ASU did not have a material impact on the Company's operating results, financial position or cash flows.

3. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share for the three months ended March 31, 2012 and 2011 (unaudited):

	Three Months Ended March 31,	
	2012	2011
Net increase in net assets from operations	\$ 576,657	\$ 9,604,634
Net decrease in net assets allocated to unvested share awards	(7,777)	(141,172)
Net increase in net assets available to common stockholders	<u>568,880</u>	<u>9,463,462</u>
Weighted average number of common shares outstanding for basic shares computation	24,270,825	22,791,242
Weighted average number of common and common stock equivalent shares outstanding for diluted shares computation	<u>24,270,825</u>	<u>22,791,242</u>
Net increase (decrease) in net assets per basic common shares:		
Net increase in net assets from operations ¹	0.02	0.42
Net decrease in net assets allocated to unvested share awards	(0.00)	(0.01)

¹ For periods with a net decrease in net assets from operations, unvested restricted shares are anti-dilutive and not included in the per share calculations.

Share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and included in the computation of both basic and diluted earnings per share. Grants of restricted stock awards to our employees and directors are considered participating securities when there are earnings in the period and the earnings per share calculations include outstanding unvested restricted stock awards in the basic weighted average shares outstanding calculation.

Options to purchase 40,000 shares were included in the computation of diluted earnings per share for the periods ended March 31, 2012 and March 31, 2011, with a dilutive effect of 11,874 and 14,509 shares, respectively. For the periods ended March 31, 2012 and March 31, 2011, options to purchase 20,000 shares were not included in the computation of diluted earnings per share because the effect would be antidilutive as the exercise prices exceeded the average market price of the common shares.

The Company's Convertible Senior Notes are included in the computation of the diluted net increase or decrease in net assets resulting from operations per share in accordance with ASC 261-10-45-40-b by application of the "if-converted method." Under the if-converted method, interest charges applicable to the convertible debt for the period are added to the reported net increase or decrease in net assets resulting from operations and the full amount of shares (pro-rata if not outstanding for the full period) that would be issued are added to weighted average basic shares. Convertible debt is considered anti-dilutive only when its interest per share upon conversion exceeds the basic net increase or decrease in net assets resulting from operations per share. For the three months ended March 31, 2012, the effect of the convertible debt was anti-dilutive.

The if-converted method of computing the dilutive effects on convertible debt assumes a conversion even if the contracted conversion price exceeds the market value of the shares. The Company's Convertible Senior Notes have a conversion price of \$8.44 per share which was above the Company's net asset value per share at the time of issuance. Upon conversion, the Company would issue the full amount of common stock upon conversion and retire the full amount of debt outstanding.

4. INVESTMENTS

The Company invests in senior secured loans and mezzanine debt 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 industries in which it currently has little or no investment if it is presented with attractive opportunities.

The following table shows the Company's portfolio by security type at March 31, 2012 and December 31, 2011:

Security Type	March 31, 2012 (unaudited)			December 31, 2011		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Time Deposits	\$ 12,343	\$ 12,343	-%	\$ 229,152	\$ 229,152	-%
Money Market Account	9,746,435	9,746,435	5	31,622,134	31,622,134	18
Senior Secured Loan	79,891,859	71,084,971	34	54,045,184	45,259,328	25
Junior Secured Loan	59,306,009	46,674,884	23	58,936,728	47,300,172	26
Mezzanine Investment	10,940,849	11,588,115	6	10,931,428	11,588,115	6
Senior Subordinated Bond	6,538,199	6,608,520	3	9,997,898	10,125,891	6
CLO Fund Securities	79,154,474	63,404,342	31	65,820,840	48,438,317	27
Equity Securities	16,559,610	6,721,881	3	16,559,610	6,040,895	3
Preferred	400,000	400,000	-	400,000	400,000	-
Asset Manager Affiliates	83,421,984	74,594,000	36	44,338,301	40,814,000	23
Total	\$ 345,971,762	\$ 290,835,491	141%	\$ 292,881,275	\$ 241,818,004	134%

¹ Calculated as a percentage of net asset value.

The industry concentrations, based on the fair value of the Company's investment portfolio as of March 31, 2012 and December 31, 2011, were as follows:

Industry Classification	March 31, 2012 (unaudited)			December 31, 2011		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Aerospace and Defense	\$ 19,700,101	\$ 19,402,759	9%	\$ 19,683,821	\$ 19,439,230	11%
Asset Management Companies ²	83,421,984	74,594,000	36	44,338,301	40,814,000	23
Automobile	4,995,000	5,035,065	3	-	-	-
Beverage, Food and Tobacco	12,564,209	12,563,786	6	9,892,273	9,796,565	5
Broadcasting and Entertainment	4,020,000	4,004,670	2	-	-	-
Buildings and Real Estate ³	18,591,671	613,040	-	18,591,674	662,443	-
Cargo Transport	3,321,289	3,321,288	2	4,374,350	4,374,351	2
Chemicals, Plastics and Rubber	4,804,674	4,804,545	2	4,809,459	4,614,828	3
CLO Fund Securities	79,154,474	63,404,342	31	66,528,482	48,438,317	27
Containers, Packaging and Glass	1,954,855	1,952,361	1	-	-	-
Diversified/Conglomerate Manufacturing	6,909,475	7,148,400	3	6,905,447	7,000,000	4
Diversified/Conglomerate Service	5,817,782	3,356,358	2	2,870,642	372,599	-
Electronics	4,942,195	5,060,794	2	8,831,440	9,026,186	5
Finance	1,780,000	1,827,000	1	-	-	-
Healthcare, Education and Childcare	20,960,971	17,424,285	8	20,956,582	19,523,824	11
Home and Office Furnishings, Housewares, and Durable Consumer Products	16,873,619	16,640,398	8	21,683,112	20,604,850	11
Insurance	4,926,801	4,061,500	2	4,919,522	3,753,000	2
Leisure, Amusement, Motion Pictures, Entertainment	2,290,892	2,024,577	1	2,290,892	2,084,012	1
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	3,484,540	4,294,200	2	3,483,174	3,891,900	2
Mining, Steel, Iron and Non-Precious Metals	791,963	290,122	-	797,091	438,913	-
Personal and Non Durable Consumer Products (Mfg. Only)	9,385,397	7,768,747	4	5,000,000	3,250,000	2
Personal, Food and Miscellaneous Services	4,748,303	4,742,467	2	2,872,500	2,827,359	2
Personal Transportation	2,031,250	1,998,500	1	2,993,092	2,983,648	2
Printing and Publishing	3,053,614	3,159,601	2	1,044,539	1,223,743	1
Retail Stores	6,715,150	6,741,388	3	1,885,086	1,932,500	1
Telecommunications	2,977,774	2,763,360	1	2,986,151	2,776,950	2
Time Deposit and Money Market Accounts	9,758,779	9,758,778	6	31,851,287	31,851,286	18
Utilities	5,995,000	2,079,160	1	4,000,000	137,500	-
Total	\$ 345,971,762	\$ 290,835,491	141%	\$ 293,588,917	\$ 241,818,004	135%

1 Calculated as a percentage of net asset value.

2 Represents the Asset Manager Affiliates controlled by the Company.

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 March 31, 2012 and December 31, 2011, 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 of 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, these investments (excluding the Company's investments in CLO Funds) are generally not anticipated to be in excess of 10% of the investment portfolio at the time such investments are made. The Company is generally 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, the Company may co-invest on a concurrent basis with Kohlberg & Co. or any of its affiliates, subject to compliance with existing regulatory guidance, applicable regulations and its allocation procedures. Certain types of negotiated co-investments may be made only if the Company receives an order from the SEC permitting it to do so. There can be no assurance that any such order will be applied for or, if applied for, obtained.

At March 31, 2012 and December 31, 2011, approximately 23% and 21% of the Company's total assets were foreign assets (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S.)

At March 31, 2012 and December 31, 2011, the Company's ten largest portfolio companies represented approximately 56% and 62%, respectively, of the total fair value of its investments. The Company's largest investment, the Asset Manager Affiliates, which are wholly-owned asset managers, represented 25.9% and 17% of the total fair value of the Company's investments at March 31, 2012 and December 31, 2011, respectively. Excluding Asset Manager Affiliates and CLO Fund securities, the Company's ten largest portfolio companies represented approximately 21% and 26% of the total fair value of the Company's investments at March 31, 2012 and December 31, 2011, 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 the Asset Manager Affiliates and may selectively invest in securities issued by funds managed by other asset management companies. CLO Funds managed by the Asset Manager Affiliates ("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 the Company has an 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.

As of March 31, 2012 and December 31, 2011, the Company had approximately \$63 million and \$48 million, respectively, of CLO Fund securities at fair value. The cost basis of the Company's investment in CLO Fund securities as of March 31, 2012 was approximately \$79 million and aggregate unrealized depreciation on the CLO Fund securities totaled approximately \$16 million. The cost basis of the Company's investment in CLO Fund securities as of December 31, 2011, was approximately \$67 million and aggregate unrealized depreciation on the CLO Fund securities totaled approximately \$18 million.

All CLO Funds managed by the Asset Manager Affiliates are currently making quarterly dividend distributions to the Company and are paying all senior and subordinate management fees to the Asset Manager Affiliates. With the exception of the Katonah III, Ltd. and the Katonah V, Ltd. CLO Funds, all third-party managed CLO Funds held as investments are making quarterly dividend distributions to the Company.

Fair Value Measurements

The Company follows the provisions of *Fair Value Measurements and Disclosures*, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. *Fair Value Measurements and Disclosures* defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This fair value definition focuses on an exit price in the principal, or most advantageous market, and prioritizes, within a measurement of fair value, the use of market-based inputs (which may be weighted or adjusted for relevance, reliability and specific attributes relative to the subject investment) over entity-specific inputs. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Subsequent to the adoption of *Fair Value Measurements and Disclosures*, the FASB has issued various staff positions clarifying the initial standard (see Note 2. "Significant Accounting Policies—Investments").

Fair Value Measurements and Disclosures establishes the following three-level hierarchy, based upon the transparency of inputs to the fair value measurement of an asset or liability as of the measurement date:

Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by *Fair Value Measurements and Disclosures*, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably affect the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Such inputs may be quoted prices for similar assets or liabilities, quoted markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. Investments which are generally included in this category include illiquid corporate loans and bonds and less liquid, privately held or restricted equity securities for which some level of recent trading activity has been observed.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs may be based on the Company’s own assumptions about how market participants would price the asset or liability or may use Level II inputs, as adjusted, to reflect specific investment attributes relative to a broader market assumption. These inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation methodology.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the investment. Substantially all of the Company’s investments are classified as Level III. The Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value. Inputs that are backed by actual transactions, those that are highly correlated to the specific investment being valued and those derived from reliable or knowledgeable sources will tend to have a higher weighting in determining fair value. Ongoing reviews by the Company’s investment analysts, Chief Investment Officer, Valuation Committee and independent valuation firms (if engaged) are based on an assessment of each underlying investment, its current and prospective operating and financial performance, consideration of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, performance factors, and other investment or industry specific market data, among other factors.

The following table summarizes the fair value of investments by the above *Fair Value Measurements and Disclosures* fair value hierarchy levels as of March 31, 2012 (unaudited) and December 31, 2011, respectively:

As of March 31, 2012 (unaudited)

	Level I	Level II	Level III	Total
Time deposit and money market account	\$ —	\$ 9,758,778	\$ —	\$ 9,758,778
Debt securities	—	70,075,318	66,281,172	136,356,490
CLO Fund securities	—	—	63,404,342	63,404,342
Equity securities	—	—	6,721,881	6,721,881
Asset Manager Affiliates	—	—	74,594,000	74,594,000

As of December 31, 2011

	Level I	Level II	Level III	Total
Time deposit and money market account	\$ —	\$ 31,851,286	\$ —	\$ 31,851,286
Debt securities	—	31,578,832	83,094,674	114,673,506
CLO Fund securities	—	—	46,412,000	46,412,000
Equity securities	—	—	6,040,895	6,040,895
Asset Manager Affiliates	—	—	40,814,000	40,814,000

As a BDC, it is required that the Company invest primarily in the debt and equity of non-public companies for which there is little, if any, market-observable information. As a result, most, if not all, of the Company's investments at any given time will likely be deemed Level III investments. The Company believes that investments classified as Level III for *Fair Value Measurements and Disclosures* have a further hierarchal framework which prioritizes and ranks such valuations based on the degree of independent and observable inputs, objectivity of data and models and the level of judgment required to adjust comparable data. The hierarchy of such methodologies are presented in the above table and discussed below in descending rank.

When possible, the Company will obtain investment value indications from third party pricing services. Generally, for illiquid investments, such values are not traded on an active public exchange and typically represent a trading or broker quote on an asset that is infrequently traded. If the quotes are deemed reliable and current, such quotes are deemed Level II assets. If the quotes are not deemed reliable and current, Level III inputs and assessments may be relied upon and the value will be deemed a Level III asset (consistent with a fair value hierarchy based on the lowest level of input that is significant to the fair value measurement).

The Company derives fair value for its illiquid investments that do not have indicative fair values based upon active trades primarily by using the Market Yield Approach and also considers recent loan amendments or other activity specific to the subject asset. Discount rates applied to estimated contractual cash flows for an underlying asset vary by specific investment, industry, priority and nature of the debt security (such as the seniority or security interest of the debt security) and are assessed relative to two indices, a leveraged loan index and a high-yield bond index, at the valuation date. The Company has identified these two indices as benchmarks for broad market information related to its loan and debt investments. Because the Company has not identified any market index that directly correlates to the loan and debt investments held by the Company and therefore uses the two benchmark indices, these market indices may require significant adjustment to better correlate such market data for the calculation of fair value of the investment under the Market Yield Approach. Such adjustments require judgment and may be material to the calculation of fair value. Further adjustments to the discount rate may be applied to reflect other market conditions or the perceived credit risk of the borrower. When broad market indices are used as part of the valuation methodology, their use is subject to adjustment for many factors, including priority, collateral used as security, structure, performance and other quantitative and qualitative attributes of the asset being valued. The resulting present value determination is then weighted along with any quotes from observable transactions and broker/pricing quotes. If such quotes are indicative of actual transactions with reasonable trading volume at or near the valuation date that are not liquidation or distressed sales, relatively more reliance will be put on such quotes to determine fair value. If such quotes are not indicative of market transactions or are insufficient as to volume, reliability, consistency or other relevant factors, such quotes will be compared with other fair value indications and given relatively less weight based on their relevancy. The appropriateness of specific valuation methods and techniques may change as market conditions and available data change.

In 2011 and 2010, the Company engaged an independent valuation firm to provide a third-party review of the Company's CLO fair value model relative to its functionality, model inputs, and calculations as a reasonable method to determine CLO fair values in the absence of Level 1 or Level 2 trading activity or observable market inputs. The independent valuation firm concluded that the Company's CLO model appropriately factored in all the necessary inputs required to build a CLO equity cash flow for fair value purposes and that the inputs were being employed correctly.

Beginning with the period ending June 30, 2011, the Company has engaged an independent valuation firm to provide third party valuation consulting services to the Company's Board of Directors. Each quarter, the independent valuation firm will perform third party valuations on the Company's investments on illiquid securities such that they are reviewed at least once during a trailing 12 month period. These third party valuation estimates were considered as one of the relevant data inputs in the Company's determination of fair value. The Board of Directors intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

Values derived for debt securities using public/private company comparables generally utilize market-observable data from such comparables and specific, non-public and non-observable financial measures (such as earnings or cash flows) for the private, underlying company/issuer. Such non-observable company/issuer data is typically provided on a monthly basis, is certified as correct by the management of the company/issuer and/or audited by an independent accounting firm on an annual basis. Since such private company/issuer data is not publicly available it is not deemed market-observable data and, as a result, such investment values are grouped as Level III assets.

Values derived for the Asset Manager Affiliates using public/private company comparables generally utilize market-observable data from such comparables and specific, non-public and non-observable financial measures (such as assets under management, historical and prospective earnings) for the Asset Manager Affiliates. The Company recognizes that comparable asset managers may not be fully comparable to its Asset Manager Affiliates and typically identifies a range of performance measures and/or adjustments within the comparable population with which to determine value. Since any such ranges and adjustments are entity specific they are not considered market-observable data and thus require a Level III grouping. Illiquid investments that have values derived through the use of discounted cash flow models and residual enterprise value models are grouped as Level III assets.

The Company's policy for determining transfers between levels is based solely on the previously defined three-level hierarchy for fair value measurement. Transfers between the levels of the fair value hierarchy are separately noted in the tables below and the reason for such transfer described in each table's respective footnotes. The changes in investments measured at fair value for which the Company has used unobservable inputs to determine fair value are as follows:

	Three Months Ended March 31, 2012 (unaudited)				
	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total
Balance, December 31, 2011	\$ 83,094,667	\$ 46,412,000	\$ 6,040,895	\$ 40,814,000	\$ 176,361,562
Transfers out of Level III ¹	(11,640,270)	—	—	—	(11,640,270)
Net accretion of interest	54,804	2,652,309	—	—	2,707,113
Purchases	—	12,000,000	—	13,523,682	25,523,682
Issuance of Common Stock	—	—	—	25,560,000	—
Sales	(7,961,155)	—	—	—	(7,961,155)
Total realized and unrealized gains (losses) included in earnings	2,733,126	2,340,033	680,986	(5,303,682)	450,463
Balance, March 31, 2012	\$ 66,281,172	\$ 63,404,342	\$ 6,721,881	\$ 74,594,000	\$ 211,001,395
Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	\$ (1,425,974)	\$ 2,340,033	\$ 680,986	\$ (5,303,682)	\$ (3,708,637)

¹ The transfers to Level II from Level III in the three months ended March 31, 2012 were primarily due to the availability of observable market inputs and multiple quotes from pricing vendors and/or broker dealers as a result of the return of liquidity in the credit markets. There were no transfers into Level III during the three months ended March 31, 2012. There were no transfers between Level I and Level II during the three months ended March 31, 2012.

	Three Months Ended March 31, 2011 (unaudited)				
	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total
Balance, December 31, 2010	\$ 91,042,928	\$ 53,031,000	\$ 4,688,832	\$ 41,493,000	\$ 190,255,760
Transfers in/out of Level III ¹	—	—	—	—	—
Net accretion of discount	24,736	20,390	—	—	45,126
Purchases	17,424,281	—	2,858,387	—	20,282,668
Sales	(20,895,314)	—	(141,769)	(138,875)	(21,175,958)
Total realized and unrealized gains (losses) included in earnings	842,532	2,929,610	(16,985)	841,875	4,597,032
Balance, March 31, 2011	\$ 88,439,163	\$ 55,981,000	\$ 7,388,465	\$ 42,196,000	\$ 194,004,628
Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	\$ 2,669,255	\$ 2,929,610	\$ (16,985)	\$ 841,875	\$ 6,423,755

¹ For the three months ended March 31, 2011, the Company had no transfers into or out of Level III during the period. There were no transfers between Level I and Level II during the three months ended March 31, 2011.

As of March 31, 2012, the Company's Level II portfolio investments were valued by a third party pricing service for which the prices are not adjusted and for which inputs are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. The fair value of the Company's Level II portfolio investments was \$70,075,318 as of March 31, 2012.

As of March 31, 2012, the Company's Level III portfolio investments had the following valuation techniques and significant inputs:

Asset Type	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs
Debt securities	\$ 52,653,165	Income Approach	Market yield	3.8% - 12.9%
	\$ 13,628,017	Enterprise value	Average EBITDA multiple	3.7x - 8.5x
			Weighted average cost of capital	9.9% - 11.4%
Equity securities	\$ 6,721,881	Enterprise value	Average EBITDA multiple	5.3x - 7.3x
			Weighted average cost of capital	10.8% - 14.0%
CLO Fund securities	\$ 60,752,000	Discounted cash flow	Discount rate	12.5% - 16.0%
			Probability of default	1.2% - 4.0%
			Loss severity	25% - 45%
			Recovery rate	55% - 75%
			Prepayment rate	10% - 20%
Asset Manager Affiliates	\$ 74,594,000	Discounted cash flow	Discount rate	1.6% - 13.25% (weighted average 9.31%)

The significant unobservable inputs used in the fair value measurement of the Company's debt securities include the comparable yields of similar investments in similar industries, effective discount rates, average EBITDA multiples, and weighted average cost of capital. Significant increases or decreases in such comparable yields would result in a significantly lower or higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Company's equity securities include the EBITDA multiple of similar investments in similar industries and the weighted average cost of capital. Significant increases or decreases in such inputs would result in a significantly lower or higher fair value measurement.

Significant unobservable inputs used in the fair value measurement of the Company's CLO Fund securities include default rates, recovery rates, prepayment rates, and spreads and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterization of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund security's underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. The Company evaluates the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented. Significant increases or decreases in probability of default and loss severity inputs in isolation would result in a significantly lower or higher fair value measurement. In general, a change in the assumption of the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity in an event of default. Significant increases or decreases in the discount rate in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Company's Asset Manager Affiliates is the discount rate used to present value prospective cash flows. Prospective revenues are generally based on a fixed percentage of the par value of CLO Fund assets under management and are recurring in nature for the term of the CLO Fund so long as the Asset Manager Affiliates manage the fund. As a result, the annual management fees earned by the asset manager affiliates are not subject to market value fluctuations in the underlying collateral. The discounted cash flow model incorporates different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Significant increases or decreases in such discount rate would result in a significantly lower or higher fair value measurement.

5. ASSET MANAGER AFFILIATES

The Asset Manager Affiliates are wholly-owned portfolio companies of the Company. The Asset Manager Affiliates manage 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 March 31, 2012, Asset Manager Affiliates had approximately \$3.4 billion of par value of assets under management, and the Company's 100% equity interest in the Asset Manager Affiliates was valued at approximately \$75 million.

As a manager of the CLO Funds, the Asset Manager Affiliates receive contractual and recurring management fees and may receive a one-time structuring fee from the CLO Funds for their management and advisory services. The annual fees which the Asset Manager Affiliates receive are generally based on a fixed percentage of assets under management (at par value and not subject to changes in market value), and the Asset Manager Affiliates generate annual operating income equal to the amount by which their fee income exceeds their operating expenses. The annual management fees the Asset Manager Affiliates receive have two components - a senior management fee and a subordinated management fee. Currently, all CLO Funds managed by the Asset Manager Affiliates are paying both their senior and subordinated management fees on a current basis.

The revenue that the Asset Manager Affiliates generate through the fees they receive for managing CLO Funds and after paying the expenses associated with their operations, including compensation of their employees, may be distributed to the Company. Any distributions of the Asset Manager Affiliates' net income are recorded as dividends from affiliate asset manager. For the three months ended March 31, 2012, the Asset Manager Affiliates made distributions of \$825,000 to the Company. For the three months ended March 31, 2011, the Asset Manager Affiliates made no distributions to the Company; dividends are recorded as declared (where declaration date represents ex-dividend date) by the Asset Manager Affiliates as income on our statement of operations.

As with all other investments, the Asset Manager Affiliates' fair value is periodically determined. The valuation is primarily based on an analysis of both a percentage of its assets under management and the Asset Manager Affiliates' estimated operating income. Any change in value from period to period is recognized as unrealized gain or loss. See Note 2, "Significant Accounting Policies" and Note 4, "Investments" for further information relating to the Company's valuation methodology.

Effective January 1, 2010, the Asset Manager Affiliates adopted guidance encompassed in Accounting Standards Codification Topic 810, "Consolidation." The adoption of this new guidance had an impact on the disclosures relating to the Asset Manager Affiliates which had previously not been required, as its provisions require the Asset Manager Affiliates to consolidate certain of their managed CLO Funds that were not previously consolidated. As a result of the consolidation of these CLO Funds into the Asset Manager Affiliates, the financial results of the Asset Manager Affiliates indicate that they qualify as a "significant subsidiary" of the Company requiring the following additional disclosures. These disclosures regarding the Asset Manager Affiliates do not directly impact the financial position, results of operations or cash flows of the Company.

Asset Manager Affiliates

Summarized Balance Sheet Information (unaudited)

	As of	As of
	March 31, 2012	December 31, 2011
Investments of CLO Funds, at fair value	\$ 3,115,766,776	\$ 1,768,088,977
Restricted cash of CLO Funds	246,062,658	71,888,141
Total assets	3,425,177,826	1,855,513,431
CLO Fund liabilities, at fair value	3,071,057,204	1,727,560,760
Total liabilities	3,193,606,260	1,753,442,181
Appropriated retained earnings of consolidated VIEs	187,467,169	95,845,268

Asset Manager Affiliates

Summarized Statements of Operations Information (unaudited)

	For the three months ended	
	March 31,	
	2012	2011
Interest income - CLO Fund investments	\$ 29,764,690	\$ 16,076,610
Total income	32,187,154	18,381,618
Interest expense of CLO Fund liabilities	30,541,329	12,607,420
Total expenses	34,777,990	15,245,340
Net realized and unrealized gains (losses)	(6,226,958)	(23,518,580)
Net income (loss) attributable to consolidated VIEs	(8,615,948)	(20,060,146)
Net income (loss) attributable to Asset Manager Affiliates	(380,021)	467,910

All of the consolidated VIEs' investment balances are CLO Fund-related. The assets of the CLO Funds are held solely to satisfy the obligations of the CLO Funds. The Asset Manager Affiliates have no right to the benefits from, nor do they bear the risks associated with, the collateral assets held by the CLO Funds, beyond their minimal direct investments in, and management fees generated from, the CLO Funds. If the Asset Manager Affiliates were to liquidate, the collateral assets would not be available to the general creditors of the Asset Manager Affiliates. Additionally, the investors in the CLO Funds have no recourse to the general credit of the Asset Manager Affiliates for the securities issued by the CLO Funds.

The consolidation of the VIEs' investment products in the Asset Manager Affiliates' financial statements is not reflective of the underlying financial position, results of operations or cash flows of the Asset Manager Affiliates as stand-alone entities. Furthermore, the financial operations of the Asset Manager Affiliates, whether consolidated with the CLO funds they manage or on a stand-alone basis, are not reflective of the fair value of the Asset Manager Affiliates as reported on the Company's balance sheet and schedule of investments as the Company is required under GAAP to report the Asset Manager Affiliates as a portfolio company at fair value.

As separately regarded entity for tax purposes, the Asset Manager Affiliates are taxed at normal corporate rates. For tax purposes, any distributions of taxable net income earned by the Asset Manager Affiliates to the Company would generally need to be distributed to the Company's shareholders. Generally, such distributions of the Asset Manager Affiliates' income to the Company's shareholders will be considered as qualified dividends for tax purposes. The Asset Manager Affiliates' taxable net income will differ from GAAP net income because of deferred tax timing adjustments and permanent tax adjustments. Deferred tax timing adjustments may include differences for the recognition and timing of depreciation, bonuses to employees and stock option expense. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties, tax goodwill amortization and net operating loss carryforward.

Goodwill amortization for tax purposes was created upon the purchase of 100% of the equity interests in Katonah Debt Advisors prior to the Company's IPO in 2006 and in the February 2012 purchase of 100% of the equity interests in Trimaran Advisors. These transactions were considered an asset purchase under Section 351(a) of the Code. Katonah Debt Advisors has approximately \$32 million being amortized for tax purposes on a straight-line basis over 15 years, which accounts for an annual difference between GAAP income and taxable income by approximately \$2 million per year over such period. Trimaran Advisors has approximately \$38 million being amortized for tax purposes on a straight-line basis over 15 years, which accounts for an annual difference between GAAP income and taxable income by approximately \$2.5 million per year over such period.

At March 31, 2012 there were no intercompany balances with our affiliates. At December 31, 2011 there was an intercompany balance of \$3,517 due from our affiliates.

6. BORROWINGS

The Company's debt obligations consist of the following:

	<u>As of</u> <u>March 31, 2012</u> <u>(unaudited)</u>	<u>As of</u> <u>December 31, 2011</u>
Convertible Senior Notes, due March 15, 2016	60,000,000	60,000,000

Secured Credit Facility

At December 31, 2010, the Company had a secured credit facility with an outstanding balance of \$86,746,582. On January 31, 2011, the Company repaid in full the outstanding balance under this facility, resulting in the lenders' release to the Company of approximately \$73 million of collateral previously securing the facility and their payment of a \$2 million cash settlement to the Company. As a result of the repayment, the Company had no outstanding balance under this secured credit facility as of March 31, 2011.

On February 24, 2012, the Company entered into a Note Purchase Agreement with Credit Suisse AG, Cayman Islands Branch ("CS"), Credit Suisse Securities (USA) LLC, as arranger, The Bank of New York Mellon Trust Company, National Association, as collateral administrator and collateral agent, and KCAP Funding, a special-purpose bankruptcy remote wholly-owned subsidiary of the Company ("KCAP Funding"), under which the Company may obtain up to \$30 million in financing (the "Facility"). The scheduled maturity date for the Facility is December 20, 2014. Interest on the Facility is Libor + 300 and payable quarterly.

Advances under the Facility are used by the Company primarily to make additional investments. The Facility is secured by loans that it currently owns and a security interest in the Company's right to receive certain management fees. The Company's borrowings under the Facility are effected through KCAP Funding.

As of March 31, 2012, there was no outstanding balance under the Facility and the Company is in compliance with all its debt covenants. As of March 31, 2012, the Company had restricted cash balances of approximately \$98,000 which it maintained in accordance with the terms of the Facility.

In connection with the Facility, the Company incurred approximately \$424,000 of debt origination costs which are being amortized over the term of the Facility on a straight-line basis of which approximately \$412,000 remains to be amortized.

Convertible Senior Notes

On March 16, 2011, the Company issued \$55 million in aggregate principal amount of unsecured 8.75% convertible senior notes due 2016 (“Convertible Senior Notes”). On March 23, 2011, pursuant to an over-allotment option, the Company issued an additional \$5 million of such Convertible Senior Notes for a total of \$60 million in aggregate principal amount. The net proceeds for the Convertible Senior Notes, following underwriting expenses, were approximately \$57.7 million. Interest on the Convertible Senior Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 8.75%, commencing September 15, 2011. The Notes mature on March 15, 2016 unless converted earlier. The Convertible Senior Notes are senior unsecured obligations of the Company.

The Convertible Senior Notes are convertible into shares of Company’s common stock based on an initial conversion rate of 118.5255 shares of common stock per \$1,000 principal amount of Convertible Senior Notes, which is equivalent to an initial conversion price of approximately \$8.44 per share of common stock. The conversion rate will be subject to adjustment upon certain events.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Convertible Senior Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Convertible Senior Notes.

No holder of Convertible Senior Notes will be entitled to receive shares of the Company’s common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of the Company’s common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. The Company will not issue any shares in connection with the conversion or redemption of the Convertible Senior Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Convertible Senior Notes upon a fundamental change at a price equal to 100% of the principal amount of the Convertible Senior Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, in the case of certain fundamental changes and without duplication of the foregoing amount, the Company will also pay holders an amount in cash (or, in certain circumstances, shares of the Company’s common stock) equal to the present value of the remaining interest payments on such notes through, and including, the maturity date.

In connection with the issuance of the Convertible Senior Notes, the Company incurred approximately \$2.4 million of debt offering costs which are being amortized over the term of the facility on a straight-line basis, which approximates the effective yield method, of which approximately \$1.9 million remains to be amortized.

The Convertible Senior Notes have been analyzed for any features that would require its accounting to be bifurcated. There are no features that require accounting to be bifurcated, and as a result, they are recorded as a liability at their contractual amounts.

Fair Value of Convertible Senior Notes. The Company carries the Convertible Senior Notes at cost. The Convertible Senior Notes were issued in a private placement and there is no active trading of these notes. The fair value of the Company’s outstanding Convertible Senior Notes was approximately \$60.3 million at March 31, 2012. The fair value was determined based on the average of indicative bid and offer pricing for the Convertible Senior Notes.

7. DISTRIBUTABLE TAX INCOME

Effective December 11, 2006, the Company elected to be treated as a RIC under the Code and adopted a December 31 calendar year end. As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company's quarterly dividends, if any, are determined by the Board of Directors. The Company anticipates distributing at least 90% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2012). 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. The Company anticipates timely distribution of its taxable income within the tax rules, and the Company anticipates that it will not incur a US federal excise tax for the calendar year 2012.

The following reconciles net increase in net assets resulting from operations to taxable income for the three months ended March 31, 2012:

	Three Months Ended March 31, 2012 (unaudited)
Net increase in net assets resulting from operations	\$ 576,657
Net change in unrealized (appreciation) depreciation from investments	3,365,358
Excess capital losses over capital gains	(302,734)
Income not on GAAP books currently taxable	12,008
Income not currently taxable	(20,605)
Expenses not currently deductible	190,169
Taxable income before deductions for distributions	<u>\$ 3,820,853</u>
Taxable income before deductions for distributions per weighted average shares for the period	\$ 0.16

For the three months ended March 31, 2012, the Company declared a dividend on March 16, 2012 of \$0.18 per share for a total of approximately \$4.7 million. The record date was April 6, 2012 and the dividend was distributed on April 27, 2012.

Taxable income differs from net decrease in net assets resulting from operations primarily due to: (1) unrealized appreciation (depreciation) on investments, as investment gains and losses are not included in taxable income until they are realized; (2) amortization of discount on CLO Fund securities; (3) amortization of organizational costs; (4) non-deductible expenses; (5) stock compensation expense that is not currently deductible for tax purposes; (6) excess of capital losses over capital gains; and (7) recognition of interest income on certain loans.

At March 31, 2012, the Company had a net capital loss carryforward of \$50 million to offset net capital gains, to the extent provided by federal tax law. The capital loss carryforward will begin to expire in the tax year ending December 31, 2015.

The Company adopted Financial Accounting Standards Board ASC Topic 740 Accounting for Uncertainty in Income Taxes ("ASC 740") as of January 1, 2007. ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (the last three fiscal years) or expected to be taken in the Company's current year tax return. The Company identifies its major tax jurisdictions as U.S. Federal and New York State, and the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months. The adoption of ASC 740 did not have an effect on the financial position or results of operations of the Company as there was no liability for unrecognized tax benefits and no change to the beginning capital of the Company. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof.

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 both March 31, 2012 and December 31, 2011, the Company had committed to make a total of approximately \$2 million of investments in various revolving senior secured loans, of which approximately \$80,000 had been funded as of March 31, 2012 and \$0 had been funded as of December 31, 2011.

The Company and certain directors and officers were named as defendants in three putative class actions pending in the Southern District of New York brought by stockholders of the Company and filed in December 2009 and January 2010. The complaints in these three actions alleged violations of Sections 10 and 20 of the Exchange Act based on the Company's disclosures of its year-end 2008 and first- and second-quarter 2009 financial statements. The federal court consolidated the three lawsuits and appointed a lead plaintiff under the Private Securities Litigation Reform Act on March 21, 2011, and lead plaintiff filed a consolidated amended complaint on May 11, 2011. The Company moved to dismiss the consolidated amended complaint. On July 28, 2011, the Court granted that motion and dismissed the consolidated amended complaint, giving the plaintiff until August 22, 2011 to file any further amended complaint. Lead plaintiff filed a second amended consolidated class action complaint on August 22, 2011, which defendants moved to dismiss. The Court dismissed that complaint with prejudice on October 7, 2011. Lead plaintiff did not appeal the dismissal of the case, which is now closed.

In addition, the Company and certain directors and officers were named as defendants in a derivative action filed on March 2, 2010 in the Supreme Court of New York, County of New York. The complaint in this action purported to state causes of action for breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and corporate waste. On October 20, 2010, the court dismissed the complaint, and found, among other things, that the plaintiff had not alleged that any of the Company's directors "'knowingly' misrepresented or permitted others to misrepresent the Company's financial condition," or that the directors were confronted with "red flags" sufficient to put them on notice of potential problems with the Company's investment valuations so as to excuse plaintiff's requirement under Delaware law to make a demand on the Company's board before filing suit. On January 12, 2011, the court entered a final judgment dismissing the complaint. While the plaintiff subsequently filed a notice of appeal, it did not timely perfect that appeal under the rules of the New York State Supreme Court, Appellate Division.

On January 11, 2010, the staff of the SEC's Division of Enforcement informed the Company that it was conducting an informal inquiry. The focus of the inquiry concerns the valuation methodology and procedures used by the Company to value its investments. On April 30, 2010, the SEC Staff advised the Company that a formal order of private investigation had been issued and that the informal inquiry was now a formal investigation. A subpoena has been issued to the Company in connection with the formal investigation. The subpoena requests that the Company produce documents that primarily relate to the valuation methodology and procedures used by the Company to value its investments. Since January 2010, the Company has been providing documents in response to the informal inquiry and the subpoena, and the SEC Staff has taken testimony from Company representatives. The Company is cooperating fully with the SEC Staff's investigation.

In connection with the investigation described above, on April 19, 2012, the SEC Staff issued a "Wells Notice" to Michael I. Wirth, the Company's Chief Financial Officer, indicating that the SEC Staff is considering recommending that the SEC institute proceedings against Mr. Wirth alleging that Mr. Wirth violated certain provisions of the federal securities laws. The Wells Notice does not constitute a determination that Mr. Wirth violated any law. Under the process established by the SEC, Mr. Wirth will have the opportunity to make a Wells Submission before the SEC Staff makes a formal recommendation to the SEC regarding what action, if any, should be brought by the SEC. Mr. Wirth has informed the Company that he plans to make such a submission.

Neither the Company nor any other person employed by the Company has received a Wells Notice. The Company and the other officers involved in this matter, including Dayl W. Pearson, the Company's Chief Executive Officer, are engaged in settlement negotiations in an effort to resolve the matter and believe that discussions to date with the SEC Staff will lead to a settlement. Any settlement remains subject to approval by the SEC.

The Company cannot at this time predict with certainty the outcome of the above matter, including whether a lawsuit will be filed, whether the SEC will approve any settlement or whether the SEC will ultimately determine to issue a Wells Notice to the Company or any other person involved in this matter. The Company does not anticipate that the Wells Notice referenced above or the terms of any settlement involving the Company and the other officers involved in the matter will have a material adverse impact on its business, financial condition or results of operations.

9. STOCKHOLDERS' EQUITY

During the three months ended March 31, 2012 and the year ended December 31, 2011, the Company issued 17,752 and 141,278 shares, respectively, of common stock under its dividend reinvestment plan. During the three months ended March 31, 2012 the Company issued 3,600,000 shares in connection with the acquisition of Trimaran Advisors. For the three months ended March 31, 2012, no shares of restricted stock were issued, exercised, or forfeited. For the year ended December 31, 2011, the Company issued 90,805 shares of restricted stock for which 3,668 shares were forfeited and 96,122 shares were converted to common stock during the year due to vesting. The total number of shares issued and outstanding as of March 31, 2012 and December 31, 2011 was 26,609,963 and 22,992,211, respectively.

10. EQUITY INCENTIVE PLAN

During 2006, the Company established the 2006 Equity Incentive Plan, which plan was amended in 2008 (as amended, the "Plan"). 2,000,000 shares of common stock are reserved 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 granted under the Plan are exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted. Restricted stock granted under the Plan is granted at a price equal to the fair market value (market closing price) of the shares on the day such restricted stock is granted.

During 2008, the Company established a non-employee director plan, which plan was amended in 2008 (as amended, the "Amended and Restated Non-Employee Director Plan"). Pursuant to such amendment, the Company is permitted to issue restricted stock, and is no longer permitted to issue any options for common stock, of the Company to Non-Employee Directors. Options granted to Non-Employee Directors prior to the effectiveness of the Amended and Restated Non-Employee Director Plan remained outstanding in accordance with the terms of the Amended and Restated Non-Employee Director Plan as in place prior to such amendment.

Stock Options

During the years ended, December 31, 2009, and December 31, 2010, 20,000 options per year were granted to non-employee directors as partial annual compensation for their services as director. Each of these annual options grants have a vesting period by which 50% of such options vest on the grant date and 50% vest on the first grant date anniversary. The exercise price of these grants and other characteristics of these grants are as follows:

Options granted for the year ended:	Exercise Price	Exercise Period (years)	Risk Free Rate	Volatility Rate	Weighted Average Grant Date Fair Value per Share
December 31, 2009	\$ 4.93	10	4.3%	41%	\$ 0.90
December 31, 2010	\$ 4.83	10	3.1%	59%	\$ 1.46

On June 10, 2011, the Company's shareholders approved the Amended and Restated Non-Employee Director Plan. Accordingly, the previous annual grant of 20,000 options to non-employee directors was discontinued and replaced with an annual grant of 4,000 shares of restricted stock as partial annual compensation for the services of the non-employee directors.

Information with respect to options granted, exercised and forfeited under the Plan for the period January 1, 2010 through March 31, 2012 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, 2011	60,000	\$ 7.24		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited	—	\$ —		
Options outstanding at December 31, 2011	60,000	\$ 7.24		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited	—	\$ —		
Outstanding at March 31, 2012	60,000	\$ 7.24	7.2	\$ 81,200
Total vested at March 31, 2012	60,000	\$ 7.24	7.2	

¹ Represents the difference between the market value of shares of the Company upon exercise of the options at March 31, 2012 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 three months ended March 31, 2012, the Company recognized no non-cash compensation expense related to stock options. For the three months ended March 31, 2011, the Company recognized non-cash compensation expense related to stock options of approximately \$4,000. At March 31, 2012, the Company had no remaining compensation cost related to unvested stock option-based awards.

Restricted Stock

On June 13, 2008, the Company's shareholders approved the Plan, as amended and the Board of Directors approved the grant of awards of 100,250 shares of restricted stock to certain executive officers of the Company. On July 22, 2010 and August 5, 2009, the Board of Directors approved the grant of an additional 103,519 and 84,889 shares of restricted stock, respectively, to a certain executive officer of the Company. Such awards of restricted stock will vest as to 50% of the shares on the third anniversary of the grant date and the remaining 50% of the shares on the fourth anniversary of the grant date.

On June 13, 2008, the Company's Board of Directors authorized the Company to allow employees who agree to cancel options that they hold to receive shares of the Company's common stock to receive 1 share of restricted stock for every 5 options so cancelled. The shares of restricted stock received by employees through any such transaction will vest annually generally over the remaining vesting schedule as was applicable to the cancelled options. Subsequently, employees holding options to purchase 1,295,000 shares individually entered into agreements to cancel such options and to receive 259,000 shares of restricted stock. As of March 31, 2012, 233,998 of such shares were vested and converted to common shares. The remaining 25,002 shares have been forfeited.

On June 10, 2011, the Company's shareholders approved the Amended and Restated Non-Employee Director Plan, and the Board of Directors approved the grant of awards of 4,000 shares of restricted stock to the non-employee directors of the Company as partial annual compensation for their services as director. Such awards of restricted stock will vest as to 50% of the shares on the grant date and the remaining 50% of the shares on the first anniversary of the grant date.

During the three months ended March 31, 2012, no shares of restricted stock were vested and converted to common shares. As of March 31, 2012, there were options to purchase 60,000 shares of common stock outstanding and there were 327,339 shares of restricted stock outstanding. Information with respect to restricted stock granted, exercised and forfeited under the Plan for the period January 1, 2011 through March 31, 2012 is as follows:

	Unvested Restricted Shares	Weighted Average Exercise Price per Share
Unvested shares outstanding at December 31, 2010	336,324	\$ 9.63
Granted	90,805	\$ 4.83
Vested	(96,122)	\$ 10.39
Forfeited	(3,668)	\$ 9.82
Unvested shares outstanding at December 31, 2011	327,339	\$ 5.00
Granted	—	\$ -
Vested	—	\$ —
Forfeited	—	\$ -
Outstanding at March 31, 2012	327,339	\$ 6.46
Total unvested shares at March 31, 2012	327,339	\$ 6.46

For the three months ended March 31, 2012, non-cash compensation expense related to restricted stock was approximately \$173,000; of this amount approximately \$169,000 was expensed at the Company and approximately \$4,000 was a reimbursable expense allocated to the Asset Manager Affiliates. For the three months ended March 31, 2011, non-cash compensation expense related to restricted stock was approximately \$219,000; of this amount approximately \$178,000 was expensed at the Company and approximately \$41,000 was a reimbursable expense allocated to the Asset Manager Affiliates.

Dividends are paid on all outstanding shares of restricted stock, whether or not vested. In general, shares of unvested restricted stock are forfeited upon the recipient's termination of employment. As of March 31, 2012, there was approximately \$952,000 of total unrecognized compensation cost related to unvested share-based awards. That cost is expected to be recognized over a weighted average period of 2 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 401K 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 three months ended March 31, 2012 and 2011 the Company made contributions to the 401K Plan of approximately \$11,000 and \$7,000, respectively.

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 may contribute to the Pension Plan 1) up to 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) up to 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 three months ended March 31, 2012, the Company made a contribution of approximately \$35,000 to the Pension Plan and a contribution of \$30,000 to the Pension Plan for the three months ended March 31, 2011.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

In this Quarterly Report on Form 10-Q, “Kohlberg Capital,” “Company,” “we,” “us,” and “our” refer to Kohlberg Capital Corporation, its subsidiaries and its wholly-owned portfolio companies, Katonah Debt Advisors, L.L.C. (collectively with related affiliates controlled by the Company, “Katonah Debt Advisors”), Trimaran Advisors, L.L.C. (“Trimaran Advisors” and collectively with Katonah Debt Advisors, the “Asset Manager Affiliates”) and related companies, unless the context otherwise requires.

The information contained in this section should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this Quarterly Report. In addition, some of the statements in this report constitute 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 Quarterly Report, as well as in future oral and written statements by management of Kohlberg Capital, 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,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of funds under our credit facility, 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 Quarterly Report should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this Quarterly Report include statements as to:

- our future operating results;
- our business prospects and the prospects of our existing and prospective portfolio companies;
- the return or impact of current and future investments;
- our contractual arrangements and other 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 financial condition and ability of our existing and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- our ability to operate as a business development company and a registered investment company, including the impact of changes in laws or regulations governing our operations, the operations of our Asset Manager Affiliates or the operations of our portfolio companies;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies, including our Asset Manager Affiliates;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of fluctuations in interest rates on our business;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- our ability to recover unrealized losses;
- market conditions and our ability to access additional capital; and
- the timing, form and amount of any dividend distributions.

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 Quarterly Report, please see the discussion in Part II, “Item 1A. Risk Factors” below and in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this Quarterly Report 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 Quarterly Report.

GENERAL

We are 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. 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 (“EBITDA”), of \$10 million to \$50 million and/or total debt of \$25 million to \$150 million.

Our 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.

Katonah Debt Advisors, L.L.C., a registered investment adviser, and its asset manager affiliates (collectively, “Katonah Debt Advisors”) is a wholly-owned portfolio company. Katonah Debt Advisors manages collateralized loan obligation funds (“CLO Funds”) which invest in broadly syndicated loans, high-yield bonds and other credit instruments. On February 29, 2012, we purchased Trimaran Advisors, L.L.C. (“Trimaran Advisors”), a registered investment adviser and CLO manager similar to Katonah Debt Advisors with assets under management of approximately \$1.5 billion, for total consideration of \$13.0 million in cash and 3,600,000 shares of our common stock. Contemporaneously with the acquisition of Trimaran Advisors, we acquired from Trimaran Advisors equity interests in certain CLO Funds managed by Trimaran Advisors for an aggregate purchase price of \$12.0 million in cash. As of March 31, 2012 Katonah Debt Advisors and Trimaran Advisors are our only wholly-owned portfolio companies (collectively, “Asset Manager Affiliates”) and have approximately \$3.4 billion of par value assets under management.

As a Regulated Investment Company (“RIC”), we intend to distribute to our stockholders substantially all of our net taxable income and the excess of realized net short-term capital gains over realized net long-term capital losses. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders.

Our common stock is traded on The NASDAQ Global Select Market under the symbol “KCAP.” The net asset value per share of our common stock at March 31, 2012 was \$7.78. On March 31, 2012, the last reported sale price of a share of our common stock on The NASDAQ Global Select Market was \$6.91.

KEY QUANTITATIVE AND QUALITATIVE FINANCIAL MEASURES AND INDICATORS

Net Asset Value

Our net asset value per share was \$7.78 and \$7.85 as of March 31, 2012 and December 31, 2011, respectively. As we must report our assets at fair value for each reporting period, net asset value also represents the amount of stockholder’s equity per share for the reporting period. Our net asset value is comprised mostly of investment assets less debt and other liabilities:

	March 31, 2012 (unaudited)		December 31, 2011	
	Fair Value ¹	Per Share ¹	Fair Value ¹	Per Share ¹
Investments at fair value:				
Investments in time deposits	\$ 12,343	\$ -	\$ 229,152	\$ 0.01
Investments in money market accounts	9,746,435	0.37	31,622,134	1.38
Investments in debt securities	136,356,490	5.12	114,673,506	4.99
Investments in CLO Fund securities	63,404,342	2.38	48,438,317	2.11
Investments in equity securities	6,721,881	0.25	6,040,895	0.26
Investments in Asset Manager Affiliates	74,594,000	2.80	40,814,000	1.78
Cash	2,032,121	0.08	2,555,259	0.11
Restricted Cash	98,068	-	-	-
Other assets	7,262,301	0.28	3,760,398	0.16
Total Assets	\$ 300,227,981	\$ 11.28	\$ 248,133,661	\$ 10.79
Other liabilities	33,273,465	1.25	7,607,719	0.33
Convertible Senior Notes	60,000,000	2.25	60,000,000	2.61
Total Liabilities	\$ 93,273,465	\$ 3.50	\$ 67,607,719	\$ 2.94
NET ASSET VALUE	\$ 206,954,516	\$ 7.78	\$ 180,525,942	\$ 7.85

¹ Our balance sheet at fair value and resultant net asset value are calculated on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”). Our per share presentation of such amounts (other than net asset value per share) is an internally derived non-GAAP performance measure calculated by dividing the applicable balance sheet amount by outstanding shares. We believe that the per share amounts for such balance sheet items are helpful in analyzing our balance sheet both quantitatively and qualitatively in that our shares may trade based on a percentage of net asset value and individual investors may weight certain balance sheet items differently in performing an analysis of the Company.

Leverage

We use borrowed funds, known as “leverage,” to make investments and to attempt to increase returns to our shareholders by reducing our overall cost of capital. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. We are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% immediately after such borrowing. As of March 31, 2012, we had approximately \$60 million of outstanding borrowings and our asset coverage ratio of total assets to total borrowings was 445%, compliant with the minimum asset coverage level of 200% generally required for a BDC by the 1940 Act. We may also borrow amounts of up to 5% of the value of our total assets for temporary purposes.

At December 31, 2010, we had approximately \$87 million of outstanding indebtedness through a secured credit facility. On January 31, 2011, we repaid in full the outstanding balance under this facility. As a result, approximately \$73 million of collateral previously securing the facility was released to us and we also received a \$2 million cash settlement from the lenders to settle litigation previously initiated by us against the lenders. In order to pay off this facility, we utilized proceeds received from the paydown, amortization or sale of portfolio loan investments totaling approximately \$133 million together with available cash.

On March 16, 2011, we issued \$55 million in aggregate principal amount of unsecured 8.75% convertible senior notes due 2016 (“Convertible Senior Notes”). On March 23, 2011, pursuant to an over-allotment option, we issued an additional \$5 million of such Convertible Senior Notes for a total of \$60 million in aggregate principal amount. The net proceeds for the Convertible Senior Notes, following underwriting expenses, were approximately \$57.7 million. Interest on the Convertible Senior Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 8.75%, commencing September 15, 2011. The Notes mature on March 15, 2016 unless converted earlier. The Convertible Senior Notes are senior unsecured obligations of the Company.

The Convertible Senior Notes are convertible into shares of Company’s common stock based on an initial conversion rate of 118.5255 shares of common stock per \$1,000 principal amount of Convertible Senior Notes, which is equivalent to an initial conversion price of approximately \$8.44 per share of common stock. The conversion rate will be subject to adjustment upon certain events.

On February 24, 2012, we entered into a Note Purchase Agreement with Credit Suisse AG, Cayman Islands Branch (“CS”), Credit Suisse Securities (USA) LLC, as arranger, The Bank of New York Mellon Trust Company, National Association, as collateral administrator and collateral agent, and KCAP Funding, a special-purpose bankruptcy remote wholly-owned subsidiary of ours (“KCAP Funding”), under which we may obtain up to \$30 million in financing (the “Facility”). The scheduled maturity date for the Facility is December 20, 2014. Interest on the Facility is Libor + 350 and payable quarterly.

Advances under the Facility are used by us primarily to make additional investments. The Facility is secured by loans that it currently owns and a security interest in our right to receive certain management fees. Our borrowings under the Facility are effected through KCAP Funding.

As of March 31, 2012, there was no outstanding balance under the Facility and we are in compliance with all its debt covenants. As of March 31, 2012, we had restricted cash balances of approximately \$98,000 which we maintained in accordance with the terms of the Facility.

Subject to prevailing market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. As a result, we may seek to enter into new agreements with other lenders or into other financing arrangements as market conditions permit.

Investment Portfolio Summary Attributes as of and for the Three Months ended March 31, 2012

Our investment portfolio generates net investment income which is generally used to pay principal and interest on our borrowings under the Facility and to fund our dividend. Our investment portfolio consists of three primary components: debt securities, CLO Fund securities and our investments in our wholly owned Asset Manager Affiliates. We also have investments in equity securities of approximately \$7 million, which comprises approximately 2% of our investment portfolio. Below are summary attributes for each of our primary investment portfolio components (see “—Investment Portfolio” and “—Investments and Operations” for a more detailed description) as of and for the three months ended March 31, 2012:

Debt Securities

- represent approximately 46% of total assets;
- represent credit instruments issued by corporate borrowers;
- no asset-backed securities such as those secured by commercial mortgages or residential mortgages and no consumer borrowings;
- primarily senior secured and junior secured loans (52% and 34% of debt securities, respectively);
- spread across 25 different industries and 56 different entities;
- average balance per investment of approximately \$2 million;
- all but four issuers (representing less than 1% of total investments at fair value) are current on their debt service obligations; and
- weighted average interest rate of 7.6% on income producing debt investments.

CLO Fund Securities (as of the last monthly trustee report prior to March 31, 2012 unless otherwise specified)

- represent approximately 21% of total assets at March 31, 2012;
- 87% of CLO Fund securities represent investments in subordinated securities or equity securities issued by CLO Funds and 13% of CLO Fund securities are rated notes;
- all CLO Funds invest primarily in credit instruments issued by corporate borrowers;
- no asset-backed securities such as those secured by commercial mortgages or residential mortgages and no consumer borrowings;
- thirteen different CLO Fund securities; ten of such CLO Fund securities are managed by our Asset Manager Affiliates; and
- two CLO Fund securities, not managed by our Asset Manager Affiliates, representing a fair value of \$2,000, are not currently providing a dividend payment to the Company.

Asset Manager Affiliates

- represent approximately 25% of fair value of total assets;
- represent our 100% ownership of the equity interest of a profitable CLO Fund manager focused on corporate credit investing;
- have approximately \$3.4 billion of assets under management;
- receive contractual and recurring asset management fees based on par value of managed investments;
- may receive an incentive fee upon liquidation of a CLO Fund provided that the CLO Fund achieves a minimum designated return on investment;
- dividends paid by our Asset Manager Affiliates are recognized as dividend income from affiliate asset manager on our statement of operations and are an additional source of income to pay our dividend;
- for the three months ended March 31, 2012, our Asset Manager Affiliates had pre-tax net income before net capital losses of approximately \$380,000; and
- for the three months ended March 31, 2012, our Asset Manager Affiliates made a distribution of \$825,000 to the Company in the form of a dividend which is recognized as current earnings to the Company.

Revenue

Revenues consist primarily of investment income from interest and dividends on our investment portfolio and various ancillary fees related to our investment holdings.

Interest from Investments in Debt Securities. We generate interest income from our investments in debt securities which consist primarily of senior and junior secured loans. Our debt securities portfolio is spread across multiple industries and geographic locations, and as such, we are broadly exposed to market conditions and business environments. As a result, although our investments are exposed to market risks, we continuously seek to limit concentration of exposure in any particular sector or issuer.

Dividends from Investments in CLO Fund Securities. We generate dividend income from our investments in the securities of CLO Funds (typically preferred shares or subordinated securities) managed by our Asset Manager Affiliates and selective investments in securities issued by funds managed by other asset management companies. CLO Funds managed by our Asset Manager Affiliates invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The Company distinguishes CLO Funds managed by its Asset Manager Affiliates as “CLO Fund securities managed by affiliate.” The underlying assets in each of the CLO Funds in which we have an 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. Our CLO Fund securities that are subordinated securities or preferred shares (“junior securities”) are subordinated 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 level of excess spread from CLO Fund securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly. In addition, the failure of CLO Funds in which we invest to comply with certain financial covenants may lead to the temporary suspension or deferral of cash distributions to us.

For non-junior class CLO Fund securities, such as our investment in the class B-2L notes of the Katonah 2007-1 CLO, interest is earned at a fixed spread relative to the LIBOR index.

Dividends from Asset Manager Affiliates. We generate dividend income from our investment in our Asset Manager Affiliates, which are wholly-owned and manage CLO Funds that invest primarily in broadly syndicated non-investment grade loans, high yield bonds and other credit instruments issued by corporations. As managers of CLO Funds, our Asset Manager Affiliates receive contractual and recurring management fees as well as an expected one-time structuring fee from the CLO Funds for their management and advisory services. In addition, our Asset Manager Affiliates may also earn income related to net interest on assets accumulated for future CLO issuances on which they have provided a first loss guaranty in connection with loan warehouse arrangements for their CLO Funds. Our Asset Manager Affiliates generate annual operating income equal to the amount by which their fee income exceeds their operating expenses. The annual management fees which our Asset Manager Affiliates receive are generally based on a fixed percentage of the par value of assets under management and are recurring in nature for the term of the CLO Fund so long as the Asset Manager Affiliates manage the fund. As a result, the annual management fees earned by our Asset Manager Affiliates generally are not subject to market value fluctuations in the underlying collateral. In future years, our Asset Manager Affiliates may receive incentive fees upon the liquidation of CLO Funds they manage, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred shares.

Capital Structuring Service Fees. We may earn ancillary structuring and other fees related to the origination, investment, disposition or liquidation of debt and investment securities.

Expenses

We are internally managed and directly incur the cost of management and operations; as a result, we incur no management fees or other fees to an external advisor. Our expenses consist primarily of interest expense on outstanding borrowings, compensation expense and general and administrative expenses, including professional fees.

Interest and Amortization of Debt Issuance Costs. Interest expense is dependent on the average outstanding balance on our borrowings and the base index rate for the period. 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.

Compensation Expense. Compensation expense includes base salaries, bonuses, stock compensation, employee benefits and related employer payroll costs. The largest components of total compensation costs are base salaries and bonuses; generally, base salaries are expensed as incurred and annual bonus expenses are estimated and accrued. Our compensation arrangements with our employees contain a significant profit sharing and/or performance based bonus component. Therefore, as our net revenues increase, our compensation costs may also rise. In addition, our compensation expenses may also increase to reflect increased investment in personnel as we grow our products and businesses.

Professional Fees and General and Administrative Expenses. The balance of our expenses include professional fees (primarily legal, accounting, valuation and other professional services), occupancy costs and general administrative and other costs.

Net Change in Unrealized Depreciation on Investments

During the three months ended March 31, 2012, the Company's investments had a net decrease in unrealized appreciation of approximately \$3 million. During the three months ended March 31, 2011, the Company's investments had a net decrease in unrealized appreciation of approximately \$3.4 million.

The net decrease in unrealized appreciation of approximately \$3.4 million for the three months ended March 31, 2012 is primarily due to (i) an approximate \$400,000 net decrease in the unrealized appreciation of certain loans and equity positions as a result of credit considerations and current market conditions; (ii) a net increase of approximately \$2.3 million in the unrealized appreciation of CLO Fund securities; and (iii) an approximate decrease of \$5.3 million in the unrealized appreciation of our Asset Manager Affiliates.

Net Change in Stockholders' Equity Resulting From Operations

The net change in stockholders' equity resulting from operations for the three months ended March 31, 2012 and 2011 was an increase of approximately \$577,000 and \$10 million, respectively, or \$0.02 and \$0.42 per share, respectively.

Net Investment Income and Net Realized Gains (Losses)

Net investment income and net realized gains (losses) represents the net change in stockholders' equity before net unrealized appreciation or depreciation on investments. For the three months ended March 31, 2012, net investment income and net realized gains were approximately \$4 million, or \$0.16 per share. For the three months ended March 31, 2011, net investment income and net realized gains were approximately \$3 million or \$0.14 per share.

Dividends

For the three months ended March 31, 2012, we declared a \$0.18 dividend per share. As a result, there was a dividend distribution of approximately \$4.7 million for the first quarter declaration, which was booked in the second quarter. 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:

- 98.0% of our ordinary net taxable income for the calendar year;
- 98.2% 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.

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). Generally, we seek to fund our dividends from GAAP current earnings, primarily from net interest and dividend income generated by our investment portfolio and without a return of capital or a high reliance on realized capital gains. The following table sets forth the quarterly dividends declared by us since the most recent completed calendar year, which represent an amount equal to our estimated net investment income for the specified quarter, including income distributed from the Asset Manager Affiliates received by the Company, if any, plus a portion of any prior year undistributed amounts of net investment income distributed in subsequent years:

	Dividend	Declaration Date	Record Date	Pay Date
2012:				
First quarter	\$ 0.18	3/16/2012	4/6/2012	4/27/2012
Total declared for 2012	<u>\$ 0.18</u>			
2011:				
Fourth quarter	\$ 0.18	12/12/2011	12/23/2011	1/27/2012
Third quarter	0.18	9/15/2011	10/10/2011	10/28/2011
Second quarter	0.17	6/13/2011	7/8/2011	7/29/2011
First quarter	0.17	3/21/2011	4/8/2011	4/29/2011
Total declared for 2011	<u>\$ 0.52</u>			

Due to our ownership of our Asset Manager Affiliates and certain timing, structural and tax considerations our dividend distributions may include a return of capital for tax purposes. For the three months ended March 31, 2012, our Asset Manager Affiliates had approximately \$380,000 of pre-tax net income before net capital losses and made a distribution of \$825,000 to us. For the three months ended March 31, 2011, our Asset Manager Affiliates earned approximately \$450,000 of pre-tax net income and made no distributions to us. Dividends are recorded as declared (where declaration date represents ex-dividend date) by our Asset Manager Affiliates as income on our statement of operations. It is anticipated that our Asset Manager Affiliates may make further dividend distributions to us during 2012.

INVESTMENT PORTFOLIO

Investment Objective

Our investment objective is to generate current income and capital appreciation from the investments made by our middle market business in senior secured term loans, mezzanine debt and selected equity investments in privately-held middle market companies, and from our investment in our Asset Manager Affiliates. 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 our Asset Manager Affiliates 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 15% of the value of our total investment portfolio at the time of investment. We invest almost 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.

The following table shows the Company's portfolio by security type at March 31, 2012 and December 31, 2011:

Security Type	March 31, 2012 (unaudited)			December 31, 2011		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Time Deposits	\$ 12,343	\$ 12,343	-%	\$ 229,152	\$ 229,152	-%
Money Market Account	9,746,435	9,746,435	5	31,622,134	31,622,134	18
Senior Secured Loan	79,891,859	71,084,971	34	54,045,184	45,259,328	25
Junior Secured Loan	59,306,009	46,674,884	23	58,936,728	47,300,172	26
Mezzanine Investment	10,940,849	11,588,115	6	10,931,428	11,588,115	6
Senior Subordinated Bond	6,538,199	6,608,520	3	9,997,898	10,125,891	6
CLO Fund Securities	79,154,474	63,404,342	31	65,820,840	48,438,317	27
Equity Securities	16,559,610	6,721,881	3	16,559,610	6,040,895	3
Preferred	400,000	400,000	-	400,000	400,000	-
Asset Manager Affiliates	83,421,984	74,594,000	36	44,338,301	40,814,000	23
Total	<u>\$ 345,971,762</u>	<u>\$ 290,835,491</u>	<u>141%</u>	<u>\$ 292,881,275</u>	<u>\$ 241,818,004</u>	<u>134%</u>

¹ Calculated as a percentage of net asset value.

Investment Securities

We invest in senior secured loans, mezzanine debt and, to a lesser extent, equity, 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 industries if we are presented with attractive opportunities.

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 generally 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 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. Debt and equity securities for which market quotations are readily available are generally valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued by the Board of Directors based on detailed analyses prepared by management, the Valuation Committee of the Board of Directors, and, in certain circumstances, third parties with valuation expertise. Valuations are conducted by management on 100% of the investment portfolio at the end of each quarter. 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 materially from the values that would have existed had a ready market existed for such investments. Further, such investments may be generally subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities. In addition, changes in the market environment and other events may occur over the life of the investments that may cause the value realized on such investments to be different from the currently assigned valuations.

We derive fair value for our illiquid investments that do not have indicative fair values based upon active trades primarily by using a present value technique that discounts the estimated contractual cash flows for the underlying assets with discount rates imputed by broad market indices, bond spreads and yields for comparable issuers relative to the subject assets (the "Market Yield Approach") and also consider recent loan amendments or other activity specific to the subject asset. Discount rates applied to estimated contractual cash flows for an underlying asset vary by specific investment, industry, priority and nature of the debt security (such as the seniority or security interest of the debt security) and are assessed relative to two indices, a leveraged loan index and a high-yield bond index, at the valuation date. We have identified these two indices as benchmarks for broad market information related to our loan and debt investments. Because we have not identified any market index that directly correlates to the loan and debt investments held by us and therefore use the two benchmark indices, these market indices may require significant adjustment to better correlate such market data for the calculation of fair value of the investment under the Market Yield Approach. Such adjustments require judgment and may be material to the calculation of fair value. Further adjustments to the discount rate may be applied to reflect other market conditions or the perceived credit risk of the borrower. When broad market indices are used as part of the valuation methodology, their use is subject to adjustment for many factors, including priority, collateral used as security, structure, performance and other quantitative and qualitative attributes of the asset being valued. The resulting present value determination is then weighted along with any quotes from observable transactions and broker/pricing quotes. If such quotes are indicative of actual transactions with reasonable trading volume at or near the valuation date that are not liquidation or distressed sales, relatively more reliance will be put on such quotes to determine fair value. If such quotes are not indicative of market transactions or are insufficient as to volume, reliability, consistency or other relevant factors, such quotes will be compared with other fair value indications and given relatively less weight based on their relevancy. The appropriateness of specific valuation methods and techniques may change as market conditions and available data change.

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level I and Level II, as well as significant transfers in and out of Level III of the fair value hierarchy, were adopted by us in the first quarter of 2010. Note 4 to the financial statements reflects the amended disclosure requirements. The new guidance also requires that purchases, sales, issuances and settlements be presented gross in the Level III reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosures requirements, it did not impact our statements of financial position, statements of operations, or cash flow statements.

Accounting Standards Codification Fair Value Measurements and Disclosures (“*Fair Value Measurements and Disclosures*”) requires the disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.

The majority of our investment portfolio is composed of debt and equity securities with unique contract terms and conditions and/or complexity that requires a valuation of each individual investment that considers multiple levels of market and asset specific inputs, including historical and forecasted financial and operational performance of the individual investment, projected cash flows, market multiples, comparable market transactions, the priority of the security compared with those of other securities for such issuers, credit risk, interest rates and independent valuations and reviews.

Loans and Debt Securities.

To the extent that our investments are exchange traded and are priced or have sufficient price indications from normal course trading at or around the valuation date (financial reporting date), such pricing will determine fair value. Pricing service marks from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the marks, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity. However, most of our investments are illiquid investments with little or no trading activity. Further, we have been unable to identify directly comparable market indices or other market guidance that correlate directly to the types of investments we own. As a result, for most of our assets, we determine fair value using alternative methodologies and models using available market data, as adjusted, to reflect the types of assets we own, their structure, qualitative and credit attributes and other asset specific characteristics.

We derive fair value for our illiquid investments that do not have indicative fair values based upon active trades primarily by using the Market Yield Approach and also consider recent loan amendments or other activity specific to the subject asset. Discount rates applied to estimated contractual cash flows for an underlying asset vary by specific investment, industry, priority and nature of the debt security (such as the seniority or security interest of the debt security) and are assessed relative to two indices, a leveraged loan index and a high-yield bond index, at the valuation date. We have identified these two indices as benchmarks for broad market information related to our loan and debt investments. Because we have not identified any market index that directly correlates to the loan and debt investments held by us and therefore use the two benchmark indices, these market indices may require significant adjustment to better correlate such market data for the calculation of fair value of the investment under the Market Yield Approach. Such adjustments require judgment and may be material to the calculation of fair value. Further adjustments to the discount rate may be applied to reflect other market conditions or the perceived credit risk of the borrower. When broad market indices are used as part of the valuation methodology, their use is subject to adjustment for many factors, including priority, collateral used as security, structure, performance and other quantitative and qualitative attributes of the asset being valued. The resulting present value determination is then weighted along with any quotes from observable transactions and broker/pricing quotes. If such quotes are indicative of actual transactions with reasonable trading volume at or near the valuation date that are not liquidation or distressed sales, relatively more reliance will be put on such quotes to determine fair value. If such quotes are not indicative of market transactions or are insufficient as to volume, reliability, consistency or other relevant factors, such quotes will be compared with other fair value indications and given relatively less weight based on their relevancy.

Equity and Equity-Related Securities.

Our 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 EBITDA, cash flows from operations less capital expenditures 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 values of our 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 significant inputs used to determine the fair value of equity and equity-related securities include prices, earnings, EBITDA and cash flows after capital expenditures for similar peer comparables and the investment entity itself. Equity and equity-related securities are classified as Level III when there is limited activity or less transparency around inputs to the valuation given the lack of information related to such equity investments held in nonpublic companies. Significant assumptions observed for comparable companies as applied to relevant financial data for the specific investment. Such assumptions, such as model discount rates or price/earnings multiples, vary by the specific investment, equity position and industry and incorporate adjustments for risk premiums, liquidity and company specific attributes. Such adjustments require judgment and may be material to the calculation of fair value.

At March 31, 2012 and March 31, 2011, our investments in income producing loans and debt securities, excluding CLO Fund securities, had a weighted average interest rate of approximately 7.6% and 8.7%, respectively.

The investment portfolio (excluding the Company's investments in its Asset Manager Affiliates and CLO Funds) at March 31, 2012 was spread across 25 different industries and 56 different entities with an average balance per entity of approximately \$2 million. As of March 31, 2012, all but four of our portfolio companies (representing less than 1% of total investments at fair value) were current on their debt service obligations. Our portfolio, including the CLO Funds in which it invests, and the CLO Funds managed by our Asset Manager Affiliates consist almost 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 of CLO Funds, distressed debt or equity securities of public companies. 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 15% of the value of our total investment portfolio at the time of investment. 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 U.S., which investments are generally not anticipated to be in excess of 10% of our investment portfolio at the time such investments are made. At March 31, 2012, approximately 23% of our total assets were foreign assets (including our investments in CLO Funds, which are typically domiciled outside the U.S.). We are generally 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. However, 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 applied for or, if applied for, obtained.

At March 31, 2012, our ten largest portfolio companies represented approximately 56% of the total fair value of our investments. Our largest investment is comprised of our wholly-owned Asset Manager Affiliates and represented 25.9% of the total fair value of our investments. Excluding our Asset Manager Affiliates and CLO Fund securities, our ten largest portfolio companies represent approximately 21% of the total fair value of our investments.

CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by our Asset Manager Affiliates and may selectively invest in securities issued by CLO Funds managed by other asset management companies. As of March 31, 2012, we had approximately \$63 million invested in CLO Fund securities, including those issued by funds managed by our Asset Manager Affiliates.

The CLO Funds managed by our Asset Manager Affiliates 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 an investment are generally diversified secured or unsecured corporate debt. The underlying assets in our CLO Funds 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.

Our CLO Fund investments as of March 31, 2012 and December 31, 2011 are as follows:

CLO Fund Securities	Investment	% ¹	March 31, 2012 (unaudited)		December 31, 2011	
			Cost	Fair Value	Cost	Fair Value
Grant Grove CLO, Ltd.	Subordinated Securities	22.2%	\$ 4,892,074	\$ 3,010,800	\$ 4,750,401	\$ 3,042,400
Katonah III, Ltd.	Preferred Shares	23.1	4,476,930	1,000	4,453,860	1,000
Katonah V, Ltd. ³	Preferred Shares	26.7	3,320,000	1,000	3,320,000	1,000
Katonah VII CLO Ltd. ²	Subordinated Securities	16.4	4,593,193	2,413,500	4,579,546	2,358,700
Katonah VIII CLO Ltd. ²	Subordinated Securities	10.3	3,444,905	2,009,000	3,412,466	1,888,700
Katonah IX CLO Ltd. ²	Preferred Shares	6.9	2,065,887	1,420,600	2,024,594	1,336,800
Katonah X CLO Ltd. ²	Subordinated Securities	33.3	11,839,406	9,119,600	11,723,768	8,645,600
Katonah 2007-1 CLO Ltd. ²	Preferred Shares	100.0	30,841,623	25,731,000	30,343,592	24,488,400
Katonah 2007-1 CLO Ltd. ²	Class B-2L Notes	100	1,224,533	7,581,919	1,212,612	6,675,717
Trimaran CLO IV, Ltd. ²	Preferred Shares	18.9	3,623,700	3,493,700	—	—
Trimaran CLO V, Ltd. ²	Subordinate Notes	20.8	2,757,300	2,707,300	—	—
Trimaran CLO VI, Ltd. ²	Income Notes	16.2	2,914,723	2,854,723	—	—
Trimaran CLO VII, Ltd. ²	Income Notes	10.5	3,160,200	3,060,200	—	—
Total			<u>\$ 79,154,474</u>	<u>\$ 63,404,342</u>	<u>\$ 65,820,839</u>	<u>\$ 48,438,317</u>

¹ Represents percentage of class held.

² An affiliate CLO Fund managed by an Asset Manager Affiliate.

³ As of March 31, 2012, this CLO Fund security was not providing a dividend distribution.

Our investments in CLO Fund securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and cash outflows for interest expense, debt paydown and other fund costs for the CLO Funds that are approaching or past the end of their reinvestment period and therefore are selling assets and/or using principal repayments to pay down CLO Fund debt (or will begin to do so shortly), and for which there continue to be net cash distributions to the class of securities owned by us, or (ii) 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 securities or preferred shares to those in which we have invested. 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 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 are updated and the revised cash flows are used in determining the fair value of the CLO Fund investments. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Due to the individual attributes of each CLO Fund security, they are classified as a Level III (as described in—“Critical Accounting Policies—Valuation of Portfolio Investments” below) investment unless specific trading activity can be identified at or near the valuation date. When available, Level II (as described in “—Critical Accounting Policies—Valuation of Portfolio Investments” below) market information will be identified, evaluated and weighted accordingly in the application of such data to the present value models and fair value determination. Significant assumptions to the present value calculations include default rates, recovery rates, prepayment rates, investment/reinvestment rates and spreads and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterizations of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund security’s underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. We evaluate the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented.

For bond rated tranches of CLO Fund securities (those above the junior class) without transactions to support a fair value for the specific CLO Fund and tranche, fair value is based on discounting estimated bond payments at current market yields, which may reflect the adjusted yield on the leveraged loan index for similarly rated tranches, as well as prices for similar tranches for other CLO Funds, and also considers other factors such as the default and recovery rates of underlying assets in the CLO Fund, as may be applicable. Such model assumptions may vary and incorporate adjustments for risk premiums and CLO Fund specific attributes. Such adjustments require judgment and may be material to the calculation of fair value.

The unaudited table below summarizes certain attributes of each CLO Fund as per their most recent trustee reports as of March 31, 2012:

CLO Fund Securities¹	Number of Securities	Number of Issuers	Number of Industries	Average Security Position Size	Average Issuer Position Size
Grant Grove CLO, Ltd.	287	235	32	\$ 1,029,305	\$ 1,257,066
Katonah III, Ltd.	112	70	25	1,289,392	2,063,028
Katonah V, Ltd.	144	77	28	445,015	832,235
Katonah VII CLO Ltd.	194	156	32	1,623,192	2,018,585
Katonah VIII CLO Ltd.	223	181	32	1,593,122	1,962,796
Katonah IX CLO Ltd.	244	199	31	1,613,419	1,978,262
Katonah X CLO Ltd.	248	207	30	1,863,977	2,233,170
Katonah 2007-1 CLO Ltd.	208	172	30	1,494,042	1,806,748
Trimaran CLO IV, Ltd.	146	109	22	2,276,675	3,049,491
Trimaran CLO V, Ltd.	152	122	24	1,878,707	2,340,685
Trimaran CLO VI, Ltd.	173	136	25	1,673,140	2,128,333
Trimaran CLO VII, Ltd.	186	144	26	2,542,125	3,283,579

¹ All data from most recent Trustee reports as of March 31, 2012.

In May 2009, we purchased the class B-2L notes of the Katonah 2007-1 CLO investment managed by Katonah Debt Advisors (“Katonah 2007-1 B-2L”). We purchased Katonah 2007-1 B-2L for 10% of the par value. The fair value, cost basis, and aggregate unrealized appreciation of the Katonah 2007-1 B-2L investment as of March 31, 2012 were approximately \$7.6 million, \$1.2 million, and \$6.4 million, respectively, and at December 31, 2011, the fair value, cost basis, and aggregate unrealized appreciation of the Katonah 2007-1 B-2L investment were \$6.7 million, \$1.2 million, and \$5.5 million, respectively. Both the B-2L notes and preferred shares of Katonah 2007-1 are owned 100% by us and Katonah 2007-1 is current in the payment of all quarterly distributions in respect of the B-2L notes and the preferred shares.

All CLO Funds managed by Asset Manager Affiliates are currently making quarterly dividend distributions to us and are paying all senior and subordinate management fees to our Asset Manager Affiliates. With the exception of the Katonah III, Ltd. CLO Fund and the Katonah V, Ltd. CLO Fund, all third-party managed CLO Funds held as investments are making quarterly dividend distributions to us.

Asset Manager Affiliates

Our Asset Manager Affiliates are our wholly-owned asset management companies that manage CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. The CLO Funds managed by our Asset Manager Affiliates 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 March 31, 2012, our Asset Manager Affiliates had approximately \$3.4 billion of par value of assets under management on which they earn management fees, and were valued at approximately \$75 million.

As a manager of the CLO Funds, our Asset Manager Affiliates receive contractual and recurring management fees as well as an expected one-time structuring fee from the CLO Funds for its management and advisory services. In addition, our Asset Manager Affiliates may also earn income related to net interest on assets accumulated for future CLO issuances on which it has provided a first loss guaranty in connection with loan warehouse arrangements for its CLO Funds. Our Asset Manager Affiliates generate annual operating income equal to the amount by which its fee income exceeds its operating expenses.

The annual management fees which our Asset Manager Affiliates receive are generally based on a fixed percentage of the par value of assets under management and are recurring in nature for the term of the CLO Fund so long as the Asset Manager Affiliates manage the fund. As a result, the annual management fees earned by our Asset Manager Affiliates are not subject to market value fluctuations in the underlying collateral. The annual management fees our Asset Manager Affiliates receive have two components - a senior management fee and a subordinated management fee. Currently, all CLO Funds managed by Asset Manager Affiliates are paying both their senior and subordinated management fees on a current basis.

In future years, our Asset Manager Affiliates may receive accrued incentive fees from CLO Funds they manage provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred shares.

Subject to market conditions, we expect to continue to make investments in CLO Funds managed by our Asset Manager Affiliates, which we believe will provide us with a current cash investment return. We believe that these investments will provide our Asset Manager Affiliates with greater opportunities to access new sources of capital which will ultimately increase our Asset Manager Affiliates' assets under management and resulting management fee income. We also expect to receive distributions of recurring fee income and, if debt markets stabilize and recover, to generate capital appreciation from our investment in the asset management business of our Asset Manager Affiliates.

The revenue that our Asset Manager Affiliates generate through the fees they receive for managing CLO Funds and after paying the expenses pursuant to an overhead allocation agreement with the Company associated with its operations, including compensation of its employees, may be distributed to Kohlberg Capital. Cash distributions of our Asset Manager Affiliates' net income are recorded as dividends from an affiliate asset manager when declared. As with all other investments, the fair value for Asset Manager Affiliates is periodically determined. Our investment in our Asset Manager Affiliates is carried at fair value, which is determined after taking into consideration a percentage of assets under management and a discounted cash flow model incorporating different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Such valuation includes an analysis of comparable asset management companies. The Asset Manager Affiliates are classified as a Level III investment. Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation.

PORTFOLIO AND INVESTMENT ACTIVITY

Our primary business is lending to and investing in middle-market businesses through investments in senior secured loans, junior secured loans, subordinated/mezzanine debt investments, CLO equity investments and other equity-based investments, which may include warrants.

Total portfolio investment activity (excluding activity in time deposit and money market investments) for the three months ended March 31, 2012 (unaudited) and for the year ended December 31, 2011 was as follows:

	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total Portfolio
Fair Value at December 31, 2010	\$ 91,042,928	\$ 53,031,000	\$ 4,688,832	\$ 41,493,000	\$ 190,255,760
2011 Activity:					
Purchases / originations / draws	\$ 81,815,921	\$ —	\$ 3,218,151	\$ (194,027)	\$ 84,840,045
Pay-downs / pay-offs / sales	(56,944,765)	(1,935,000)	(141,769)	—	(59,021,534)
Net accretion of interest	156,180	(628,034)	—	—	(471,854)
Net realized losses	(17,261,608)	(1,215,000)	—	—	(18,476,608)
Increase (decrease) in fair value	15,864,850	(2,840,966)	(1,724,319)	(484,973)	10,814,592
Fair Value at December 31, 2011	114,673,506	46,412,000	6,040,895	40,814,000	207,940,401
Year to Date 2012 Activity:					
Purchases / originations / draws	42,340,682	12,000,000	—	39,083,682	93,424,364
Pay-downs / pay-offs / sales	(19,932,541)	—	—	—	(19,932,541)
Net accretion of interest	54,804	2,652,309	—	—	2,707,113
Net realized losses	302,734	—	—	—	302,734
Increase (decrease) in fair value	(1,082,695)	2,340,033	680,986	(5,303,682)	(3,365,358)
Fair Value at March 31, 2012	\$ 136,356,490	\$ 63,404,342	\$ 6,721,881	\$ 74,594,000	\$ 281,076,713

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 (decrease) in stockholders' equity resulting from operations which includes net investment income (loss) and net realized and unrealized appreciation (depreciation). 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 amortized cost. Net change in 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 three months ended March 31, 2012 and 2011.

Investment Income

Investment income for the three months ended March 31, 2012 and 2011 was approximately \$7 million and \$7 million, respectively. Of these amounts, approximately \$3 million and \$2 million was attributable to interest income on our loan and bond investments, respectively. For the three months ended March 31, 2012 and 2011, approximately \$4 million and \$3 million of investment income is attributable to dividends earned on CLO equity investments, respectively.

During the three months ended March 31, 2011, we received a \$2 million cash settlement to settle litigation previously initiated by us against the lenders related to our secured credit facility which we fully repaid on January 31, 2011. Upon receipt, this settlement was recognized as other income during the three months ended March 31, 2011.

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. The level of excess spread from CLO Fund securities can be impacted by the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly.

Dividends from Asset Manager Affiliates

As of March 31, 2012, our investment in the Asset Manager Affiliates was valued at approximately \$75 million. For the three months ended March 31, 2012 and 2011, our Asset Manager Affiliates had pre-tax net income before net capital losses of approximately \$380,000 and \$450,000, respectively. For the three months ended March 31, 2012, our Asset Manager Affiliates made distributions of net income of \$825,000. For the three months ended March 31, 2011, our Asset Manager Affiliates made no distributions of net income. The distributions from our Asset Manager Affiliates in 2012 represent a portion of the expected net income for Asset Manager Affiliates for the year ended December 31, 2012.

Distributions of net income from our Asset Manager Affiliates are recorded as dividends from affiliate asset manager. The Company intends to distribute the accumulated undistributed net income of the Asset Manager Affiliates in the future. For purposes of calculating distributable tax income for required quarterly dividends as a RIC, the Asset Manager Affiliates' net income is further reduced by approximately \$4.5 million per annum for tax goodwill amortization resulting from the acquisition of Katonah Debt Advisors by us prior to our initial public offering and our recent acquisition of Trimaran Advisors. 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 three months ended March 31, 2012 and 2011 were approximately \$4 million and \$2 million, respectively. Interest expense and amortization on debt issuance costs for the period, which includes facility and program fees on the unused loan balance, were approximately \$1 million and \$297,000, respectively, on average debt outstanding of \$60 million and \$36 million, respectively. Approximately \$948,000 and \$841,000, respectively, of expenses were attributable to employment compensation, including salaries, bonuses and stock option expense for the three months ended March 31, 2012 and 2011. For the three months ended March 31, 2012, other expenses included approximately \$1 million for professional fees, insurance, administrative and other. For the three months ended March 31, 2011, other expenses included approximately \$1 million for professional fees, insurance, administrative and other. For the three months ended March 31, 2012 and 2011, administrative and other costs (including occupancy expense, insurance, technology and other office expenses) totaled approximately \$326,000 and \$313,000, respectively.

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 borrowings and the related interest 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 generally paid annually.

Professional fee expenses for the three months ended March 31, 2012 are higher by approximately \$150,000, relative to the same prior year period primarily due to an increase in professional fees during the three months ended March 31, 2012 related to additional legal, accounting, and valuation costs connected to our acquisition of Trimaran Advisors.

Net Unrealized Appreciation on Investments

During the three months March 31, 2012, our total investments had a decrease in net unrealized appreciation of approximately \$3 million. During the three months March 31, 2011, our total investments had an increase in net unrealized appreciation of approximately \$6 million. For the three months ended March 31, 2012, our Asset Manager Affiliates had a decrease in net unrealized appreciation of approximately \$5 million. For the three months ended March 31, 2011, our Asset Manager Affiliates had an increase in net unrealized appreciation of approximately \$840,000. For the three months ended March 31, 2012, our middle market portfolio of debt securities, equity securities, and CLO Fund securities had a net increase in unrealized appreciation due to fair value adjustments of approximately \$2 million. For the three months ended March 31, 2011, our middle market portfolio of debt securities, equity securities, and CLO Fund securities had a net increase in unrealized appreciation due to fair value adjustments of approximately \$6 million.

Net Increase (Decrease) in Stockholders' Equity Resulting From Operations

For the three months ended March 31, 2012 the net change in stockholders' equity resulting from operations was an approximate increase of \$577,000, or \$0.02 per share. The net change in stockholders' equity resulting from operations for the three months ended March 31, 2011 was an approximate increase of \$10 million, or \$0.42 per 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, if available), 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 Affiliates. 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 our Asset Manager Affiliates. No new securitizations by our Asset Manager Affiliates have closed since January 2008.

As a BDC, we are limited in the amount of leverage we can incur to finance our investment portfolio. In order to incur new debt, we are required to meet a coverage ratio of total assets to total senior securities of at least 200% immediately after such issuance. 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 March 31, 2012 and December 31, 2011 the fair value of investments and cash were as follows:

Security Type	Investments at Fair Value	
	March 31, 2012 (unaudited)	December 31, 2011
Cash	\$ 2,032,121	\$ 2,555,259
Time Deposits	12,343	229,152
Money Market Accounts	9,746,435	31,622,134
Senior Secured Loan	71,084,971	45,259,328
Junior Secured Loan	46,674,884	47,300,172
Mezzanine Investment	11,588,115	11,588,115
Senior Subordinated Bond	6,608,520	10,125,891
CLO Fund Securities	63,404,342	48,438,317
Equity Securities	6,721,881	6,040,895
Preferred	400,000	400,000
Affiliate Asset Managers	74,594,000	40,814,000
Total	\$ 292,867,612	\$ 244,373,263

We use borrowed funds, known as “leverage,” to make investments and to attempt to increase returns to our shareholders by reducing our overall cost of capital. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. We are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% immediately after such borrowing. As of March 31, 2012, we had approximately \$60 million of outstanding borrowings and our asset coverage ratio of total assets to total borrowings was 445%, compliant with the minimum asset coverage level of 200% generally required for a BDC by the 1940 Act. We may also borrow amounts of up to 5% of the value of our total assets for temporary purposes.

At December 31, 2010, we had approximately \$87 million of outstanding indebtedness through a secured credit facility. On January 31, 2011, we repaid in full the outstanding balance under this facility. On March 16, 2011, we issued \$55 million in aggregate principal amount of unsecured 8.75% convertible senior notes due 2016 (“Convertible Senior Notes”). On March 23, 2011, pursuant to an over-allotment option, we issued an additional \$5 million of such Convertible Senior Notes for a total of \$60 million in aggregate principal amount.

On February 24, 2012, we entered into a Note Purchase Agreement with Credit Suisse AG, Cayman Islands Branch (“CS”), Credit Suisse Securities (USA) LLC, as arranger, The Bank of New York Mellon Trust Company, National Association, as collateral administrator and collateral agent, and KCAP Funding, a special-purpose bankruptcy remote wholly-owned subsidiary of the Company (“KCAP Funding”), under which we may obtain up to \$30 million in financing (the “Facility”). The scheduled maturity date for the Facility is December 20, 2014. Interest on the Facility is Libor + 350 and payable quarterly.

Advances under the Facility are used by us primarily to make additional investments. The Facility is secured by loans that it currently owns and a security interest in our right to receive certain management fees. Our borrowings under the Facility are effected through KCAP Funding.

As of March 31, 2012, there was no outstanding balance under the Facility and we are in compliance with all its debt covenants. As of March 31, 2012, we had restricted cash balances of approximately \$98,000 which we maintained in accordance with the terms of the Facility. We believe that between unrestricted cash, availability of borrowings under the Facility and liquid investments, we have sufficient liquidity to fund operations and current payables for at least the next twelve months.

As of March 31, 2012, we had total outstanding indebtedness of \$60 million at a fixed rate of interest of 8.75%. As of March 31, 2012, we had cash, time deposits, and money market accounts of approximately \$12 million which will fund future investments and operational needs.

Subject to prevailing market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. As a result, we may seek to enter into new agreements with other lenders or into other financing arrangements as market conditions permit. Such financing arrangements may include a new secured and/or unsecured credit facility, the issuance of preferred securities or debt guaranteed by the Small Business Administration. We also believe that our current cash position, certain loan investments and cash income earned by our investment portfolio are adequate for our current liquidity needs.

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 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 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 March 31, 2012 and December 31, 2011, we had committed to make a total of approximately \$2 million and \$2 million, respectively, of investments in various revolving senior secured loans, of which approximately \$80,000 had been funded as of March 31, 2012 and \$0 had been funded as of December 31, 2011. As of March 31, 2012 and December 31, 2011, we had committed to make no investments in delayed draw senior secured loans.

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 basis of presentation, valuation of investments, and certain revenue recognition matters as discussed below.

Basis of Presentation

The accompanying unaudited financial statements have been prepared on the accrual basis of accounting in conformity with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required for annual financial statements. The unaudited interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto in the Company's Form 10-K for the fiscal year ended December 31, 2011, as filed with the Commission.

Accounting Standards Codification. In June 2009, the FASB issued a pronouncement establishing the FASB Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. The ASC reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The standard explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. The ASC supersedes all existing U.S. accounting standards; all other accounting literature not included in the ASC (other than Securities and Exchange Commission guidance for publicly-traded companies) is considered non-authoritative. The ASC was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the ASC changed our references to GAAP accounting standards but did not impact our results of operations, financial position or liquidity.

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 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 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.

We are, for GAAP purposes, an investment company under the AICPA Audit and Accounting Guide for Investment Companies. As a result, we reflect our investments on our balance sheet at their estimated fair value with unrealized gains and losses resulting from changes in fair value reflected as a component of unrealized gains or losses on our statements of operations. Fair value is the amount that would be received to sell the investments in an orderly transaction between market participants at the measurement date (i.e., the exit price). Additionally, we do not consolidate majority or wholly-owned and controlled investments.

Effective January 1, 2008 we adopted *Fair Value Measurements and Disclosures*, which among other things, requires enhanced disclosures about financial instruments carried at fair value. See Note 4 to the financial statements for the additional information about the level of market observability associated with investments carried at fair value.

We have valued our investments, in the absence of observable market prices, using the valuation methodologies described below applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of management's judgment.

Our investments in CLO Fund securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and the cash outflows for interest expense, debt paydown and other fund costs for the 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, and for which there continue to be net cash distributions to the class of we securities own, or (ii) 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 securities or preferred shares to those in which the Company has invested. 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 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 are updated and the revised cash flows are used in determining the fair value of the CLO Investment. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Our investment in our Asset Manager Affiliates is carried at fair value, which is determined after taking into consideration a percentage of assets under management and a discounted cash flow model incorporating different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Such valuation includes an analysis of comparable asset management companies. Our investment in our Asset Manager Affiliates is classified as a Level III investment (as described below). Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation.

Fair values of other investments for which market prices are not observable are determined by reference to public market or private transactions or valuations for comparable companies or assets in the relevant asset class and or industry when such amounts are available. Generally these valuations are derived by multiplying a key performance metric of the investee company or asset (e.g., EBITDA) by the relevant valuation multiple observed for comparable companies or transactions, adjusted by management for differences between the investment and the referenced comparable. Such investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value. If the fair value of such investments cannot be valued by reference to observable valuation measures for comparable companies, then the primary analytical method used to estimate the fair value is a discounted cash flow method and/or cap rate analysis. A sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rates (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates to determine a range of reasonable values or to compute projected return on investment.

We derive fair value for our illiquid loan investments that do not have indicative fair values based upon active trades primarily by using the Market Yield Approach, and also consider recent loan amendments or other activity specific to the subject asset as described above. Other significant assumptions, such as coupon and maturity, are asset-specific and are noted for each investment in the Schedules of Investments. Our Board of Directors may consider other methods of valuation to determine the fair value of investments as appropriate in conformity with GAAP.

The determination of fair value using this methodology takes into consideration a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. This valuation methodology involves a significant degree of management's judgment.

After our adoption of *Fair Value Measurements and Disclosures*, investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by *Fair Value Measurements and Disclosures*, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably affect the quoted price.

- Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Such inputs may be quoted prices for similar assets or liabilities, quoted markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. Investments which are generally included in this category include illiquid corporate loans and bonds and less liquid, privately held or restricted equity securities for which some level of recent trading activity has been observed.
- Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs may be based on the Company’s own assumptions about how market participants would price the asset or liability or may use Level II inputs, as adjusted, to reflect specific investment attributes relative to a broader market assumption. These inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation methodology.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and it considers factors specific to the investment. Substantially all of our investments are classified as Level III.

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 March 31, 2012, four issuers representing less than 1% of our total investments at fair value were on non-accrual status. As of December 31, 2011, three issuers representing less than 1% of our total investments at fair value were 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 the Asset Manager Affiliates and selective investments in securities issued by funds managed by other asset management companies using the effective interest method based on anticipated yield and estimated cash flows as updated quarterly for changes in prepayments, re-investment, credit losses and other items that may impact distributions. Our CLO Fund junior class securities are subordinated 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 level of excess spread from CLO Fund securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly. In addition, the failure of CLO Funds in which we invest to comply with certain financial covenants may lead to the temporary suspension or deferral of cash distributions to us. 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.

For non-junior class CLO Fund securities, such as our investment in the class B-2L notes of Katonah 2007-1 CLO, interest is earned at a fixed spread relative to the LIBOR index.

Dividends from Asset Manager Affiliates

We record dividend income from our Asset Manager Affiliates on the declaration date, which represents the ex-dividend date.

Payment in Kind Interest

We may have loans in our portfolio that contain a payment-in-kind (“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 or restricted stock under the Plan to officers and employees for services rendered to us. We follow *Compensation – Stock Compensation*, a method by which the fair value of options or restricted stock is determined and expensed. We use a Binary Option Pricing Model (American, call option) as its 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.

United States Federal Income Taxes

The Company has elected and intends to continue to qualify for the tax treatment applicable to RICs under Subchapter M of the Code and, among other things, intends to make the required distributions to its stockholders as specified therein. In order to qualify as a RIC, the Company is required to timely distribute to its 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.

Dividends

Dividends and distributions to common stockholders are recorded on the ex-dividend 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 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.

Recent Accounting Pronouncements

Improved Disclosures Regarding Fair Value Measurements. In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Improving Disclosures About Fair Value Measurements (Topic 820)*, which provides for improving disclosures about fair value measurements, primarily significant transfers in and out of Levels I and II, and activity in Level III fair value measurements. The new disclosures and clarifications of existing disclosures are effective for the interim and annual reporting periods beginning after December 15, 2009, while the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and for the interim periods within those fiscal years. Except for certain detailed Level III disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company’s fiscal 2010 second quarter. The adoption of this disclosure-only guidance is included in Note 4 “—Investments” and did not have a material impact on the Company’s financial results.

In May 2011, the FASB issued FASB Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRS. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments in this ASU are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Management currently believes that the adoption of this ASU will not have a material impact on the Company’s operating results, financial position or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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 March 31, 2012, approximately 79% 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 March 31, 2012, we had \$60 million of borrowings outstanding at a fixed rate of 8.75%.

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 or lowering interest rates, our current cost of debt would remain the same at 8.75% given that our debt is at a fixed rate. We would expect that an increase in the base rate index for our floating rate investment assets would increase our net investment income and that a decrease in the base rate index for such assets would decrease our net investment income (in either case, such increase/decrease may be limited by interest rate floors/minimums for certain investment assets).

We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that our balance sheet at March 31, 2012 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical increase of a 1% change in interest rates would correspondingly increase net interest income proportionately by approximately \$800,000 over a one-year period. Conversely, a hypothetical decrease of a 1% change in interest rates would correspondingly decrease net interest income proportionately by approximately \$600,000 over a one-year period.

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 March 31, 2012.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to a valuation methodology approved by our Board of Directors. Investments for which market quotations are generally readily available are generally valued at such market quotations. 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 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 materially from the values that would have been used had a ready market existed for such investments. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the value 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.

In 2010, we engaged an independent valuation firm, to provide a third-party review of our CLO fair value model relative to its functionality, model inputs and calculations as a reasonable method to determine CLO fair values, in the absence of Level 1 or Level 2 trading activity or observable market inputs. The independent valuation firm concluded that our CLO model appropriately factors in all the necessary inputs required to build a CLO equity cash flow for fair value purposes and that the inputs were being employed correctly.

Beginning with the period ending June 30, 2011, the Company has engaged an independent valuation firm to provide third party valuation consulting services to the Company's Board of Directors. Each quarter, the independent valuation firm will perform third party valuations on the Company's investments on illiquid securities such that they are reviewed at least once during a trailing 12 month period. These third party valuation estimates were considered as one of the relevant data inputs in the Company's determination of fair value. The Board of Directors intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

The Company's management, under the supervision and with the participation of various members of management, including our CEO and our CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO have concluded that our current disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2012, the Company had no changes in its internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

Class Actions against the Company and Certain Directors and Officers

The Company and certain directors and officers were named as defendants in three putative class actions pending in the Southern District of New York brought by stockholders of the Company and filed in December 2009 and January 2010. The complaints in these three actions alleged violations of Sections 10 and 20 of the Exchange Act based on the Company's disclosures of its year-end 2008 and first- and second-quarter 2009 financial statements. The federal court consolidated the three lawsuits and appointed a lead plaintiff under the Private Securities Litigation Reform Act on March 21, 2011, and lead plaintiff filed a consolidated amended complaint on May 11, 2011. The Company moved to dismiss the consolidated amended complaint. On July 28, 2011, the Court granted that motion and dismissed the consolidated amended complaint, giving the plaintiff until August 22, 2011 to file any further amended complaint. Lead plaintiff filed a second amended consolidated class action complaint on August 22, 2011, which defendants moved to dismiss. The Court dismissed that complaint with prejudice on October 7, 2011. Lead plaintiff did not appeal the dismissal of the case, which is now closed.

In addition, the Company and certain directors and officers were named as defendants in a derivative action filed on March 2, 2010 in the Supreme Court of New York, County of New York. The complaint in this action purported to state causes of action for breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and corporate waste. On October 20, 2010, the court dismissed the complaint, and found, among other things, that the plaintiff had not alleged that any of the Company's directors "'knowingly' misrepresented or permitted others to misrepresent Company's financial condition," or that the directors were confronted with "red flags" sufficient to put them on notice of potential problems with Company's investment valuations so as to excuse plaintiff's requirement under Delaware law to make a demand on Company's board before filing suit. On January 12, 2011, the court entered a final judgment dismissing the complaint. While the plaintiff subsequently filed a notice of appeal, it did not timely perfect that appeal under the rules of the New York State Supreme Court, Appellate Division.

SEC Investigation

On January 11, 2010, the staff of the SEC's Division of Enforcement informed the Company that it was conducting an informal inquiry. The focus of the inquiry concerns the valuation methodology and procedures used by the Company to value its investments. On April 30, 2010, the SEC Staff advised the Company that a formal order of private investigation had been issued and that the informal inquiry was now a formal investigation. A subpoena has been issued to the Company in connection with the formal investigation. The subpoena requests that the Company produce documents that primarily relate to the valuation methodology and procedures used by the Company to value its investments. Since January 2010, the Company has been providing documents in response to the informal inquiry and the subpoena, and the SEC Staff has taken testimony from Company representatives. The Company is cooperating fully with the SEC Staff's investigation.

In connection with the investigation described above, on April 19, 2012, the SEC Staff issued a "Wells Notice" to Michael I. Wirth, the Company's Chief Financial Officer, indicating that the SEC Staff is considering recommending that the SEC institute proceedings against Mr. Wirth alleging that Mr. Wirth violated certain provisions of the federal securities laws. The Wells Notice does not constitute a determination that Mr. Wirth violated any law. Under the process established by the SEC, Mr. Wirth will have the opportunity to make a Wells Submission before the SEC Staff makes a formal recommendation to the SEC regarding what action, if any, should be brought by the SEC. Mr. Wirth has informed the Company that he plans to make such a submission.

Neither the Company nor any other person employed by the Company has received a Wells Notice. The Company and the other officers involved in this matter, including Dayl W. Pearson, the Company's Chief Executive Officer, are engaged in settlement negotiations in an effort to resolve the matter and believe that discussions to date with the SEC Staff will lead to a settlement. Any settlement remains subject to approval by the SEC.

The Company cannot at this time predict with certainty the outcome of the above matter, including whether a lawsuit will be filed, whether the SEC will approve any settlement or whether the SEC will ultimately determine to issue a Wells Notice to the Company or any other person involved in this matter. The Company does not anticipate that the Wells Notice referenced above or the terms of any settlement involving the Company and the other officers involved in the matter will have a material adverse impact on its business, financial condition or results of operations.

Except as set forth above, neither the Company, nor any of its subsidiaries, is currently a party to any material legal proceedings, other than routine litigation and administrative proceedings arising in the ordinary course of business. Such proceedings are not expected to have a material adverse effect on the business, financial condition, or results of the Company's operations.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2011 contains important risk factors that could cause our actual results to differ materially from our historical experience or our present expectations and projections. If any such risks (or any risks we face) occur, our business, financial condition and results of our operations could be materially adversely affected. In such case, the net asset value and trading price of our common stock could decline, and you may lose all or part of your investment. Other than as described below, there have been no material changes from the risk factors previously disclosed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, which should be read together with the other risk factors and information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

The following disclosure replaces and supplements the corresponding risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2011:

Risks Related to Our Business

We may incur losses as a result of "first loss" agreements into which we or our Asset Manager Affiliates 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 our Asset Manager Affiliates have in the past entered, and may in the future enter, into "first loss" agreements in connection with warehouse credit lines to be established by our Asset Manager Affiliates to fund the initial accumulation of loan investments for future CLO Funds that our Asset Manager Affiliates will manage. Such agreements (referred to as "first loss agreements" or "first loss obligations") frequently 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.

Risks Related to Our Investments

Our portfolio investments for which there is no readily available market, including our investment in our Asset Manager Affiliates and our investments in CLO Funds, 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 a valuation methodology approved by our Board of Directors. These valuations are initially prepared by our management and reviewed by our Valuation Committee, which uses its best judgment in arriving at the fair value of these securities. However, the Board of Directors retains ultimate authority to determine the appropriate valuation for each investment. From time to time, our Board of Directors has used the services of an independent valuation firm to aid it in determining fair value, including in the case of our investments in CLO Funds and in our Asset Manager Affiliates. Where applicable, an independent valuation firm provides third-party valuation consulting services, which typically consist of certain limited procedures that we identify and request an 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. Our investment in our Asset Manager Affiliates is carried at fair value, which is determined after taking into consideration a percentage of assets under management and a discounted cash flow model incorporating different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Such valuation includes an analysis 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. Our NAV could be adversely affected if our determinations regarding the fair value of our illiquid 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 March 31, 2012, our largest investment, our 100% equity interest in our Asset Manager Affiliates, equaled approximately 25% of the fair value of our total assets. Beyond the asset diversification requirements associated with our qualification as a RIC (as described further in “Item 1. Business — Certain United States Federal Income Tax Considerations” of our Annual Report on Form 10-K for the year ended December 31, 2011), 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 do 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 NAV 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, changes in fair value over time 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.

We may not receive all or a portion of the income we expect to continue to receive from our Asset Manager Affiliates.

We expect to receive distributions of recurring fee income, after the payment of its expenses, from the asset management activities of our Asset Manager Affiliates. However, the existing asset management agreements pursuant to which our Asset Manager Affiliates receive such fee income from the CLO Funds for which they serve as managers 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 our Asset Manager Affiliates of the indenture governing the applicable CLO Fund, breaches by our Asset Manager Affiliates of certain specified provisions of the indenture, material breaches of representations or warranties made by our Asset Manager Affiliates, bankruptcy or insolvency of our Asset Manager Affiliates, fraud or criminal activity on the part of our Asset Manager Affiliates 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 our Asset Manager Affiliates 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 or otherwise have insufficient residual cash flow due to diversion of cash as a result of the failure by the CLO Funds to satisfy certain restrictive covenants contained in their indenture agreements to pay the subordinated management fees, we will not receive the fee income that we expect to continue to receive from our Asset Manager Affiliates, which will reduce income available to make distributions to our stockholders. At March 31, 2012, our Asset Manager Affiliates were receiving all (senior and subordinate) management fees payable by the CLO Funds managed by them.

The fair value of our Asset Manager Affiliates may be negatively affected by the costs associated with preparing any separate financial statements of our Asset Manager Affiliates that are required by Rule 3-09 of Regulation S-X or any separate summarized financial information of our Asset Manager Affiliates that is required by Rules 10-01, 4-08(g) and 1-02(bb) of Regulation S-X, which could adversely affect our business and financial condition, including the financial condition of our Asset Manager Affiliates and our net asset value, as well as the trading price of our common stock.

Because the fair value of our Asset Manager Affiliates is based on the cash flows of our Asset Manager Affiliates available for distribution to the Company, the costs associated with the evaluation of the requirements of Rule 3-09 of Regulation S-X in respect of separate financial statements of our Asset Manager Affiliates, the preparation of any required separate financial statements or separate summarized financial information of our Asset Manager Affiliates in accordance with Rules 3-09, 10-01, 4-08(g) and 1-02(bb) of Regulation S-X, and any additional audit or review work required to be performed by our independent registered public accountants in respect of any such separate financial statements or separate summarized financial information may reduce the fair value of our Asset Manager Affiliates as reflected on the Company’s financial statements, which could result in a reduction to our net asset value. Any such reduction in the fair value of our Asset Manager Affiliates could adversely affect our business and financial condition and could result in a decline in the trading price of our common stock.

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 March 31, 2012, we had \$58 million at fair value invested in the subordinated securities or preferred shares issued by CLO Funds managed by our Asset Manager Affiliates and certain other third party asset managers. Subject to market conditions, we expect to continue to acquire subordinated securities in the future in CLO Funds managed by our Asset Manager Affiliates 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 every 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 prevailing CLO market conditions or other factors.

Risks Related to Our Operation as a BDC

Changes in the laws or regulations governing our business and the business of our Asset Manager Affiliates, or changes in the interpretations thereof, and any failure by us or our Asset Manager Affiliates 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, registered investment advisers (such as our Asset Manager Affiliates), 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. In addition, as registered investment advisers, the Asset Manager Affiliates are subject to new and existing regulations, regulatory risks, costs and expenses associated with operating as registered investment advisers that may limit their ability to operate, structure or expand their businesses in the future. 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," or comply with certain exemptive relief granted by the SEC, 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 "Item 1. Business — Regulation" of our Annual Report on Form 10-K for the year ended December 31, 2011.

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 constitute "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 our Asset Manager Affiliates' 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.

In addition, we have received certain exemptive relief from the SEC relating to our status as a BDC and our ability to own securities issued by or any other interest in the business of a person who is a registered investment company. The conditions of such exemptive relief may limit our ability or the ability of our Asset Manager Affiliates, each a registered investment adviser, to operate, structure or expand their businesses in the future.

If we are unable to qualify as a RIC under Subchapter M of the Code, we will generally 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 in accordance with the timing requirements of the Code. We generally will not continue to 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 NAV 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 companies, our Asset Manager Affiliates, through additional direct or indirect wholly-owned subsidiaries which may, in some cases, be taxable as corporations. For additional information see “Item 1. Business — Regulation” and “Item 1. Business — Certain United States Federal Income Tax Considerations” of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not Applicable.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

Reference is made to the Exhibit List filed as a part of this report beginning on page E-1. Each of such exhibits is incorporated by reference herein.

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SIGNATURES

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

KOHLBERG CAPITAL CORPORATION

Date: May 10, 2012

By _____
/s/ Dayl W. Pearson
Dayl W. Pearson
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2012

By _____
/s/ Michael I. Wirth
Michael I. Wirth
Chief Financial Officer, Secretary and Treasurer
(Principal Financial and Accounting Officer)

* * * * *

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Exhibit Index

Exhibit Number	Description of Document
2.1	Purchase and Sale Agreement, dated February 29, 2012, by and among Kohlberg Capital Corporation, Commodore Holdings, L.L.C., Trimaran Advisors, L.L.C., HBK Caravelle, L.L.C., Trimaran Fund Management, L.L.C., Jay R. Bloom and Dean C. Kehler.(1)
2.2	Escrow Agreement, dated February 29, 2012, by and among Commodore Holdings, L.L.C., Trimaran Fund Management, L.L.C., HBK Caravelle, L.L.C. and The Bank of New York Mellon, as escrow agent.(2)
3.1	Bylaws of Kohlberg Capital Corporation, as amended and restated effective February 29, 2012.(3)
10.1	Note Purchase Agreement, dated as of February 24, 2012, by and among Kohlberg Capital Corporation, Credit Suisse AG, Cayman Islands Branch, Credit Suisse Securities (USA) LLC, as arranger, The Bank of New York Mellon Trust Company, National Association, as collateral administrator and collateral agent, and KCAP Funding.(4)
10.2	Collateral Administration Agreement, dated as of February 24, 2012, by and among Kohlberg Capital Corporation, KCAP Funding, Credit Suisse AG, Cayman Islands Branch, The Bank of New York Mellon Trust Company, National Association, as collateral administrator and collateral agent.(5)
10.3*	Employment Agreement, dated February 29, 2012, by and among, Jay R. Bloom and Trimaran Advisors, L.L.C., and, solely as to the last three sentences of Section 1(a) and Section 2(d), Kohlberg Capital Corporation.(6)
10.4*	Employment Agreement, dated February 29, 2012, by and among, Dean C. Kehler and Trimaran Advisors, L.L.C., and, solely as to the last three sentences of Section 1(a) and Section 2(d), Kohlberg Capital Corporation.(7)
31.1**	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates a management contract or compensatory plan, contract or agreement.

** Submitted herewith.

- (1) Incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).
- (2) Incorporated by reference to Exhibit 2.2 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).
- (3) Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).
- (4) Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).
- (5) Incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).
- (6) Incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).
- (7) Incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K, as filed on March 1, 2012 (File No. 814-00735).

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED**

I, Dayl W. Pearson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 of Kohlberg Capital Corporation (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2012

By: _____ / S / DAYL W. PEARSON
Dayl W. Pearson
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED**

I, Michael I. Wirth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 of Kohlberg Capital Corporation (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2012

By: _____ / S / MICHAEL I. WIRTH

Michael I. Wirth
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Kohlberg Capital Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2012 (the "Report"), I, Dayl W. Pearson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 10, 2012

By: _____ / S / DAYL W. PEARSON
Dayl W. Pearson
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Kohlberg Capital Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2012 (the "Report"), I, Michael I. Wirth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 10, 2012

By: _____ / S / MICHAEL I. WIRTH
Michael I. Wirth
Chief Financial Officer
(Principal Financial Officer)
