

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

FORM N-2

(Check appropriate box or boxes)

- REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
- Pre-Effective Amendment No.**
- Post-Effective Amendment No.**

KOHLBERG CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

**295 Madison Avenue, 6th Floor
New York, New York 10017
(212) 455-8300**

(Address and Telephone Number of Principal Executive Offices)

**Dayl W. Pearson
President and Chief Executive Officer
Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017**

(Name and Address of Agent for Service)

Copy to:

**Craig E. Marcus, Esq.
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One International Place
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Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement.

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

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

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

If appropriate, check the following box:

- This amendment designates a new effective date for a previously filed registration statement.
- This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

| Title of Securities Being Registered | Amount Being Registered | Proposed Maximum Offering Price Per Share(1) | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|--|-------------------------|--|--|----------------------------|
| Common Stock, par value \$0.01 per share | 57,555 shares | \$15.37 | \$884,621 | \$28 |

- (1) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457(c) under the Securities Act of 1933. The proposed maximum offering price per share and the proposed maximum aggregate offering price are based on the average of the high and the low sale price on The Nasdaq Global Market on March 14, 2007.

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

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

Subject to Completion, Dated March 16, 2007



57,555 Shares

Common Stock

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended. We were organized to continue and expand the middle market investment business and asset management business of Katonah Debt Advisors, L.L.C. ("Katonah Debt Advisors"), which we acquired, prior to our election to be regulated as a BDC, from affiliates of Kohlberg & Co., L.L.C. ("Kohlberg & Co."), a leading private equity firm focusing on middle market investing. Our middle market investment business originates, structures and manages a portfolio of senior secured term loans and also invests in mezzanine debt and selected equity securities in privately-held middle market companies. Our wholly-owned portfolio company, Katonah Debt Advisors, currently has approximately \$1.6 billion of assets under management and manages collateralized debt obligation funds ("CDO Funds") that invest in broadly syndicated loans, high-yield bonds and other credit instruments. We maintain a strategic relationship with Kohlberg & Co., whose affiliates received, prior to our election to be regulated as a BDC, an aggregate of 3,484,333 shares of our common stock, \$0.01 par value, in exchange for contributing to us their ownership interests in Katonah Debt Advisors and in securities issued by CDO Funds managed by Katonah Debt Advisors and two other asset managers. The underwriting agreement and the related lock-up agreement that we entered into in connection with our initial public offering permit the registration of up to 433,333 of those 3,484,433 shares of common stock after a 90-day lock-up period that ended March 12, 2007, to enable such holders to fund certain tax liabilities arising out of our Restructuring. See "Restructuring." This prospectus relates to the resale of up to 57,555 of those 433,333 shares.

The common stock which is offered for resale by this prospectus is offered by a current holder of our common stock, whom we refer to as the selling stockholder. The selling stockholder may sell the common stock, from time to time, directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. The common stock may be sold in one or more transactions at fixed prices, prevailing market prices at the time of sale, prices related to prevailing market prices, varying prices determined at the time of sale or negotiated prices.

We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder. We have agreed to bear specific expenses in connection with the registration and sale of the common stock being offered by the selling stockholder pursuant to this prospectus.

Our investment objective is to generate current income and capital appreciation from the investments made by our middle market business in senior secured first and second lien term loans, mezzanine debt and selected equity investments in privately-held middle market companies. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may invest up to 30% of our capital in other investments such as loans to larger, publicly-traded companies, high-yield bonds, distressed debt securities and debt and equity securities issued by CDO Funds managed by Katonah Debt Advisors or by other asset managers. We also expect to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors.

Our common stock is traded on The Nasdaq Global Market under the symbol "KCAP." The net asset value per share of our common stock at December 31, 2006 was \$14.29, based on net assets of approximately \$256.4 million at December 31, 2006. On March 14, the last reported sale price of a share of our common stock on The Nasdaq Global Market was \$15.12.

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Investing in our common stock involves risks. See “[Risk Factors](#)” beginning on page 12.

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

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

The date of this prospectus is _____, 2007.

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You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any shares of common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any common stock imply that the information in this prospectus is accurate as of any later date or that the affairs of Kohlberg Capital Corporation have not changed since the date hereof. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, we do not have any intention to update this prospectus to reflect events or circumstances arising after the date of this prospectus, whether as a result of new information, future events or otherwise.

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Kohlberg Capital Corporation, our logo and other trademarks of Kohlberg Capital Corporation mentioned in this prospectus are the property of Kohlberg Capital Corporation. Kohlberg & Co., L.L.C., its logo and other trademarks of Kohlberg & Co., L.L.C. mentioned in this prospectus are the property of Kohlberg & Co., L.L.C. All other trademarks or trade names referred to in this prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

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

OVERVIEW

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). We were organized to continue and expand the middle market investment business and asset management business of Katonah Debt Advisors, which we acquired, prior to our election to be regulated as a BDC, from affiliates of Kohlberg & Co., L.L.C. (“Kohlberg & Co.”), a leading private equity firm with two decades of middle market investment experience. We maintain a strategic relationship with Kohlberg & Co., which includes its Chairman and co-managing partners serving on our Board of Directors and its co-managing partners serving on our Investment Committee. Kohlberg & Co. has also agreed to provide us with certain referrals of middle market private equity investment opportunities. Our relationship with Kohlberg & Co. is an important part of our strategy. Our middle market investment business originates, structures and manages a portfolio of senior secured term loans and also invests in mezzanine debt and selected equity securities in privately-held middle market companies. Our wholly-owned portfolio company, Katonah Debt Advisors, currently has approximately \$1.6 billion of assets under management and manages collateralized debt obligation funds (“CDO Funds”) which invest in broadly syndicated loans, high-yield bonds and other credit instruments. In December 2006, we completed an initial public offering of our common stock and used the net proceeds of that offering to acquire a portfolio of approximately \$185 million in aggregate principal amount of senior secured loans that were originated during 2006 by Katonah Debt Advisors’ middle market lending group. Prior to that offering and our election to be regulated as a BDC, we issued 3,484,333 shares of our common stock to affiliates of Kohlberg & Co. to acquire 100% of the outstanding equity of Katonah Debt Advisors and certain subordinated debt investments in CDO Funds managed by Katonah Debt Advisors and two other asset managers. The underwriting agreement and the related lock-up agreement that we entered into in connection with our initial public offering permit the registration of up to 433,333 of those 3,484,333 shares of common stock after a 90-day lock-up period that ended March 12, 2007, to enable such holders to fund certain tax liabilities arising out of our Restructuring. See “Restructuring.” This prospectus relates to the resale of up to 57,555 of those 433,333 shares.

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. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may invest up to 30% of our capital in other investments such as loans to larger, publicly-traded companies, high-yield bonds, distressed debt securities and debt and equity securities issued by CDO Funds managed by Katonah Debt Advisors or by other asset managers. We also expect to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. We believe that we benefit from our ownership of Katonah Debt Advisors in three ways. First, Katonah Debt Advisors serves as a source of investment opportunities and gives us the flexibility to make an investment either through the Company or through a CDO Fund managed by Katonah Debt Advisors or both. Second, we are able to utilize the experienced team of credit analysts at Katonah Debt Advisors, who also serve as officers of the Company, to evaluate investments for our middle market business. Third, by making investments in CDO Funds raised by Katonah Debt Advisors in the future, on which we expect to receive a current cash return, we can help Katonah Debt Advisors to raise these funds which in turn will increase its assets under management and resulting management fee income. In addition, we believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co. which assists us in sourcing equity investment opportunities and whose Chairman and co-managing partners provide the benefit of their middle market experience through their participation on our Board of Directors and, in the case of the case of the co-managing partners, on our Investment Committee.

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Including employees of our wholly-owned portfolio company Katonah Debt Advisors, some of whom also serve as officers of the Company, we employ an experienced team of 14 investment professionals and 20 total staff members. Dayl W. Pearson, our President and Chief Executive Officer (“CEO”), has been in the financial services industry for over 29 years. During the past 15 years, Mr. Pearson has focused almost exclusively in the middle market and has originated, structured and underwritten over \$5 billion of debt and equity securities. R. Jon Corless, our Chief Investment Officer (“CIO”), has managed investment portfolios in excess of \$4 billion at several institutions and has been responsible for managing portfolios of leveraged loans, high-yield bonds, mezzanine securities and middle market loans. E.A. Kratzman, our Vice President, the Managing Director of Katonah Debt Advisors and the portfolio manager for its Corporate Credit Group, has more than 30 years of credit and investment experience and has participated in fundraising for 15 funds investing in loans, high-yield bonds and credit derivatives with an aggregate value of approximately \$4 billion. Michael I. Wirth serves as our Chief Financial Officer (“CFO”) and as our Chief Compliance Officer (“CCO”). The Chairman of our Board of Directors and Investment Committee, Christopher Lacovara, is one of the two co-managing partners of Kohlberg & Co. and has been responsible for investing more than \$500 million of equity capital in more than 25 leveraged buyouts and add-on acquisitions with an aggregate value of approximately \$2 billion and has served on the boards of directors of numerous private and publicly-traded middle market companies. Mr. Lacovara has served on the management committees which supervised the operations of both Katonah Debt Advisors and Katonah Capital, L.L.C. (“Katonah Capital”), and has been the Kohlberg & Co. co-managing partner primarily responsible for the formation and continued operations of both Katonah Capital and Katonah Debt Advisors.

MIDDLE MARKET BUSINESS

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

Our middle market investment team has experience assembling portfolios of middle market loans and investments and managing these portfolios through several credit cycles, including both attractive and stressed credit environments. Our middle market investment team reviewed over 250 middle market investment opportunities while building the portfolio of senior secured loans that we acquired with the net proceeds of our initial public offering.

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

KATONAH DEBT ADVISORS

Katonah Debt Advisors is an asset manager that manages CDO Funds that invest in broadly syndicated senior loans, second lien loans, high-yield bonds, credit default swaps and other credit instruments. The securities issued by these CDO Funds are primarily held by third parties. Katonah Debt Advisors is led by its Managing Director, E.A. Kratzman, who has more than 30 years of credit and investment experience. Mr. Kratzman also serves as a Vice President of the Company and as a member of our Investment Committee. Katonah Debt Advisors is organized into two groups: the Corporate Credit Group and the Structured Products Group. The Corporate Credit Group structures and sponsors CDO Funds for which it serves as the asset manager and invests in syndicated term loans, high-yield bonds (rated lower than Baa3 by Moody’s or lower than BBB- by Standard & Poor’s) and credit default swaps. The Corporate Credit Group currently manages three CDO Funds with aggregate assets of approximately \$1.6 billion and is in the process of organizing five additional CDO Funds, for which it has acquired over an additional \$300 million in assets. The Structured Products Group structures, sponsors and invests in funds that invest primarily in the equity or mezzanine securities issued by CDO Funds and is in the process of organizing such a fund, which is expected to have between \$200 million and \$400 million of committed capital.

OUR STRATEGIC RELATIONSHIP WITH KOHLBERG & CO.

We believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co., as evidenced by the participation of its Chairman and co-managing partners on our Board and of its co-managing partners on our Investment Committee. Affiliates of Kohlberg & Co., including the Chairman and co-managing partners of Kohlberg & Co. who serve on our Board of Directors and, in the case of the co-managing partners, on our Investment Committee, own, in the aggregate, approximately 19% of our outstanding common stock, which they received, in lieu of cash, in exchange for the contribution to the Company of 100% of the equity of Katonah Debt Advisors and certain subordinated debt investments in CDO Funds managed by Katonah Debt Advisors and two other asset managers, 57,555 shares of which are being registered for resale pursuant to this prospectus. Founded in 1987, Kohlberg & Co. is a leading U.S. private equity firm which manages investment funds that acquire middle market companies. Since its inception, Kohlberg & Co. has organized five private equity funds, through which it has raised approximately \$2 billion of committed capital and completed more than 80 platform and add-on acquisitions with an aggregate value of approximately \$6 billion. We have entered into a license and referral agreement with Kohlberg & Co. (the "License and Referral Agreement") pursuant to which Kohlberg & Co. has agreed to notify us of equity investments that are presented to Kohlberg & Co. but that it has determined in its sole discretion are not appropriate for any investment funds managed by Kohlberg & Co. or any of its affiliates, typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to any third party. Kohlberg & Co. has also granted us a royalty-free license to use the "Kohlberg" name, which we believe is one of the most widely recognized names in middle market investing, and is providing certain administrative services to us on a transitional basis.

COMPETITIVE ADVANTAGES

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

Internally managed structure and significant management resources

We are internally managed by our executive officers under the supervision of our Board of Directors and do not depend on a third party investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs, including the costs associated with employing investment management professionals, and to make distributions to our shareholders. Including employees of Katonah Debt Advisors, some of whom also serve as officers of the Company, we employ a team of 14 experienced investment professionals with substantial experience in middle market lending, credit analysis, loan securitization, and portfolio administration. Our President and CEO, Dayl W. Pearson, our CIO, R. Jon Corless, and E.A. Kratzman, our Vice President and member of our Investment Committee and the Managing Director of Katonah Debt Advisors, have an average of over 28 years of credit and investment experience. The nine credit analysts employed by us and Katonah Debt Advisors average more than 13 years of experience.

We believe that we derive substantial benefits from our internally managed structure. First, because they are employed by us, the individuals responsible for managing our investments are dedicated solely to the success of our business. Our investment professionals do not serve as advisors to any other investment funds other than CDO Funds managed by our wholly-owned portfolio company Katonah Debt Advisors and therefore we do not compete with other investment funds for investment opportunities, although some investment opportunities may be allocated to funds managed by Katonah Debt Advisors. Second, through their participation in the Kohlberg Capital Corporation 2006 Equity Incentive Plan (our "Equity Incentive Plan"), a significant portion of the compensation of our senior managers is tied to the performance of our investments, resulting in an alignment of interests between our management and shareholders. Third, we leverage our management resources and those of Katonah Debt Advisors across our portfolio of investments and the investments of the CDO Funds managed by Katonah Debt Advisors.

Multiple sourcing capabilities for assets

We have multiple sources of loans, mezzanine investments and equity investments. Through the industry relationships, we believe that we will have the ability to participate in loans originated by other capital providers to middle market companies as well as

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to source assets directly from private equity sponsors and regional banks. We recently hired a controller who joined us in February and a new senior analyst who joined us in March and expect to add additional professional staff with a track record of originating senior loans and mezzanine and equity investments. In addition, Katonah Debt Advisors hired an additional analyst. Through Katonah Debt Advisors' Corporate Credit Group, we have the ability to acquire participations in selected syndicated secured and second lien term loans whose borrowers and investment returns meet our investment criteria. Through Katonah Debt Advisors' Structured Credit Products Group, we have the opportunity to invest in selected equity and mezzanine securities issued by CDO Funds, including those managed by Katonah Debt Advisors. Through our strategic relationship with Kohlberg & Co., we expect to have access to a variety of equity investments and mezzanine and other lending opportunities which are presented to Kohlberg & Co. but do not meet Kohlberg & Co.'s applicable investment criteria for reasons such as the small size or non-control nature of the investment.

Disciplined investment process

We employ the rigorous credit review process and due diligence intensive investment strategy which our senior management has developed over more than 20 years of lending. Due to our ability to source transactions through multiple channels, we expect to maintain a substantial pipeline of opportunities to allow comparative risk return analysis and selectivity. By focusing on the drivers of revenue and cash flow, we develop our own underwriting cases and multiple stress case scenarios for each company analyzed. An event-specific financial model reflecting company, industry and market variables support each investment decision. We also expect to benefit from the credit and industry expertise of Katonah Debt Advisors' credit team, the members of which also serve as officers of the Company, and the Chairman and co-managing partners of Kohlberg & Co. serving on our Board of Directors and, in the case of the co-managing partners, on our Investment Committee.

Katonah Debt Advisors' credit platform

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

Strategic relationship with Kohlberg & Co.

We believe that Kohlberg & Co. is one of the oldest and most well-known private equity firms focused on the middle market, and we expect to derive substantial benefits from our strategic relationship with Kohlberg & Co. Through the participation of the Chairman and co-managing partners of Kohlberg & Co. on our Board of Directors and, in the case of the co-managing partners, on our Investment Committee, we will have access to the expertise of these individuals in middle market leveraged investing, which we believe will enhance our capital raising, due diligence, investment selection and credit analysis. The Chairman of our Board of Directors and Investment Committee, Christopher Lacovara, has been the Kohlberg & Co. co-managing partner primarily responsible for establishing and providing oversight for the operations of both Katonah Debt Advisors and Katonah Capital. In addition, we have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but that it determines in its sole discretion are not appropriate for any investment funds managed by Kohlberg & Co. or any of its affiliates, typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to third parties. Under this agreement, Kohlberg & Co. has also granted us a royalty-free license to use the "Kohlberg" name, which we believe is one of the most widely recognized names in middle market investing.

Significant equity ownership and alignment of incentives

Our senior management team, the senior management team of Katonah Debt Advisors and affiliates of Kohlberg & Co. together have a significant equity interest in the Company, ensuring that their incentives are strongly aligned with those of our shareholders.

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Affiliates of Kohlberg & Co., including the Chairman and co-managing partners of Kohlberg & Co. who serve on our Board of Directors and, in the case of the co-managing partners, on our Investment Committee, own, in the aggregate, approximately 19% of our outstanding common stock which they received, in lieu of cash, as consideration for the contribution to the Company of 100% of the equity of Katonah Debt Advisors and certain subordinated debt investments in CDO Funds managed by Katonah Debt Advisors and two other asset managers, 57,555 shares of which are being registered for resale pursuant to this prospectus. We have also issued to our senior management team options to purchase shares of our common stock under our Equity Incentive Plan.

RESTRUCTURING

We were organized in August 2006 as a Delaware limited liability company, and Kohlberg & Co. historically conducted its middle market lending business and asset management business through Katonah Debt Advisors, which is organized as a Delaware limited liability company. Prior to the completion of our initial public offering, we entered into a series of transactions designed to restructure our business and convert, in accordance with Delaware law, to a corporation. See “Restructuring.”

RISK FACTORS

Investing in this offering involves risks. The following is a summary of certain risks that you should carefully consider before investing in our common stock. For a further discussion of these risk factors, please see “Risk Factors” beginning on page 12.

Risks Related to Our Business

- We have a minimal operating history.
- Our management team has minimal managing a BDC.
- We are dependent upon senior management personnel for our future success, and if we are unable to hire and retain qualified personnel or if we lose any member of our senior management team, our ability to achieve our investment objective could be significantly harmed.
- We operate in a highly competitive market for investment opportunities.
- There is a risk that we may not make distributions.
- Any unrealized losses we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution.
- Many of our portfolio investments will be recorded at fair value as determined in good faith by our Board of Directors. As a result, there will be uncertainty as to the value of our investments.
- If we are unable to source investments effectively, we may be unable to achieve our investment objective.
- We may experience fluctuations in our quarterly and annual operating results.
- We will be exposed to risks associated with changes in interest rates.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.
- If we incur additional debt, it could increase the risk of investing in our Company.
- Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, we will need additional capital to finance our growth.
- Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

Risks Related to Our Investments

- Our investments may be risky, and you could lose all or part of your investment.
- The equity in Katonah Debt Advisors and the subordinated securities in CDO Funds and the portfolio of senior secured loans that we have acquired may be worth less than the amount we paid for such assets.

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- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- Our portfolio is and may continue to be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or by a downturn in the particular industry.
- Defaults by our portfolio companies could harm our operating results.
- When we are a debt or minority equity investor in a portfolio company, which we expect will generally be the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.
- Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- The lack of liquidity in our investments may adversely affect our business.
- We may lose all or a portion of the income we expect to receive from Katonah Debt Advisors.
- We may not receive any return on our investment in the CDO Funds in which we have invested.
- Because we have incurred indebtedness or if we issue senior securities, we will be exposed to additional risks, including the typical risks associated with leverage.
- The agreements governing our securitization revolving credit facility contain various covenants that, among other things, limit our discretion in operating our business and provide for certain minimum financial covenants.

Risks Related to Our Operation as a BDC

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

Risks Related to an Investment in Our Shares

- Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value.
- Our common stock price may be volatile and may fluctuate substantially.
- Investing in shares of our common stock may involve an above average degree of risk.

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- If our common stock continues to trade above net asset value, investors who purchase shares hereunder will incur immediate dilution upon the purchase of such shares.
- If a substantial number of shares becomes available for sale and are sold in a short period of time, the market price of our common stock could decline.
- Our principal stockholders will continue to have substantial ownership in us after this offering and this could limit your ability to influence the outcome of key transactions, including a change of control. In addition, some of our stockholders may have interests in Kohlberg Capital that differ from yours.
- Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

OUR CORPORATE INFORMATION

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

THE OFFERING

| | |
|---|---|
| Common Stock offered by the Selling Stockholder | 57,555 shares |
| Common Stock to be outstanding after the Offering | 17,946,333 shares |
| Use of Proceeds | We will not receive any proceeds from the sale of the common stock by the selling stockholder. |
| Listing | Our common stock is traded on The Nasdaq Global Market under the symbol "KCAP." |
| Trading at a Discount | Shares of closed-end investment companies, including BDCs, frequently trade at discounts to their net asset values and our stock may also be discounted in the market. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. |
| Taxation | We intend to file an election to be treated for federal income tax purposes as a RIC, commencing with our first taxable year as a corporation. As a RIC, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders as dividends. We may be required, however, to pay corporate-level federal income taxes on gains built into our assets as of the effective date of our RIC election. See "Certain U.S. Federal Income Tax Consequences—Conversion to Regulated Investment Company Status." Furthermore, we may, from time to time, organize and conduct the business of our portfolio company, Katonah Debt Advisors, through additional direct or indirect wholly-owned subsidiaries which may, in some cases, be taxable as corporations. To qualify as a RIC and maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of the sum of our "investment company taxable income" (which generally consists of ordinary income and realized net short-term capital gains in excess of realized |

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net long-term capital losses, if any) and net tax-exempt interest out of assets legally available for distribution. Katonah Debt Advisors, which is a wholly-owned taxable subsidiary, will receive fee income earned with respect to its management services. We plan to form additional direct or indirect wholly-owned subsidiaries which will receive similar fee income. Some of the wholly-owned subsidiaries may be treated as corporations for U.S. federal income tax purposes, and as a result, such subsidiaries will be subject to tax at regular corporate rates. Although, as a RIC, dividends and distributions of capital received by us from our taxable subsidiaries and distributed to our stockholders will not be subject to federal income taxes, our taxable subsidiaries will generally be subject to federal and state income taxes on their income. As a result, the net return to us on such investments held by such subsidiaries will be reduced to the extent that the subsidiaries are subject to income taxes. See “Certain U.S. Federal Income Tax Considerations” and “Distributions.”

| | |
|--------------------------------|--|
| Distributions | We intend to pay quarterly dividends to our stockholders, commencing after the end of the first full fiscal quarter in 2007. Our quarterly dividends will be determined by our Board of Directors. See “Distributions.” |
| Dividend Reinvestment Plan | We have adopted a dividend reinvestment plan through which cash dividends are automatically reinvested in additional shares of our common stock, unless a stockholder opts out of the plan and elects to receive cash. Stockholders who receive distributions in the form of stock generally will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election. See “Dividend Reinvestment Plan.” |
| Leverage | We intend to borrow funds under a securitization revolving credit facility that we have entered into, and we have granted a security interest in certain of our assets to the lenders in connection with the securitization revolving credit facility. We will use the borrowed funds to make additional investments. This practice, which is known as “leverage,” will allow us to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See “Risk Factors.” As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. |
| Risk Factors | Investing in our common stock involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest in our common stock. See “Risk Factors” for a discussion of factors you should carefully consider before deciding whether to invest in our common stock. |
| Certain Anti-Takeover Measures | Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition |

proposal for us. This could delay or prevent a transaction that could give our stockholders the opportunity to realize a premium over the price for their securities. See “Description of Capital Stock.”

Where You Can Find Additional Information

We have filed with the Securities and Exchange Commission, (the “SEC”), a registration statement on Form N-2, which includes related exhibits, under the Securities Act of 1933, as amended (the “Securities Act”), with respect to the shares of common stock offered by this prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus.

Our common stock is registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and we are required to file reports, proxy statements and other information with the SEC. This information will be available at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC’s public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, at <http://www.sec.gov>, that contains reports, proxy and information statements, and other information regarding issuers, including us, that file documents electronically with the SEC.

FEES AND EXPENSES

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

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

| | |
|--|----------|
| Offering Expenses Borne by Us | 0.5% (1) |
| Dividend Reinvestment Plan Fees | —% (2) |
| Total Stockholder Transaction Expenses | 0.5% |

ANNUAL EXPENSES (as a percentage of net assets attributable to common stock) (3)

| | |
|-------------------------------------|----------|
| Operating Expenses | 1.6% (4) |
| Interest Payments on Borrowed Funds | 2.7% (5) |
| Other Expenses | 0.3% (6) |
| Total Annual Expenses | 4.6% (7) |

Example

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

| | <u>1 YEAR</u> | <u>3 YEARS</u> | <u>5 YEARS</u> | <u>10 YEARS</u> |
|---|---------------|----------------|----------------|-----------------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return | \$ 125 | \$ 217 | \$ 308 | \$ 537 |

- (1) The percentage reflects estimated offering expenses of approximately \$40,000.
- (2) The expenses associated with the administration of our dividend reinvestment plan are included in “Other Expenses.” The participants in the dividend reinvestment plan will pay a pro rata share of brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see “Dividend Reinvestment Plan.”
- (3) “Net assets attributable to common stock” equals net assets (*i.e.*, total assets less total liabilities), which was approximately \$256.4 million at December 31, 2006.
- (4) We do not have an investment adviser. We are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees. Instead we pay the operating costs associated with employing investment management professionals.
- (5) “Interest Payments on Borrowed Funds” represents an estimate of our annual interest expense based on payments assumed to be made under the securitization revolving credit facility. This estimate assumes that we borrow for investment purposes an amount equal to 45% of our total assets at a per annum interest rate of approximately 5.9%. Actual interest payments may differ from the amount shown.

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- (6) “Other Expenses” are based on estimated amounts for the current fiscal year and include expenses associated with our Board of Directors and administrative expenses, including our compliance with various regulations which apply to us as a public company.
- (7) “Total Annual Expenses” is the sum of “Operating Expenses,” “Other Expenses” and “Interest Payments on Borrowed Funds.”

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

RISK FACTORS

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

Risks Related to Our Business

We have a minimal operating history.

We have been organized to continue the middle market investment business and asset management business of Katonah Debt Advisors, which was organized in 2005. Katonah Debt Advisors commenced its asset management operations with the hiring of E.A. Kratzman, its Managing Director (who also serves as our Vice President and a member of our Investment Committee), in June 2005 and began its middle market lending operations in February 2006 with the hiring of Dayl W. Pearson, who serves as our President and CEO, and R. Jon Corless, who serves as our CIO. We have a minimal operating history. As a result, we have very limited operating results that can demonstrate to you our ability to manage our business. We are subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that we will not achieve our investment objective and that the value of your investment in us could decline substantially.

Our management team has minimal experience managing a BDC.

The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Our management team's lack of experience in managing a portfolio of assets under such constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. To obtain and maintain our tax treatment as a RIC under the Code, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of the sum of our net ordinary income and the excess, if any, of realized net short-term capital gains over realized net long-term capital losses, if any. Failure to meet the requirements for tax treatment as a RIC would subject us to taxes, which would reduce the return on your investment. See "Election to be Regulated as a Business Development Company and a Regulated Investment Company" and "Certain U.S. Federal Income Tax Considerations." If we do not remain a BDC, we might be regulated as a closed-end investment management company under the 1940 Act, which would further decrease our operating flexibility and may prevent us from operating our business as described in this prospectus.

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

We depend on the members of our senior management, particularly our President and CEO, Dayl W. Pearson, our CIO, R. Jon Corless, and our Vice President and the Portfolio Manager of Katonah Debt Advisors, E.A. Kratzman, as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships that we rely on to implement our business plan. Our future success will depend on the continued service of our senior management team and our Board of Directors. The departure of any of the members of our senior management, particularly Messrs. Pearson, Corless or Kratzman, or a significant number of our senior personnel, could have a material adverse effect on our ability to achieve our investment objective. As a result, we may not be able to operate our business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer.

We operate in a highly competitive market for investment opportunities.

A large number of entities will compete with us to make the types of investments that we plan to make in prospective portfolio companies. We will compete with a large number of private equity firms as well as other BDCs, investment funds, investment banks and other sources of financing, including traditional financial services companies, such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. This may enable some of our competitors to make commercial loans with interest rates that are comparable to or lower than the rates we typically offer. We may lose prospective portfolio companies if we do not match our competitors' pricing, terms and structure. If we do match our competitors' pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many of our potential competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities or that we will be able to fully invest our available capital. If we are not able to compete effectively, our business and financial condition and results of operations will be adversely affected.

There is a risk that we may not make distributions.

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

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

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

Many of our portfolio investments will be recorded at fair value as determined in good faith by our Board of Directors. As a result, there will be uncertainty as to the value of our investments.

Our investments are expected to 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, based on the recommendations of the Valuation Committee of the Board of Directors. These valuations are initially prepared by our management and reviewed by our Valuation Committee which utilizes its best judgment in arriving at the fair value of these securities. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Where appropriate, our Board of Directors may utilize the services of an independent valuation firm to aid it in determining fair value. 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. 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 net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

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

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

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

We will be exposed to risks associated with changes in interest rates.

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

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

In accordance with generally accepted accounting principles and tax regulations, we include in income certain amounts that we have not yet received in cash, such as contracted payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end of term payments, exit fees, balloon payment fees or prepayment fees. The increases in loan balances as a result of contracted payment-in-kind arrangements are included in income for the period in which such payment-in-kind interest was received, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income certain other amounts that we will not receive in cash. Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in "original issue discount" for tax purposes, which we must recognize as ordinary income, increasing the amounts we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because such original issue discount income would be not accompanied by cash, we would need to obtain cash from other sources to satisfy such distribution requirements. If we are unable to obtain cash from other sources to satisfy such distribution requirements, we may fail to qualify for tax treatment as a RIC and, thus, could become subject to a corporate-level income tax on all of our income. Other features of the debt instruments that we hold may also cause such instruments to generate original issue discount, resulting in a dividend distribution requirement in excess of current cash received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our net

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ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. If we are unable to meet these distribution requirements, we will not qualify for tax treatment as a RIC or, even if such distribution requirement is satisfied, we may be subject to tax on the amount that is undistributed. Accordingly, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements and avoid tax. See “Certain U.S. Federal Income Tax Considerations.”

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

As of March 16, 2007, we had \$15 million of outstanding indebtedness. However, we expect, in the future, to borrow from, and issue senior debt securities to, banks, insurance companies and other lenders, including pursuant to the securitization revolving credit facility that we entered into on February 14, 2007. See “Obligations and Indebtedness.” Lenders will have fixed dollar claims on our assets that are superior to the claims of our stockholders, and we may grant a security interest in our assets in connection with our borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures.

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

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

| | | | | | |
|---|---------|---------|--------|-------|--------|
| Assumed Return on our Portfolio (Net of Expenses) | -10% | -5% | 0% | 5% | 10% |
| Corresponding Return to Common Stockholder (1) | -23.01% | -13.92% | -4.83% | 4.26% | 13.35% |

- (1) Assumes that we borrow an amount equal to 45% of our total assets as of December 31, 2006, which would result in approximately \$458 million in total assets, approximately \$206 million in debt outstanding, approximately \$252 million in stockholders’ equity and an average cost of funds of approximately 5.9%, which we assume to be the cost of funds of the securitization revolving credit facility that we entered into on February 14, 2007. Actual interest payments may be different.

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

In order to qualify for tax treatment as a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our stockholders). As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This

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requirement limits the amount that we may borrow. Because we will continue to need capital to grow our loan and investment portfolio, this limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline. On March 15, 2007, we declared a dividend in an amount equal to our 2006 distributable income. The dividend is payable on April 17, 2007 to shareholders of record on April 6, 2007.

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

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

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

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

Risks Related to Our Investments

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

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

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

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

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

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

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

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

The equity in Katonah Debt Advisors, the subordinated securities in CDO Funds and the portfolio of senior secured loans that we have acquired may be worth less than the amount we have paid for such assets.

We have acquired 100% of the equity of Katonah Debt Advisors and a portfolio of subordinated securities in CDO Funds managed by Katonah Debt Advisors and two other asset managers from individuals and entities affiliated with Kohlberg & Co. See "Restructuring." In addition, we used the net proceeds of our initial public offering to acquire a portfolio of approximately \$185 million of senior secured loans from a special purpose vehicle formed by Katonah Debt Advisors. Our valuation of these assets may not reflect the value that could be obtained for these assets in a transaction with a third party. In addition, third party appraisals were not used in determining the value of these assets, and, as a result, the consideration paid by us may exceed the value that may be reflected in other valuation methodologies or appraisals or that may have been obtained in a transaction with a third party.

Our portfolio is and may continue to be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or by a downturn in the particular industry.

Our portfolio is and may continue to be concentrated in a limited number of portfolio companies and industries. At December 31, 2006, our largest investment, our 100% equity interests in Katonah Debt Advisors, represented approximately 15% of our investments at fair value. Beyond the asset diversification requirements associated with our qualification as a RIC, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, our investments could be concentrated in relatively few industries. Additionally, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

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

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

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Defaults by our portfolio companies could harm our operating results.

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

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

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

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

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

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

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

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

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

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Investments in equity securities involve a substantial degree of risk.

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

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

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

We may lose all or a portion of the income we expect to receive from Katonah Debt Advisors.

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

We may not receive any return on our investment in the CDO Funds in which we have invested.

We acquired subordinated securities in certain CDO Funds managed by Katonah Debt Advisors and other managers as part of the transactions described in "Restructuring." We expect to continue to acquire subordinated securities in the future in CDO Funds managed by Katonah Debt Advisors. These subordinated securities are the most junior class of securities issued by the CDO Funds and are subordinated in priority of payment to each other class of securities issued by these CDO Funds. Further, if there is an event of default under the indentures governing these CDO Funds, the holders of the most senior class of securities will be entitled to determine the remedies to be exercised under the indenture, including the sale and liquidation of the collateral. Finally, the subordinated securities are unsecured and rank behind all of the secured creditors, known or unknown, of the CDO Fund, including the holders of the senior securities issued by the CDO Fund.

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Because we have incurred indebtedness or if issue senior securities, we will be exposed to additional risks, including the typical risks associated with leverage.

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

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

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

The agreements governing our securitization revolving credit facility contain various covenants that, among other things, limit our discretion in operating our business and provide for certain minimum financial covenants.

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

Risks Related to Our Operation as a BDC

Our ability to enter into transactions with our affiliates will be restricted.

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

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the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we will be prohibited from buying or selling any security from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. As a result of these restrictions, we will be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior approval of the SEC.

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

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

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

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

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations,

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maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

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

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

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

If we are unable to qualify for tax treatment as a RIC, we will be subject to corporate-level income tax, which will adversely affect our results of operations and financial condition.

Provided we qualify for tax treatment as a RIC, we can generally avoid corporate-level federal income taxes on income distributed to our stockholders as dividends. We will not qualify for this pass-through tax treatment, and thus will be subject to corporate-level federal income taxes, if we are unable to comply with the source of income, 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. If we fail to qualify for tax treatment as a RIC, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. As such, our failure to qualify for tax treatment as a RIC would have a material adverse effect on us, the net asset value of our common stock and the total return obtainable from your investment in our common stock. We may, from time to time, organize and conduct the business of our wholly-owned portfolio company, Katonah Debt Advisors, through additional direct or indirect wholly-owned subsidiaries which may, in some cases, be taxable as corporations. For additional information see “Regulation” and “Certain U.S. Federal Income Tax Considerations.”

Risks Related to an Investment in Our Shares

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value.

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

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Our common stock price may be volatile and may fluctuate substantially.

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- our inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- changes in regulatory policies or tax rules, particularly with respect to RICs or BDCs;
- loss of RIC tax treatment;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio;
- general economic conditions and trends; and
- departure of key personnel.

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

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

If our common stock continues to trade above net asset value, investors who purchase shares hereunder will incur immediate dilution upon the purchase of such shares.

If you purchase shares of our common stock in this offering at a price higher than the net asset value per share, you will experience immediate dilution because the price that you pay would be greater than the net asset value per share of the shares you acquire. Accordingly, investors in this offering may pay a price per share that exceeds the tangible book value per share after the closing of the offering. As of December 31, 2006, the net asset value of our common stock was approximately \$256.4 million or approximately \$14.29 per share, as determined by our Board of Directors in accordance with the requirements of the 1940 Act. On March 14, 2007, the closing price of our common stock on The Nasdaq Global Market was \$15.12 per share. Accordingly, if you were to purchase our common stock in this offering at the price of \$15.12 per share, you would experience dilution equal to the difference between \$15.12 per share and the net asset value per share on the date of your purchase. If you purchase our common stock in this offering at a value greater than \$15.12 per share, you would experience even greater dilution. You may experience additional dilution upon the exercise of stock options to purchase common stock by our employees and directors under our stock option plan.

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

We have 17,946,333 shares of common stock outstanding. Sales of substantial amounts of our common stock, or the availability of shares for sale, including those offered hereby, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

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

Individuals and entities affiliated with Kohlberg & Co. beneficially own, in the aggregate, approximately 19% of the outstanding shares of our common stock, 57,555 shares of which are being registered for resale pursuant to this prospectus. James A. Kohlberg, the Vice-Chairman of our Board of Directors, is a founder and the Chairman of Kohlberg & Co. Christopher Lacovara, who serves as the Chairman of our Board of Directors and Investment Committee, and Samuel P. Frieder, who serves as a member of our Board of Directors and our Investment Committee, are co-managing partners of Kohlberg & Co. Our Board of Directors and our Investment Committee must approve of the acquisition and disposition of our investments. As a result, these individuals may be able to exert influence over our management and policies. Affiliates of Kohlberg & Co. may also acquire additional shares of our equity securities in the future. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our Company, deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company or may ultimately affect the market price of our common stock. In addition, Mr. Kratzman, who is the selling stockholder under this prospectus and serves on our Investment Committee, is also employed by Katonah Debt Advisors and is compensated, in part, based upon the performance of Katonah Debt Advisors. As a result, Mr. Kratzman may have interests in Katonah Debt Advisors that differ from yours as a stockholder of Kohlberg Capital.

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

RESTRUCTURING

Certain Acquisitions

We were organized in August 2006 as a Delaware limited liability company. Kohlberg & Co. historically conducted its middle market lending business and asset management business through Katonah Debt Advisors, which is organized as a Delaware limited liability company and, prior to the formation of Katonah Debt Advisors, through Katonah Capital. Prior to our election to be regulated as a BDC, we, Kohlberg & Co. and certain affiliates of Kohlberg & Co. engaged in a series of restructuring transactions. These transactions are referred to in this prospectus as the “Restructuring.”

Pursuant to agreements entered into effective August 17, 2006 between the Company, James A. Kohlberg, one of our directors, and certain entities affiliated with Kohlberg & Co., we completed the following acquisitions:

- *Acquisition of 100% of the outstanding equity of Katonah Debt Advisors*
 - We issued an aggregate of 2,226,333 common units to James A. Kohlberg and an entity affiliated with Kohlberg & Co. to acquire 100% of the outstanding limited liability company interests of Katonah Debt Advisors. These common units converted into shares of our common stock upon our conversion to a Delaware corporation as described below. On the date of our initial public offering, these shares of our common stock had a value of approximately \$33 million, based on our initial public offering price of \$15.00 per share. Prior to the completion of our initial public offering, James A. Kohlberg and the entity affiliated with Kohlberg & Co. transferred certain of these common units to certain employees and officers of Kohlberg & Co. and Katonah Debt Advisors.
 - Katonah Debt Advisors was valued at its fair market value as determined by our Board of Directors as of the time of the acquisition. For purposes of this valuation, we estimated the annual run-rate distributable income of Katonah Debt Advisors from fees payable to it by CDO Funds managed by it at approximately \$3 million on a pre-tax basis. This estimate was based on a full year of management fee revenue for all CDO Funds currently under management by Katonah Debt Advisors and annualized compensation expenses for all of Katonah Debt Advisors’ employees, excluding those who are employed solely by us. Our valuation also considers that Katonah Debt Advisors had an aggregate of approximately \$1.2 billion in assets under management at the time of the transaction. This methodology may or may not reflect the value that could be obtained for Katonah Debt Advisors in a transaction with a third party. In addition, third party appraisals were not used in determining the value of Katonah Debt Advisors, and, as a result, the consideration paid by us may exceed or be less than the value that may be reflected in other valuation methodologies or appraisals or that may have been obtained in a transaction with a third party.
- *Acquisition of certain subordinated securities issued by CDO Funds managed by Katonah Debt Advisors and two other asset managers*
 - We issued an aggregate of 1,258,000 common units to affiliates of Kohlberg & Co. to acquire subordinated debt and preferred stock securities issued by CDO Funds (Katonah III, Ltd., Katonah IV, Ltd., Katonah V, Ltd., Katonah VII CLO, Ltd., and Katonah VIII CLO, Ltd.) managed by Katonah Debt Advisors and two other asset managers (the “CDO Fund Securities”). These common units converted into shares of our common stock upon our conversion to a Delaware corporation as described below. On the date of our initial public offering, these shares of our common stock had a value of approximately \$19 million based on our initial public offering price of \$15.00 per share.
 - For purposes of the acquisition of the CDO Fund Securities, in the case of CDO Fund Securities in CDO Funds formed within the last two years, our Board of Directors determined the value of such CDO Fund Securities to be their original cost to the entities affiliated with Kohlberg & Co. that contributed such CDO Fund Securities to us, and in the case of all other CDO Fund Securities, our Board of Directors determined their fair market value. See “Portfolio Companies” for a description of the CDO Fund Securities.

The valuation of Katonah Debt Advisors and the CDO Fund Securities was first determined prior to our election to be regulated as a BDC. After our election to be regulated as a BDC and before the completion of our initial public offering, our Board of Directors valued Katonah Debt Advisors and the CDO Fund Securities in accordance with the requirements of the 1940 Act.

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BDC Election

Prior to the completion of our initial public offering, we made an election to be regulated as a BDC.

Conversion to a Delaware Corporation

Following our election to be regulated as a BDC and immediately prior to the issuance of common stock in our initial public offering, we filed an election with the Secretary of State of the State of Delaware to convert from a Delaware limited liability company to a Delaware corporation in accordance with the procedure for such conversion in our limited liability company agreement and Delaware law. In connection with such conversion, each outstanding common unit described above was, without any further action or consent required by the holders thereof, converted into an equivalent number of shares of our common stock.

Tax Election

We intend to file an election to be treated as a RIC under Subchapter M of the Code commencing with our first taxable year as a corporation.

Agreements with Kohlberg & Co. and Affiliates

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

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

In connection with our Restructuring and our initial public offering we entered into a Transitional Services agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. agreed to continue to provide us with accounting services, cash management and budgeting services, tax services, internal legal services, payroll administration and other human resource services and intellectual technology services for a period of up to six months from the date of our initial public offering (the "Transition Services Agreement"). In addition, under this agreement and during this period, Kohlberg & Co. agreed to continue the participation of our employees in Kohlberg & Co.'s medical, dental, retirement and other benefit plans until they can be transitioned to similar plans of the Company and to continue to maintain the participation of the Company in Kohlberg & Co. insurance programs until the Company has established its own insurance programs. As of March 16, 2007, the transition period was near complete, and Kohlberg & Co. was only providing us with certain human resources services and tax services. Kohlberg & Co. does not receive any fees under the Transition Services Agreement and receives only a reimbursement of expenses incurred in connection with providing the transition services.

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

Portfolio Acquisition

Immediately following completion of our initial public offering, we used approximately \$185 million of the net proceeds of that offering to acquire a portfolio of approximately \$185 million in aggregate principal amount of senior secured term loans that were originated during 2006 through a special purpose vehicle organized by Katonah Debt Advisors. These loans were acquired by us for cash at their fair market value, as determined by our Board of Directors, which approximated the cost of acquisition by such special purpose vehicle. The purchase of these loans was originally financed with a credit facility and the proceeds that we paid to the special purpose vehicle in order to acquire these loans was used by that entity to repay the credit facility. Our Board of Directors approved the portfolio acquisition and determined that (i) the terms thereof, including the consideration to be paid, are reasonable and fair to our shareholders and do not involve overreaching by any party and (ii) the acquisition is consistent with the interests of our shareholders and our investment policies.

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

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

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

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

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

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

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

As a 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. In addition, we may retain certain net long-term capital gains and elect to treat such net capital gains as deemed distributed to our stockholders. If this happens, you will be treated as if you received an actual distribution of the capital gains and reinvested the net after-tax proceeds in us. You also may be eligible to claim a tax credit against your federal income tax liability (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we pay on the deemed distribution. See “Certain U.S. Federal Income Tax Considerations.”

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

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

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

USE OF PROCEEDS

We will not receive any proceeds from the resale, by the selling stockholder, of any shares of common stock hereunder.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on The Nasdaq Global Market under the symbol "KCAP." We completed the initial public offering of our common stock in December 2006 at an initial public offering price of \$15.00 per share. Prior to such initial public offering there was no public market for our common stock. On March 14, the last reported closing price of our stock was \$15.12 per share. As of February 21, 2007, we had 5,078 stockholders of record.

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

| | <u>NAV⁽¹⁾</u> | <u>Price Range</u> | | <u>Premium/ Discount of High Sales Price to NAV</u> | <u>Premium/ Discount of Low Sales Price to NAV</u> |
|--|--------------------------|--------------------|------------|---|--|
| | | <u>High</u> | <u>Low</u> | | |
| 2006 | | | | | |
| Fourth Quarter (December 11, 2006 through December 31, 2006) | \$ 14.29 | \$ 17.70 | \$ 14.54 | 123.9 % | 101.7 % |
| 2007 | | | | | |
| First quarter (January 1, 2007 through March 14, 2007) | \$ * | \$ 18.00 | 14.91 | *% | *% |

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset value shown is based on outstanding shares at December 31, 2006.

* Net asset value has not yet been calculated for this period.

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

DISTRIBUTIONS

We intend to distribute quarterly dividends to our stockholders. To avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of:

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

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

We did not declare or pay any dividends in 2006. On March 15, 2007, we declared a dividend in an amount equal to our 2006 distributable income. The dividend is payable on April 17, 2007 to shareholders of record on April 6, 2007.

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

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2006.

This table should be read together with “Discussion of Expected Operating Plans” and our financial statements included elsewhere in this prospectus.

| | As of December 31, 2006 (in thousands, unaudited) |
|---|--|
| Cash and Cash equivalents | \$32,400 |
| Equity: | |
| Preferred Stock, \$0.01 par value per share; 5,000,000 shares authorized, no shares issued and outstanding | — |
| Common Stock, \$0.01 par value per share; 100,000,000 shares authorized; 17,946,333 shares issued and outstanding | 179 |
| Additional Paid-in capital | 251,600 |
| Total stockholders' equity | 256,400 |
| Total capitalization | <u>\$508,179</u> |

DISCUSSION OF EXPECTED OPERATING PLANS

In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking statements due to the factors discussed under “Risk Factors” and “Forward-Looking Statements” and elsewhere in this prospectus.

Overview

We are an internally managed, non-diversified closed-end investment company that will provide debt and equity capital to middle market companies. 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. We also expect to receive distributions of recurring fee income and to generate capital appreciation from our ownership of the asset management business of Katonah Debt Advisors.

We have filed an election to be regulated as a BDC under the 1940 Act. In addition, we intend to elect to be treated as a RIC under Subchapter M of the Code commencing with our first taxable year as a corporation. Our election to be regulated as a BDC and to be treated as a RIC will have a significant impact on our future operations. See “Election to be Regulated as a Business Development Company and a Regulated Investment Company.”

Revenues

We plan to generate revenue in the form of interest income on debt securities and capital gains, if any, on warrants or other equity-related securities that we acquire in our portfolio companies. In addition, we expect to generate revenue in the form of commitment and facility fees and, to a lesser extent, due diligence fees. Any such fees will be generated in connection with our investments and recognized as earned or, in some cases, recognized over the life of the loan. We expect our investments generally to have a term of between five and eight years and bear interest at various rates ranging from 2% to 10% over the prevailing LIBOR market rates. Where applicable, we will seek to collateralize our investments by obtaining security interests in our portfolio companies’ assets. Interest on debt securities will generally be payable monthly or quarterly, with amortization of principal typically occurring over the term of the security. In those limited instances where we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest will generally become due at the maturity date.

We also generate dividend income from our investment in CDO equities. These subordinated securities are the most junior class of securities issued by the CDO Funds and are subordinated in priority of payment to each other class of securities issued by these CDO Funds. Dividends on CDO equities are generally paid quarterly.

Distributable Income of Katonah Debt Advisors

We expect that our wholly-owned portfolio company, Katonah Debt Advisors, will distribute to us its net distributable income. We estimate that the annual run-rate distributable income of Katonah Debt Advisors will be approximately \$3 million on a pre-tax basis. This estimate was based on a full year of management fee revenue for all CDO Funds currently under management by Katonah Debt Advisors and annualized compensation expenses for all of Katonah Debt Advisors’ employees, excluding those who are employed by us directly.

Expenses

Because we are an internally managed BDC, we will pay the costs associated with employing investment management professionals and other employees as well as running our operations. Our primary non-interest expenses will include employee salaries and benefits, the costs of identifying, evaluating, negotiating, closing, monitoring and servicing our investments and our related overhead charges and expenses, including rental expense and any interest expense incurred in connection with borrowings under our securitization revolving credit facility or otherwise. Because we are internally managed, we do not pay any management fees to any third party.

Financial Condition, Liquidity and Capital Resources

We will generate cash primarily from the net proceeds of future offerings of securities, cash flows from operations, including recurring fee income earned by Katonah Debt Advisors, and interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less from the time of investment. Our primary use of funds will be investments in portfolio companies. In the future, we may also fund a portion of our investments through borrowings from banks and issuances of senior securities. We expect to raise additional capital to support our future growth through our securitization revolving credit facility, securitizations and future equity offerings.

We expect in the normal course of business to have unfunded commitments to extend credit. Unfunded commitments to provide funds to portfolio companies more than 60 days following the date of our balance sheet will not be reflected on that balance sheet. Our unfunded commitments may be significant from time to time. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold.

In an effort to increase our returns and the number of loans that we can originate, we have entered into a securitization revolving credit facility through which we plan to aggregate pools of funded loans that can then be securitized. See “Obligations and Indebtedness.” We do not intend to securitize any warrants or other equity securities that we receive in connection with any loans we make. There can be no assurance that we will be able to complete this securitization strategy or that it will be successful.

Distribution Policy

As a RIC, we intend to distribute quarterly dividends to our stockholders. If and as long as we qualify as a RIC, we will not be taxed on our net taxable ordinary income or realized net capital gains, to the extent that such taxable income and gains are distributed to stockholders on a timely basis. Annual taxable income and gains generally will differ from net income as determined for United States generally accepted accounting principles due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation, which are not included in taxable income. In order to qualify as a RIC under Subchapter M of the Code we must, in general, for each taxable year, (1) have in effect at all times during the taxable year an election to be regulated as a BDC, (2) derive at least 90% of our gross income from dividends, interest, gains from the sale of securities and other specified types of income, (3) meet asset diversification requirements as defined in the Code and (4) distribute to stockholders at least 90% of our investment company taxable income as defined in the Code. We intend to take all steps necessary to qualify as a RIC, including distributing annually to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses. See “Certain U.S. Federal Income Tax Considerations—Taxation as a Regulated Investment Company” and “Distributions.”

Critical Accounting Policies

Basis of Presentation

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

Valuation of Portfolio Investments

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

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

Our Board of Directors may consider other methods of valuation to determine the fair value of investments as appropriate in conformity with accounting principles generally accepted in the United States.

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. At December 31, 2006, no loans or debt securities were greater than 90 days past due or on non-accrual status.

Payment in Kind Interest

The Company may have loans in its 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 the Company has not yet collected the cash.

Fee Income

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

Management Compensation

We may, from time to time, issue stock options under our Equity Incentive Plan to officers and employees for services rendered to us. We will follow Statement of Financial Accounting Standards No. 123R (revised 2004), *Accounting for Stock-Based Compensation*, a method by which the fair value of options are determined and expensed. We are internally managed and therefore do not incur management fees payable to third parties.

U.S. Federal Income Taxes

The Company intends to elect and 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.

In accordance with Statement of Position 93-2, "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies," book and tax basis differences relating to stockholder

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distributions and other permanent book and tax differences are reclassified to capital in excess of par value. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. See “Certain United States Federal Income Tax Considerations” in Item 1.

Dividends

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

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

OBLIGATIONS AND INDEBTEDNESS

On February 14, 2007, we entered into a securitization revolving credit facility (the “Facility”) which is backed by a revolving pool of loans. Under the Facility, we may obtain up to \$200 million (with an ability to increase to \$250 million subject to certain conditions) in financing for loan investments. Advances under the Facility will be used by us primarily to make additional investments. We expect that the Facility will be primarily secured by the loans acquired by us with the advances under the Facility. We will borrow under the Facility through our wholly-owned, special-purpose bankruptcy remote subsidiary, Kohlberg Capital Funding LLC I. Under the Facility, funds are loaned by or through BMO Capital Markets Corp., the lender, at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus an applicable spread.

Under the Facility, we are subject to limitations as to how borrowed funds may be used, including restrictions on geographic and industry concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings. We are also subject to regulatory restrictions on leverage which may affect the amount of funding that we can obtain under the Facility. The Facility also includes certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, a violation of which could result in the early amortization of the Facility, limit further advances and, in some cases, result in an event of default. The interest charged on borrowed funds is based on the commercial paper rate plus 0.70% and is payable monthly. The Facility has a commitment termination date of February 14, 2012. Under the terms of the Facility, we were required to pay a one-time 0.50% structuring fee. Additionally, we are also required to pay an annual commitment fee, payable monthly, equal to 0.225% for any unused portion of the Facility.

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

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

BUSINESS

OVERVIEW

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. We were organized to continue and expand the middle market investment business and the asset management business of Katonah Debt Advisors, which we acquired, prior to our election to be regulated as a BDC, from affiliates of Kohlberg & Co., a leading private equity firm with two decades of middle market investment experience. We maintain a strategic relationship with Kohlberg & Co. which includes its Chairman and co-managing partners serving on our Board of Directors and our Investment Committee. Kohlberg & Co. also provides us with referrals of middle market private equity investment opportunities. Our relationship with Kohlberg & Co. is an important part of our strategy. Our middle market investment business will continue to originate, structure, finance and manage a portfolio of senior secured term loans and also invests in mezzanine debt and selected equity securities in privately-held middle market companies. Our wholly-owned portfolio company, Katonah Debt Advisors, currently has approximately \$1.6 billion of assets under management and will continue to manage CDO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. We used the net proceeds of our initial public offering to acquire a portfolio of approximately \$185 million in aggregate principal amount of senior secured loans that were originated during 2006 by Katonah Debt Advisors' middle market lending group. Prior to our initial public offering and our election to be regulated as a BDC, we issued 3,484,333 shares of our common stock to affiliates of Kohlberg & Co. to acquire 100% of the outstanding equity of Katonah Debt Advisors and certain subordinated debt investments in CDO Funds managed by Katonah Debt Advisors and two other asset managers.

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. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may invest up to 30% of our capital in other investments such as loans to larger, publicly-traded companies, high-yield bonds, distressed debt securities and debt and equity securities issued by CDO Funds managed by Katonah Debt Advisors or by other asset managers. We also expect to receive distributions of recurring fee income and to generate capital appreciation from our investment in the asset management business of Katonah Debt Advisors. We believe that we will benefit from our ownership of Katonah Debt Advisors in three ways. First, Katonah Debt Advisors will serve as a source of investment opportunities and will give us the flexibility to make an investment either through the Company or through a CDO Fund managed by Katonah Debt Advisors or both. Second, we will be able to utilize the experienced team of credit analysts at Katonah Debt Advisors, who also serve as officers of the Company, to evaluate investments for our middle market business. Third, by making investments in CDO Funds raised by Katonah Debt Advisors in the future, on which we expect to receive a current cash return, we can help Katonah Debt Advisors to raise these funds which in turn will increase its assets under management and resulting management fee income. In addition, we believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co. which will assist us in sourcing equity investment opportunities and whose Chairman and co-managing partners will provide the benefit of their middle market experience through their participation in our Board of Directors and Investment Committee.

Including employees of our wholly-owned portfolio company, Katonah Debt Advisors, some of whom also serve as officers of the Company, we employ an experienced team of 14 investment professionals and 20 total staff members. Dayl W. Pearson, our President and CEO, has been in the financial services industry for over 29 years. During the past 16 years, Mr. Pearson has focused almost exclusively in the middle market and has originated, structured and underwritten over \$5 billion of debt and equity securities. R. Jon Corless, our CIO, has managed portfolios in excess of \$4 billion at several institutions and has been responsible for managing portfolios of leveraged loans, high-yield bonds, mezzanine securities and middle market loans. E.A. Kratzman, our Vice President and the Managing Director of Katonah Debt Advisors and the portfolio manager for its Corporate Credit Group, has more than 30 years of credit and investment experience and has participated in fundraising for 15 funds investing in loans, high-yield bonds and credit derivatives with an aggregate value of approximately \$4 billion. Michael I. Wirth serves as our CFO and as our CCO. The Chairman of our Board of Directors and Investment Committee, Christopher Lacovara, is one of the two co-managing partners of Kohlberg & Co. and has been responsible for investing more than \$500 million of equity capital in more than 25 leveraged buyouts and add-on acquisitions with an aggregate value of approximately \$2 billion and has served on the boards of directors of numerous private and publicly-traded middle market companies. Mr. Lacovara has served on the management committees which supervised the

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operations of both Katonah Debt Advisors and Katonah Capital, and has been the Kohlberg & Co. co-managing partner primarily responsible for the formation and continued operations of both Katonah Capital and Katonah Debt Advisors.

BACKGROUND

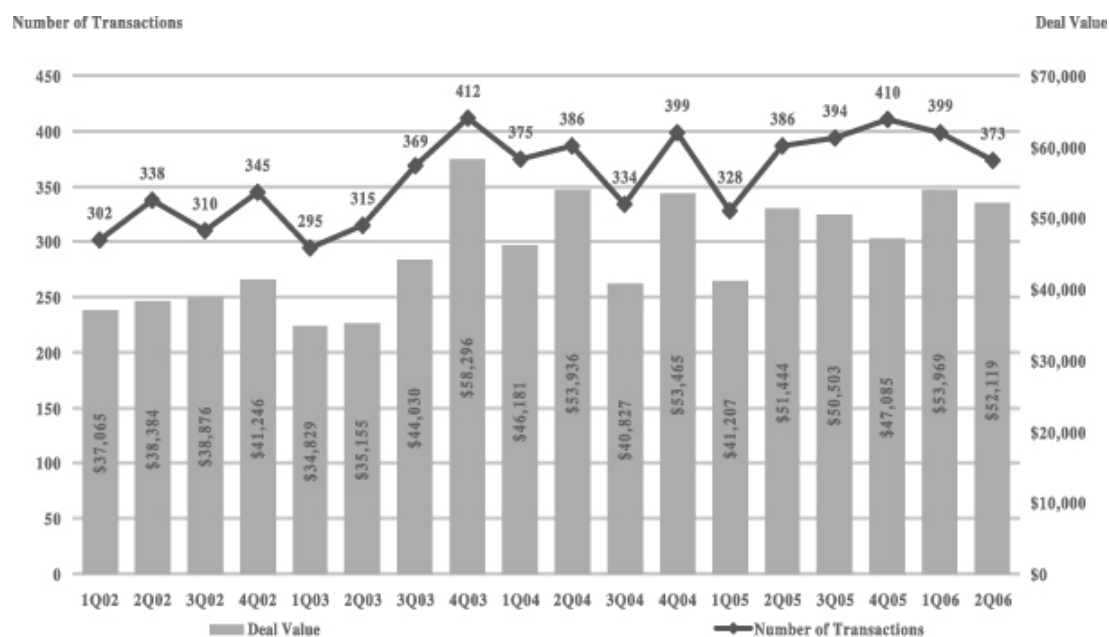
In 1999, affiliates of Kohlberg & Co. formed a lending platform called Katonah Capital to capitalize on the experience of Kohlberg & Co. in arranging and structuring debt financing for its own portfolio companies. From its inception through 2005, Katonah Capital organized six CDO Funds that raised in excess of \$2 billion in capital to invest in below-investment-grade broadly syndicated loans, bonds and other credit instruments. In 2005, affiliates of Kohlberg & Co. organized Katonah Debt Advisors as a new platform to continue to manage CDO Funds investing in broadly syndicated loans and high-yield bonds and to diversify into lending to middle market companies and investing in other types of credit instruments, and the operations of Katonah Capital were discontinued. In 2005 and 2006, Katonah Debt Advisors raised three CDO Funds with approximately \$1.2 billion in assets under management to invest in broadly syndicated loans and high-yield bonds. Katonah Debt Advisors is in the process of organizing five additional CDO Funds, for which it has acquired over an additional \$300 million in assets, as well as an additional fund to invest in mezzanine and equity securities issued by CDO Funds. In February 2006, Katonah Debt Advisors hired Dayl W. Pearson and R. Jon Corless to head its middle market investment business. Since joining Katonah Debt Advisors, they have managed a special purpose vehicle that has invested approximately \$185 million in middle market senior secured loans and which we acquired with the net proceeds of our initial public offering.

MARKET OPPORTUNITY

We define the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, of \$10 million to \$50 million and/or total debt of \$25 million to \$150 million. We believe that many opportunities exist to provide loans to middle market companies due to:

- the large size of the market, with an estimated 15,000 companies;
- the high level of acquisition activity, with more than 1,200 transactions annually under \$500 million during 2002, 2003 and 2004; and
- annual senior secured loan volume from 2000 to 2005 in the middle market in excess of \$30 billion, according to Loan Pricing Corp.

The following chart illustrates the number and average transaction value of middle market acquisition transactions from the first quarter of 2002 through the second quarter of 2006:



Source: Thomson Financial, SDC Database: as of 8/02/2006

STRATEGY

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. We intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. We will 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, distressed debt securities and debt and equity securities issued by CDO Funds managed by Katonah Debt Advisors or by other asset managers. However, our investment strategy is to limit the value of our investments in the debt or equity securities issued by CDO Funds to not more than 15% of the value of our total investment portfolio. In addition, we may also receive warrants or options to purchase common stock in connection with our debt investments. We have begun to reposition the investment portfolio to focus increasingly on second lien second loans and mezzanine loans.

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

Our CDO Funds invest primarily in non-investment grade broadly syndicated loans, high-yield bonds and other credit instruments. The underlying assets in each of the CDO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), debt to companies providing mortgage lending and emerging markets investments. The CDO 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 appropriate fund expenses (including management fees)) is paid to the holders of the CDO Fund’s subordinated securities or preferred stock. As an investor in the subordinated securities or

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preferred stock of CDO Funds we expect to receive our pro-rata portion (relative to our percentage ownership of the subordinated securities or preferred stock) of the fund's excess spread. As a manager of the CDO Funds, Katonah Debt Advisors expects to receive its contractual and recurring management fee and any subsequent incentive management fees from the CDO Funds for its management and advisory services.

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

Our strategic relationship with Kohlberg & Co. is also an important part of our overall strategy. We believe that the participation of the Chairman and co-managing partners of Kohlberg & Co. on our Board of Directors and Investment Committee will enhance our asset selection and portfolio performance and that Kohlberg & Co. will serve as an important source of private equity opportunities. We also believe that the participation of the Kohlberg & Co. Chairman and co-managing partners on our Investment Committee will enhance the due diligence and credit analysis of our lending operations.

MIDDLE MARKET BUSINESS

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

Our middle market investment team has experience assembling portfolios of middle market loans and investments and managing these portfolios through several credit cycles, including both attractive and stressed credit environments. Since March 2006, our middle market investment team has reviewed over 250 middle market investment opportunities while building the portfolio of senior secured loans that we acquired with the net proceeds of our initial public offering.

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

KATONAH DEBT ADVISORS

Katonah Debt Advisors is an asset manager that manages CDO Funds which invest in broadly syndicated senior loans, second lien loans, high-yield bonds, credit default swaps and other credit instruments. The securities issued by these CDO Funds are primarily held by third parties. We control Katonah Debt Advisors through our ownership of 100% of its equity interests. Subject to the requirements of the 1940 Act, Katonah Debt Advisors may, in the future, elect to register as an investment adviser under the Advisers Act in connection with the conduct of its business. Katonah Debt Advisors is led by our Vice President and its Managing

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Director, E.A. Kratzman, who has more than 30 years of credit and investment experience. Mr. Kratzman also serves as Vice President of the Company and a member of our Investment Committee. Katonah Debt Advisors is organized into two groups: the Corporate Credit Group and the Structured Products Group. The Corporate Credit Group structures and sponsors CDO Funds for which it serves as the asset manager and invests in syndicated term loans, high-yield bonds (rated lower than Baa3 by Moody's or lower than BBB- by Standard & Poor's) and credit default swaps. The Corporate Credit Group currently manages three CDO Funds with aggregate assets of approximately \$1.6 billion and is in the process of organizing five additional CDO Funds, for which it has acquired over an additional \$300 million in assets. The Structured Products Group structures, sponsors and invests in funds that invest primarily in the equity or mezzanine securities issued by CDO Funds and is in the process of organizing such a fund, which is expected to have between \$200 million and \$400 million of committed capital.

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

The Corporate Credit Group participates in the market for senior secured syndicated term loans greater than \$100 million, high-yield bonds (rated BBB or below) and credit default swaps. The investment portfolios managed by Katonah Debt Advisors typically carry an average overall credit quality of B1/Ba3 Moody's rating equivalent or B+/BB- Standard & Poor's rating equivalent. Katonah Debt Advisors believes that this ratings category generally provides the best risk/reward combination as well as more stable returns as compared with other lower rated assets. The markets in which Katonah Debt Advisors invests are large and generally offer considerable trading liquidity, with more than \$1.5 trillion of syndicated loans issued annually. The strategy of the Corporate Credit Group is to select and maintain portfolios of syndicated loans, high-yield bonds, and credit default swaps which offer a balance of interest rate spreads and credit risks appropriate for CDO securitizations in order to maintain a stable, attractive level of current cash return to investors.

The Structured Products Group invests primarily in the equity or unrated debt securities issued by CDO Funds backed by corporate commercial loans or asset backed securities, and invests on a limited basis in the rated (BBB or BB) mezzanine securities in CDO Funds to provide current cash income and asset diversity. The market for equity and mezzanine securities issued by CDO Funds is large and diverse, with an estimated \$273 billion of CDO securities issued in 2005 and more than \$1 trillion of such securities outstanding. The strategy of the Structured Products Group is to target securities issued by CDO Funds managed by experienced collateral managers or emerging managers where due diligence suggests an attractive opportunity for long-term success. The Structured Products Group is in the process of raising a fund, which is expected to have between \$200 million and \$400 million of committed capital. We anticipate that funds managed by the Structured Products Group will earn a management fee of 1% of assets under management per annum and an incentive fee of 20% of profits, payable at the liquidation of the fund, provided that the investment return of the fund has exceeded a specified minimum rate of return.

Katonah Debt Advisors employs an experienced team of 11 investment professionals. E.A. Kratzman, Managing Director of Katonah Debt Advisors and portfolio manager for the Corporate Credit Group, has participated in the fundraising for 15 CDO Funds investing in loans, high-yield bonds and credit derivatives with an aggregate value of more than approximately \$4 billion. Mr. Kratzman also serves as our Vice President and as a member of our Investment Committee, providing the benefit of his experience to the Company's lending activities. The two co-portfolio managers of the Structured Products Group each have more than 20 years of investment and securitization experience. In addition to investing funds managed by Katonah Debt Advisors, the portfolio managers in the Structured Credit Products Group, each of whom also serves as an officer of the Company, together with the other investment professionals of Katonah Debt Advisors, source and evaluate selected CDO equity and mezzanine investment opportunities for us and assist us in identifying ways to optimize the use of our capital through securitizations of assets and other potential refinancing structures. The eight credit analysts at Katonah Debt Advisors average approximately 15 years of industry experience. Each analyst follows a specific set of industries, allowing them to develop deep insight and broad industry contacts. This credit team reviews, when appropriate, loans sourced by us as well as investment opportunities for CDO Funds managed by Katonah Debt Advisors.

OUR STRATEGIC RELATIONSHIP WITH KOHLBERG & CO.

We believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co. as evidenced by the participation on our Board of Directors and Investment Committee of the Chairman and co-managing partners of Kohlberg & Co. Through such participation, we will have access to the expertise of these individuals in the middle market and leveraged investing, which we believe will enhance our capital raising, due diligence, investment selection and credit analysis. In addition, affiliates of Kohlberg & Co., including the Chairman and co-managing partners of Kohlberg & Co. who serve on our Board of Directors and Investment Committee, own, in the aggregate, approximately 19% of our outstanding common stock, which they received, in lieu of cash, in exchange for the contribution to the Company of 100% of the equity of Katonah Debt Advisors and certain subordinated debt investments in CDO Funds managed by Katonah Debt Advisors and two other asset managers, 57,555 shares of which are being registered for resale pursuant to this prospectus. We have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but that it has determined in its sole discretion are not appropriate for any investment funds managed by Kohlberg & Co. or any of its affiliates, typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to any third party. Kohlberg & Co. has also granted us a royalty-free license to use the “Kohlberg” name, which we believe is one of the most widely recognized names in middle market investing, and is providing certain administrative services to us on a transitional basis.

Kohlberg & Co. is a leading U.S. private equity firm which manages investment funds that acquire middle market companies. Kohlberg & Co. was formed in 1987 by Jerome Kohlberg Jr., the senior founding partner of Kohlberg Kravis Roberts & Co. (“KKR”) and his son, James A. Kohlberg, at the time an executive with KKR. Since its inception, Kohlberg & Co. has organized five private equity funds, through which it has raised approximately \$2 billion of committed capital and completed more than 80 platform and add-on acquisitions with an aggregate value of approximately \$6 billion. Kohlberg & Co. is currently investing its fifth private equity fund, which typically targets control equity investments of greater than \$40 million.

Investment funds managed by Kohlberg & Co. invest in middle market companies where Kohlberg & Co. believes it can work in partnership with senior management to identify growth opportunities and implement fundamental operating and strategic changes, resulting in substantial increases in revenue and cash flow. Kohlberg & Co. has 18 investment professionals and 32 employees. The Chairman and co-managing partners of Kohlberg & Co. who are members of our Board of Directors, two of whom are also members of our Investment Committee, average more than 20 years of investment banking and middle market investing experience, and have worked together across all of the firm’s private equity funds. Christopher Lacovara, the co-managing partner who had the primary responsibility for the formation and oversight of both Katonah Debt Advisors and Katonah Capital, for the capital raising and investing, served as the Chairman of our Board of Directors.

Because we are an internally managed BDC, we do not pay fees to Kohlberg & Co. or any of its affiliates. Under the 1940 Act we are not permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment unless we obtain SEC exemptive relief.

COMPETITIVE ADVANTAGES

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

Internally managed structure and significant management resources

We are internally managed by our executive officers under the supervision of our Board of Directors and do not depend on a third party investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs, including the costs associated with employing investment management professionals, and to make distributions to our shareholders. Including employees of Katonah Debt Advisors, some of whom also serve as officers of the Company, we employ a team of 14 experienced investment professionals with substantial experience in middle market lending, credit analysis, loan securitization and portfolio administration. Our President and CEO, Dayl W. Pearson, our CIO, R. Jon Corless, and E.A. Kratzman,

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our Vice President and a member of our Investment Committee and the Managing Director of Katonah Debt Advisors, have an average of over 28 years of credit and investment experience. The nine credit analysts employed by us and Katonah Debt Advisors average more than 13 years of experience.

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

Multiple sourcing capabilities for assets

We have multiple sources of loans, mezzanine investments and equity investments. Through the industry relationships, we believe that we will have the ability to participate in loans originated by other capital providers to middle market companies as well as to source assets directly from private equity sponsors and regional banks. We recently hired a controller who joined us in February and a new senior analyst who joined us in March and expect to add additional professional staff with a track record of originating senior loans and mezzanine and equity investments. In addition, Katonah Debt Advisors hired an additional analyst. Through Katonah Debt Advisors' Corporate Credit Group, we have the ability to acquire participations in selected syndicated secured and second lien term loans whose borrowers and investment returns meet our investment criteria. Through Katonah Debt Advisors' Structured Credit Products Group, we have the opportunity to invest in selected equity and mezzanine securities issued by CDO Funds, including those managed by Katonah Debt Advisors. Through our strategic relationship with Kohlberg & Co., we expect to have access to a variety of equity investments and mezzanine and other lending opportunities which are presented to Kohlberg & Co. but do not meet Kohlberg & Co.'s applicable investment criteria for reasons such as the small size or non-control nature of the investment.

Disciplined investment process

We employ the rigorous credit review process and due diligence intensive investment strategy which our senior management has developed over more than 20 years of lending. Due to our ability to source transactions through multiple channels, we expect to maintain a substantial pipeline of opportunities to allow comparative risk return analysis and selectivity. By focusing on the drivers of revenue and cash flow, we develop our own underwriting cases and multiple stress case scenarios for each company analyzed. An event specific financial model reflecting company, industry and market variables support each investment decision. We also expect to benefit from the credit and industry expertise of Katonah Debt Advisors' credit team, the members of which also serve as officers of the Company, and the Chairman and co-managing partners of Kohlberg & Co. serving on our Board of Directors and Investment Committee.

Katonah Debt Advisors' credit platform

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

Strategic relationship with Kohlberg & Co.

We believe that Kohlberg & Co. is one of the oldest and most well-known private equity firms focused on the middle market, and we expect to derive substantial benefits from our strategic relationship with Kohlberg & Co. Through the participation of the Chairman and co-managing partners of Kohlberg & Co. on our Board of Directors and Investment Committee, we will have access to the expertise of these individuals in middle market leveraged investing, which we believe will enhance our capital raising, due diligence, investment selection and credit analysis. The Chairman of our Board of Directors and Investment Committee, Christopher Lacovara, has been the Kohlberg & Co. co-managing partner primarily responsible for establishing and providing oversight for the operations of both Katonah Debt Advisors and Katonah Capital. In addition, we have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but that it determines in its sole discretion are not appropriate for any investment fund managed by Kohlberg & Co. or any of its affiliates typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to any third party. Under this agreement, Kohlberg & Co. has also granted us a royalty-free license to use the “Kohlberg” name, which we believe is one of the most widely recognized names in middle market investing.

Significant equity ownership and alignment of incentives

Our senior management team, the senior management team of Katonah Debt Advisors and affiliates of Kohlberg & Co. together have a significant equity interest in the Company, ensuring that their incentives are strongly aligned with those of our shareholders. Affiliates of Kohlberg & Co., including the Chairman and co-managing partners of Kohlberg & Co. who serve on our Board of Directors and Investment Committee, own, in the aggregate, prior to giving effect to any sale of shares pursuant to this prospectus, approximately 19% of our outstanding common stock which they received, in lieu of cash, as consideration for the contribution to the Company of 100% of the equity of Katonah Debt Advisors and certain subordinated debt investments in CDO Funds managed by Katonah Debt Advisors and two other asset managers, 57,555 shares of which are being registered for resale pursuant to this prospectus. We have also issued to our senior management team options to purchase shares of our common stock under our Equity Incentive Plan.

CREDIT AND INVESTMENT PROCESS

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

We focus on lending and investing opportunities in:

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

We expect to source investment opportunities from:

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

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

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

One of the key components to our credit analysis and investment process is our modeling and forecasting methodology, which we refer to as our Maximum Reasonable Adversity ("MRA") model. This process was developed, and has been continuously used and updated over the last 20 years, by Mr. Kratzman, the Managing Director of Katonah Debt Advisors, who also serves as our Vice President and as a member of our Investment Committee. The MRA case is defined as those adverse conditions or events that either or in combination might reasonably occur during the term of the investment. Using the MRA as the forecasting standard, we evaluate the borrower's ability to maintain its business while covering, at a minimum, all contractually payable senior indebtedness.

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

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

Qualitative Analysis

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

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

Quantitative Analysis

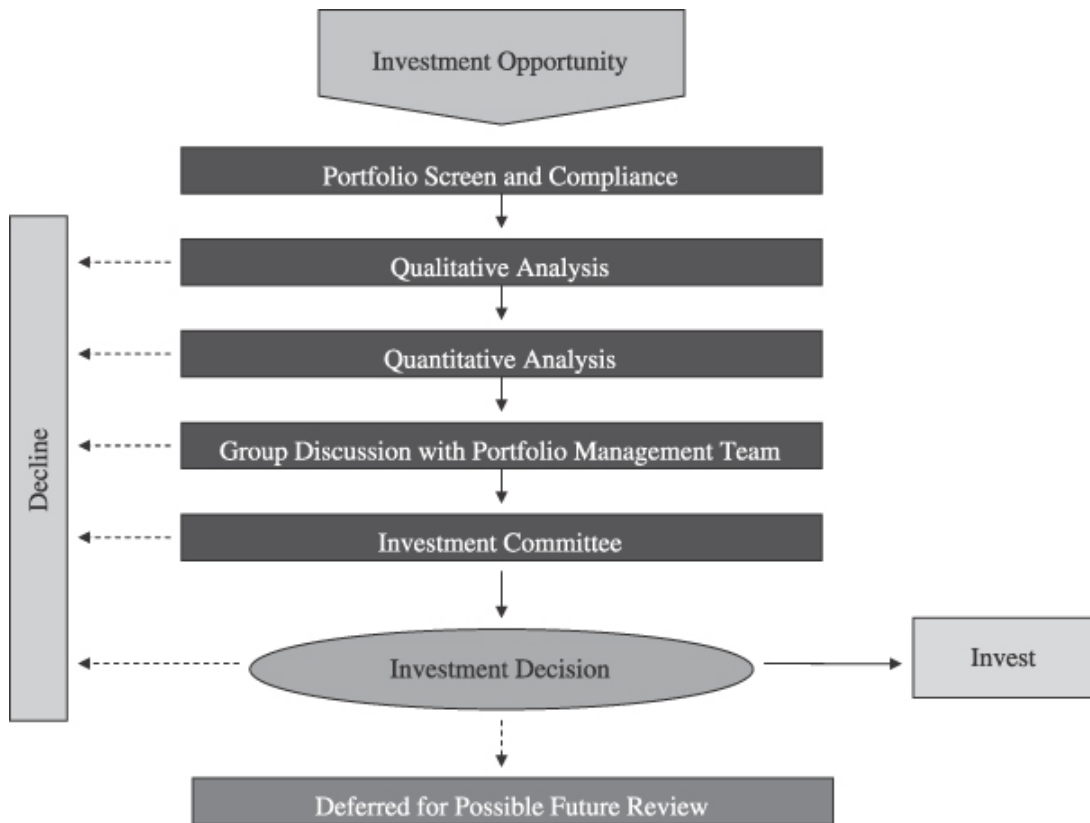
Elements of the quantitative analysis we use in evaluating investment opportunities include the following:

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

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

Approval Process

The following chart illustrates our screening and approval process:



We review potential investment opportunities and conduct a due diligence investigation of each potential investment that passes our initial screening process. This due diligence investigation generally includes one or more on-site visits, a review of our historical

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

CREDIT MONITORING

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

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

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

OUR PEOPLE

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

Our wholly-owned portfolio company, Katonah Debt Advisors, employs a highly experienced team of 11 investment professionals, all of whom are officers of the Company. The Managing Director and two portfolio managers at Katonah Debt Advisors average more than 20 years of credit, investment and securitization experience. The eight credit analysts at Katonah Debt Advisors average approximately 15 years of experience. Katonah Debt Advisors will continue to add to its staff as it increases its assets under management. We will utilize the Katonah Debt Advisors team to assist both our origination and credit evaluation and monitoring efforts.

COMPETITION

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

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

CORPORATE STRUCTURE AND OFFICES

We were formed in August 2006 as a Delaware limited liability company. Prior to the issuance of shares of our common stock in our initial public offering we converted into a Delaware corporation. We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. See “Regulation.”

Our principal executive offices are located at 295 Madison Avenue, 6th Floor, New York, New York 10017.

LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings.

PORTFOLIO COMPANIES

The following tables set forth certain information as of December 31, 2006 after giving effect to the Restructuring regarding each of our portfolio companies, including the portfolio of approximately \$185 million in aggregate principal amount of investments, which we acquired with the net proceeds of our initial public offering from a special purpose vehicle organized by Katonah Debt Advisors. Unless otherwise noted in these tables, the only relationship between us and each portfolio company is our investment in such portfolio company. No single investment (other than our investment in Katonah Debt Advisors) represents more than 5% of our total assets. While we may make loans to or additional investments in these companies, we have no present plans to make any such loans or investments that would raise our investment in any other of these companies above 5% of total assets. Any such loans and investments will be made in accordance with our investment policies and procedures.

The following table sets forth our investments as of December 31, 2006 (unaudited):

| Portfolio Company / Principal Business | Investment / Interest Rate ⁽¹⁾ / Maturity | Principal | Cost | Value ⁽²⁾ |
|--|---|--------------|--------------|----------------------|
| AGA Medical Corporation Healthcare, Education and Childcare | Senior Secured Loan; Tranche B (7.4%, Due 4/13) | \$ 3,826,751 | \$ 3,823,346 | \$ 3,823,346 |
| Astoria Generating Company Acquisitions, LLC Utilities | Junior Secured Loan; Second Lien Term C (9.1%, Due 8/13) | 2,000,000 | 2,000,000 | 2,000,000 |
| Atlantic Marine Holding Company Cargo Transport | Senior Secured Loan; Term Loan (7.9%, Due 8/13) | 1,990,000 | 2,004,839 | 2,004,839 |
| Bankruptcy Management Solutions, Inc. Diversified/Conglomerate Service | Senior Secured Loan; First Lien Term Loan (8.1%, Due 7/12) | 1,995,000 | 2,009,860 | 2,009,860 |
| Bay Point Re Limited ⁽³⁾ Insurance | Senior Secured Loan; Term Loan (9.9%, Due 12/10) | 3,000,000 | 3,026,001 | 3,026,001 |
| Byram Healthcare Centers, Inc. Healthcare, Education and Childcare | Senior Secured Loan; Revolver (11.4%, Due 11/11) | 375,000 | 375,000 | 375,000 |
| Byram Healthcare Centers, Inc. Healthcare, Education and Childcare | Senior Secured Loan; Term Loan A (11.4%, Due 11/11) | 4,000,000 | 4,000,000 | 4,000,000 |
| Capital Automotive REIT Automobile | Senior Secured Loan; Term Loan (7.1%, Due 12/10) | 3,721,052 | 3,730,265 | 3,730,265 |
| Caribe Information Investments Incorporated Printing and Publishing | Senior Secured Loan; Term Loan (7.6%, Due 3/13) | 6,315,895 | 6,310,527 | 6,310,527 |
| Cast & Crew Payroll, LLC (Payroll Acquisition) Leisure, Amusement, Motion Pictures, Entertainment | Senior Secured Loan; Initial Term Loan (8.6%, Due 9/12) | 7,000,000 | 7,034,764 | 7,034,764 |
| Clarke American Corp. Printing and Publishing | Senior Secured Loan; Term Loan B (8.6%, Due 12/11) | 2,478,134 | 2,508,872 | 2,508,872 |
| Clayton Holdings, Inc Finance | Senior Secured Loan; Term Loan (8.4%, Due 12/11) | 811,555 | 815,586 | 815,586 |
| Concord Re Limited ⁽³⁾ Insurance | Senior Secured Loan; Term Loan (9.6%, Due 2/12) | 3,000,000 | 3,029,779 | 3,029,779 |
| CST Industries, Inc. Diversified/Conglomerate Manufacturing | Senior Secured Loan; Term Loan (8.5%, Due 8/13) | 997,500 | 1,001,219 | 1,001,219 |
| Dayco Products LLC - (Mark IV Industries, Inc.) Automobile | Junior Secured Loan; Second Lien Term Loan (11.1%, Due 12/11) | 500,000 | 501,861 | 501,861 |
| Dealer Computer Services, Inc. (Reynolds & Reynolds) Electronics | Junior Secured Loan; Second Lien Term Loan (10.9%, Due 10/13) | 1,000,000 | 1,011,187 | 1,011,187 |

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| Portfolio Company / Principal Business | Investment / Interest Rate ⁽¹⁾ / Maturity | Principal | Cost | Value ⁽²⁾ |
|--|--|-----------|-----------|----------------------|
| Dealer Computer Services, Inc. (Reynolds & Reynolds) Electronics | Subordinated Loan; Third Lien Term Loan (12.9%, Due 4/14) | 1,500,000 | 1,518,652 | 1,518,652 |
| Delta Educational Systems, Inc. Healthcare, Education and Childcare | Senior Secured Loan; Term Loan (8.9%, Due 6/12) | 2,985,987 | 2,985,987 | 2,985,987 |
| Fasteners For Retail, Inc. Diversified/Conglomerate Manufacturing | Senior Secured Loan; Term Loan (8.1%, Due 12/12) | 5,000,000 | 5,000,000 | 5,000,000 |
| First American Payment Systems, L.P. Finance | Senior Secured Loan; Term Loan (8.6%, Due 10/13) | 3,990,000 | 3,990,000 | 3,990,000 |
| Flatiron Re Ltd. ⁽³⁾ Insurance | Senior Secured Loan; Closing Date Term Loan (9.6%, Due 12/10) | 4,042,105 | 4,082,142 | 4,082,142 |
| Flatiron Re Ltd. ⁽³⁾ Insurance | Senior Secured Loan; Delayed Draw Term Loan (9.6%, Due 12/10) | 1,957,895 | 1,977,287 | 1,977,287 |
| Gentiva Health Services, Inc. Healthcare, Education and Childcare | Senior Secured Loan; Term Loan (7.7%, Due 3/13) | 1,848,649 | 1,848,649 | 1,848,649 |
| Ginn LA Conduit Lender, Inc. Buildings and Real Estate ⁽⁴⁾ | Senior Secured Loan; First Lien Tranche A Credit-Linked Deposit (8.3%, Due 6/11) | 1,257,143 | 1,207,290 | 1,207,290 |
| Ginn LA Conduit Lender, Inc. Buildings and Real Estate ⁽⁴⁾ | Senior Secured Loan; First Lien Tranche B Term Loan (8.4%, Due 6/11) | 2,729,143 | 2,620,917 | 2,620,917 |
| Ginn LA Conduit Lender, Inc. Buildings and Real Estate ⁽⁴⁾ | Junior Secured Loan; Second Lien Term Loan (12.4%, Due 6/12) | 1,000,000 | 851,051 | 851,051 |
| Gleason Works Machinery (Non-Agriculture, Non-Construction, Non-Electronic) | Senior Secured Loan; First Lien Term Loan (7.9%, Due 6/13) | 1,878,788 | 1,888,127 | 1,888,127 |
| Hawkeye Renewables, LLC Farming and Agriculture | Senior Secured Loan; First Lien Term Loan (9.4%, Due 6/12) | 2,992,481 | 2,908,240 | 2,908,240 |
| HCA Inc. Healthcare, Education and Childcare | Senior Secured Loan; Tranche B Term Loan (8.1%, Due 11/13) | 4,000,000 | 4,037,307 | 4,037,307 |
| HealthSouth Corporation Healthcare, Education and Childcare | Senior Secured Loan; Term Loan B (8.6%, Due 3/13) | 2,985,000 | 2,996,125 | 2,996,125 |
| Infiltrator Systems, Inc. Ecological | Senior Secured Loan; Term Loan (8.9%, Due 9/12) | 4,000,000 | 3,985,099 | 3,985,099 |
| Intrapac Corporation/Corona Holdco Containers, Packaging and Glass | Senior Secured Loan; 1st Lien Term Loan (8.4%, Due 5/12) | 3,854,545 | 3,864,114 | 3,864,114 |
| Intrapac Corporation/Corona Holdco Containers, Packaging and Glass | Junior Secured Loan; 2nd Lien Term Loan (12.4%, Due 5/13) | 1,000,000 | 1,004,970 | 1,004,970 |
| IPC Systems, Inc. Diversified/Conglomerate Service | Junior Secured Loan; Second Lien Term Loan (11.9%, Due 9/14) | 2,500,000 | 2,500,000 | 2,500,000 |
| Jones Stephens Corp. Buildings and Real Estate ⁽⁴⁾ | Senior Secured Loan; Term Loan (9.2%, Due 9/12) | 7,000,000 | 6,965,235 | 6,965,235 |
| JW Aluminum Company Mining, Steel, Iron and Non-Precious Metals | Junior Secured Loan; Term Loan (2nd Lien) (11.6%, Due 12/13) | 2,000,000 | 2,000,000 | 2,000,000 |

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| Portfolio Company / Principal Business | Investment / Interest Rate ⁽¹⁾ / Maturity | Principal | Cost | Value ⁽²⁾ |
|---|--|-----------|-----------|----------------------|
| La Paloma Generating Company, LLC Utilities | Junior Secured Loan; Second Lien Term Loan (8.9%, Due 8/13) | 2,000,000 | 2,000,000 | 2,000,000 |
| LBREP/L-Suncal Master I LLC Buildings and Real Estate ⁽⁴⁾ | Senior Secured Loan; 1st Lien (8.6%, Due 1/10) | 3,960,000 | 3,842,676 | 3,842,676 |
| LBREP/L-Suncal Master I LLC Buildings and Real Estate ⁽⁴⁾ | Junior Secured Loan; 2nd Lien (12.6%, Due 1/11) | 2,000,000 | 1,891,032 | 1,891,032 |
| Legacy Cabinets, Inc. Home and Office Furnishings, Housewares, and Durable Consumer | Senior Secured Loan; First Lien Term Loan (9.2%, Due 8/12) | 2,985,000 | 2,985,000 | 2,985,000 |
| Levlad LLC & Arbonne International LLC Personal and Non Durable Consumer Products (Mfg. Only) | Senior Secured Loan; First Lien Term Loan (8.4%, Due 6/13) | 1,946,667 | 1,956,351 | 1,956,351 |
| Longyear Canada, ULC (Boart Longyear) ⁽³⁾ Machinery (Non-Agriculture, Non-Construction, Non-Electronic) | Senior Secured Loan; 1st Lien Term Loan (8.6%, Due 10/12) | 245,603 | 245,603 | 245,603 |
| Longyear Global Holdings, Inc. (Boart Longyear) Machinery (Non-Agriculture, Non-Construction, Non-Electronic) | Senior Secured Loan; First (8.6%, Due 10/12) | 264,495 | 264,495 | 264,495 |
| Longyear Global Holdings, Inc. (Boart Longyear) Machinery (Non-Agriculture, Non-Construction, Non-Electronic) | Senior Secured Loan; First Lien Term Loan (8.6%, Due 10/12) | 2,450,264 | 2,450,264 | 2,450,264 |
| LPL Holdings, Inc. Finance | Senior Secured Loan; Tranche C Term Loan (8.1%, Due 6/13) | 5,392,462 | 5,414,881 | 5,414,881 |
| LSP Kendall Energy, LLC Utilities | Senior Secured Loan; Term Loan (7.4%, Due 10/13) | 1,922,988 | 1,913,428 | 1,913,428 |
| MCCI Group Holdings, LLC Healthcare, Education and Childcare | Junior Secured Loan; Second Lien Term Loan (14.3%, Due 6/13) | 1,000,000 | 1,000,000 | 1,000,000 |
| MCCI Group Holdings, LLC Healthcare, Education and Childcare | Senior Secured Loan; Term Loan (10.8%, Due 12/12) | 4,000,000 | 4,000,000 | 4,000,000 |
| Metaldyne Corporation Automobile | Senior Secured Loan; Term D (10.1%, Due 12/09) | 1,997,475 | 1,997,475 | 1,997,475 |
| Michaels Stores, Inc. Retail Stores | Senior Secured Loan; Term Loan (8.4%, Due 10/13) | 1,958,333 | 1,958,333 | 1,958,333 |
| Mirant North America, LLC Utilities | Senior Secured Loan; Term Loan (7.1%, Due 1/13) | 3,960,000 | 3,950,163 | 3,950,163 |
| Murray Energy Corporation Mining, Steel, Iron and Non-Precious Metals | Senior Secured Loan; Tranche B Term Loan (8.4%, Due 1/10) | 1,989,873 | 2,004,614 | 2,004,614 |
| Northeast Biofuels, LLC Farming and Agriculture | Senior Secured Loan; Construction Term Loan (8.6%, Due 6/13) | 1,365,854 | 1,369,248 | 1,369,248 |
| Northeast Biofuels, LLC Farming and Agriculture | Senior Secured Loan; Synthetic LC (8.6%, Due 6/13) | 634,146 | 635,722 | 635,722 |
| PAS Technologies Inc. Aerospace and Defense | Senior Secured Loan; Term Loan (8.6%, Due 6/11) | 4,756,944 | 4,721,569 | 4,721,569 |
| Primus International Inc. Aerospace and Defense | Senior Secured Loan; Term Loan (7.9%, Due 6/12) | 3,292,188 | 3,300,360 | 3,300,360 |

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| Portfolio Company / Principal Business | Investment / Interest Rate ⁽¹⁾ / Maturity | Principal | Cost | Value ⁽²⁾ |
|--|---|----------------|----------------|----------------------|
| Rhodes Companies, LLC (The Buildings and Real Estate ⁽⁴⁾) | Junior Secured Loan; Second Lien Term Loan (12.9%, Due 11/11) | 2,000,000 | 1,910,700 | 1,910,700 |
| Sorenson Communications, Inc. Electronics | Senior Secured Loan; Tranche B Term Loan (8.4%, Due 8/13) | 2,978,525 | 2,997,041 | 2,997,041 |
| Standard Steel, LLC Cargo Transport | Senior Secured Loan; Delayed Draw Term Loan (1%, Due 6/12) | — | 4,965 | 4,965 |
| Standard Steel, LLC Cargo Transport | Senior Secured Loan; Initial Term Loan (7.9%, Due 6/12) | 3,316,667 | 3,341,369 | 3,341,369 |
| Standard Steel, LLC Cargo Transport | Junior Secured Loan; Second Lien Term Loan (11.4%, Due 6/13) | 1,000,000 | 1,009,941 | 1,009,941 |
| Stolle Machinery Company Machinery (Non-Agriculture, Non-Construction, Non-Electronic) | Senior Secured Loan; First Lien Term Loan (7.9%, Due 9/12) | 1,995,000 | 2,007,386 | 2,007,386 |
| Stratus Technologies, Inc. Electronics | Senior Secured Loan; First Lien Term Loan (8.4%, Due 3/11) | 1,990,000 | 1,985,070 | 1,985,070 |
| Thermal North America, Inc. Utilities | Senior Secured Loan; Credit Linked Deposit (8.1%, Due 10/08) | 400,000 | 401,469 | 401,469 |
| Thermal North America, Inc. Utilities | Senior Secured Loan; Term Loan (8.1%, Due 10/08) | 3,600,000 | 3,617,627 | 3,617,627 |
| TLC Funding Corp. Healthcare, Education and Childcare | Senior Secured Loan; First Lien Term Loan (12.3%, Due 5/12) | 3,970,000 | 3,871,451 | 3,871,451 |
| TransAxle LLC Automobile | Senior Secured Loan; Revolver (8.9%, Due 9/12) | — | — | — |
| TransAxle LLC Automobile | Senior Secured Loan; Term Loan (8.9%, Due 9/12) | 2,962,500 | 2,962,500 | 2,962,500 |
| United Air Lines, Inc. Personal Transportation | Senior Secured Loan; Delayed Draw Tranche B Loan (9.1%, Due 2/12) | 750,000 | 750,000 | 750,000 |
| United Air Lines, Inc. Personal Transportation | Senior Secured Loan; Tranche B Term Loan (9.1%, Due 2/12) | 3,250,000 | 3,250,000 | 3,250,000 |
| Valleycrest Holding Co. (VCC Holdco) Diversified/Conglomerate Service | Junior Secured Loan; Second Lien Term Loan (10.9%, Due 4/14) | 1,000,000 | 1,007,461 | 1,007,461 |
| Water Pik Technologies, Inc. Personal and Non Durable Consumer Products (Mfg. Only) | Senior Secured Loan; First Lien Term Loan (7.6%, Due 6/13) | 902,313 | 902,313 | 902,313 |
| Water Pik Technologies, Inc. Personal and Non Durable Consumer Products (Mfg. Only) | Junior Secured Loan; Second Lien Term Loan (11.9%, Due 12/13) | 2,500,000 | 2,512,432 | 2,512,432 |
| Wesco Aircraft Hardware Corp. Aerospace and Defense | Junior Secured Loan; Second Lien Term Loan (11.1%, Due 3/14) | 2,000,000 | 2,044,763 | 2,044,763 |
| WM. Bolthouse Farms, Inc. Beverage, Food and Tobacco | Senior Secured Loan; Term Loan (First Lien) (7.6%, Due 12/12) | 2,592,462 | 2,586,023 | 2,586,023 |
| Wolf Hollow I, LP Utilities | Senior Secured Loan; Acquisition Term Loan (7.6%, Due 6/12) | 792,335 | 778,545 | 778,545 |
| Wolf Hollow I, LP Utilities | Senior Secured Loan; Synthetic Letter of Credit (7.6%, Due 6/12) | 668,412 | 656,779 | 656,779 |
| Wolf Hollow I, LP Utilities | Senior Secured Loan; Synthetic Revolver Deposits (7.6%, Due 6/12) | 167,103 | 164,195 | 164,195 |
| Wolf Hollow I, LP Utilities | Junior Secured Loan; Term Loan (Second Lien) (9.9%, Due 12/12) | 2,683,177 | 2,689,842 | 2,689,842 |
| Total Investments in Debt Securities | | \$ 191,173,409 | \$ 190,767,384 | \$ 190,767,384 |

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| <u>CDO Fund Investments</u> | <u>Investment</u> | <u>Percent of Class Held</u> | <u>Cost</u> | <u>Value (2)</u> |
|--------------------------------|-------------------------|------------------------------|----------------------|----------------------|
| Katonah III, Ltd. | Preferred Shares | 23.08% | \$ 4,500,000 | \$ 4,500,000 |
| Katonah IV, Ltd. | Preferred Shares | 17.14% | 3,150,000 | 3,150,000 |
| Katonah V, Ltd. | Preferred Shares | 26.67% | 3,320,000 | 3,320,000 |
| Katonah VII, Ltd. | Subordinated Securities | 16.36% | 4,500,000 | 4,500,000 |
| Katonah VIII, Ltd. | Subordinated Securities | 10.30% | 3,400,000 | 3,400,000 |
| Katonah IX, Ltd. | Preferred Shares | 6.86% | 2,000,000 | 2,000,000 |
| Total Investments in CDO Funds | | | <u>\$ 20,870,000</u> | <u>\$ 20,870,000</u> |

| <u>Portfolio Company / Principal Business</u> | <u>Investment</u> | <u>Percent of Interests Held</u> | <u>Cost</u> | <u>Value (2)</u> |
|--|----------------------|----------------------------------|----------------------|----------------------|
| Katonah Debt Advisors, L.L.C. / Asset Management | Membership Interests | 100.00% | \$ 33,394,995 | \$ 37,574,995 |
| Total Investments | | | <u>\$245,032,379</u> | <u>\$249,212,379</u> |

- (1) The percentage reflects estimated offering expenses of approximately \$40,000.
- (2) Reflects the fair market value of all existing investments as of December 31, 2006, as determined by our Board of Directors.
- (3) Non-U.S. company or principal place of business outside the United States.
- (4) Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2006, we had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through our investments in CDO Funds.

MANAGEMENT

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

Directors and Executive Officers

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

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-----------------------------------|------------|--|
| Independent Directors: | | |
| C. Turney Stevens, Jr. | 56 | Director |
| Albert G. Pastino | 64 | Director |
| C. Michael Jacobi | 65 | Director |
| Gary Cademartori | 65 | Director |
| Non-Independent Directors: | | |
| Christopher Lacovara (1) | 42 | Chairman and Vice President |
| James A. Kohlberg (1) | 49 | Vice Chairman and Vice President |
| Samuel P. Frieder (1) | 42 | Director and Vice President |
| Executive Officers | | |
| Dayl W. Pearson | 52 | President and Chief Executive Officer |
| R. Jon Corless | 55 | Chief Investment Officer |
| Michael I. Wirth | 48 | Chief Financial Officer and Chief Compliance Officer |
| E.A. Kratzman | 55 | Vice President; Managing Director of Katonah Debt Advisors |
| David J. Duncan | 49 | Vice President; Principal and Portfolio Manager of Katonah Debt Advisors |
| Philip E. Theoharides | 42 | Vice President; Principal and Portfolio Manager of Katonah Debt Advisors |

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

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

Independent Directors

C. Turney Stevens, Jr.

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Mr. Stevens is a Founder and the Chairman and Chief Executive Officer of Harpeth Companies, LLC, a diversified financial services company that is the parent company of Harpeth Capital, LLC and Harpeth Consulting, LLC. Prior to founding Harpeth, Mr. Stevens was a founder and Chairman of Printing Arts America, Inc. From 1986 to 1994, Mr. Stevens served in various capacities at Rodgers Capital Corporation, a mid-market investment banking firm focused on mergers and acquisitions and private institutional equity transactions, including as President. In 1973, Mr. Stevens founded PlusMedia, Inc., a magazine publishing company that he later sold to a public company in 1982. Mr. Stevens began his career at Tennessee Securities, a Nashville investment banking firm, which was one of the region's leaders in helping to capitalize early-stage and growth-stage companies. Mr. Stevens graduated from David Lipscomb University in 1972 and received an Executive M.B.A. degree from the Owen Graduate School of Management at Vanderbilt University in 1981. He serves on various boards of directors of both for-profit and not-for-profit organizations.

Albert G. Pastino

Mr. Pastino is the Senior Managing Director at Amper Investment Banking ("AIB"), a NASD member investment bank focusing on private transactions for middle market companies. He founded AIB in 2004. AIB focuses on capital formation, mergers and acquisitions and strategic advisory and due diligence assignments. After leaving an affiliate of Kohlberg & Co. in June 1997, Mr. Pastino worked as an investor, Chief Financial Officer and Chief Operating Officer at a variety of companies and was involved in all aspects of financial and general management, reporting and fundraising for a variety of companies, including Aptegritty, Inc., Bolt, Inc., AmTec, Inc. and Square Earth, Inc. Mr. Pastino is a member of the Board of Trustees and Executive Committee of Saint Joseph's University, and a member of the Board of Directors of Crompco, Inc., an environmental testing company owned by a Massachusetts based private equity firm.

C. Michael Jacobi

Mr. Jacobi is the owner and President of Stable House¹, LLC, a company that is engaged in business consulting and real estate development. From 2001 to 2005, Mr. Jacobi served as the President, Chief Executive Officer and member of the board of directors of Katy Industries, Inc., a portfolio company of investment funds affiliated with Kohlberg & Co., which is involved in the manufacture and distribution of electrical and maintenance products. Mr. Jacobi was the President and Chief Executive Officer of Timex Corporation from 1993 to 1999, and he was a member of the board of directors of Timex Corporation from 1992 to 2000. Prior to 1993, he served Timex Corporation in senior positions in marketing, sales, finance and manufacturing. Mr. Jacobi received a B.S. from the University of Connecticut and he is a Certified Public Accountant. Mr. Jacobi is currently a member of the board of directors of Webster Financial Corporation, Corrections Corporation of America and Sturm Ruger & Co. He serves as the chairman of the audit committees of Webster Financial Corporation and Corrections Corporation of America.

Gary Cademartori

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

Non-Independent Directors

Christopher Lacovara, Chairman and Vice President

Mr. Lacovara joined Kohlberg & Co. in 1988 and was named Principal in 1995 and co-managing partner in 2006. During his tenure at Kohlberg & Co., Mr. Lacovara has been responsible for investing more than \$500 million in more than 25 leveraged buyouts

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and add-on acquisitions. From 1987 to 1988, he was an Associate in the Mergers and Acquisitions Department at Lazard Freres & Company. Prior to that he was a Financial Analyst in the Corporate Finance Department of Goldman, Sachs & Co. Mr. Lacovara received a A.B. in History from Harvard College, a B.E. in Engineering Sciences from Hofstra University and a Master of Science in Civil Engineering from Columbia University. Mr. Lacovara serves on the board of directors of a number of private companies as well as the Management Committee of Katonah Debt Advisors. Mr. Lacovara also serves on the board of directors of Katy Industries, Inc., Schawk, Inc. and Stanadyne Corp.

James A. Kohlberg, Vice Chairman and Vice President

Mr. Kohlberg is a co-founder and the Chairman of Kohlberg & Co. Mr. Kohlberg has over 22 years experience in the buyout profession and from 1984 to 1987, was with KKR. Prior to joining KKR he was employed by Merrill Lynch & Co. Mr. Kohlberg received a B.A. from Golden Gate University and an M.B.A. from New York University. Mr. Kohlberg serves on the board of directors of numerous private companies, as well as the Management Committee of Katonah Debt Advisors. Mr. Kohlberg also serves on the board of directors of Katy Industries, Inc. and Stanadyne Corp.

Samuel P. Frieder, Director and Vice President

Mr. Frieder joined Kohlberg & Co. in 1989 and became a Principal in 1995 and co-managing partner in 2006. From 1988 to 1989 he was a senior associate in the Capital Funding Group at Security Pacific Business Credit. Prior to that, he was a senior real estate analyst at Manufacturers Hanover Trust Company. Mr. Frieder received an A.B. from Harvard College. Mr. Frieder serves on the board of directors of a number of private companies as well as on the Management Committee of Katonah Debt Advisors. Mr. Frieder also serves on the board of directors of Katy Industries, Inc. and Stanadyne Corp.

Executive Officers

Dayl W. Pearson, President and Chief Executive Officer

Mr. Pearson has more than 25 years of banking experience and has focused primarily on middle market credit intensive transactions, completing over \$5 billion of financings over the past 15 years. From 1997 to 2006, he was a Managing Director at CIBC in the Leveraged Finance and Sponsor Coverage Group specializing in middle market debt transactions. Mr. Pearson was responsible for originating and executing more than \$3 billion of transactions including senior loans, high-yield securities, mezzanine investments and equity co-investments. Prior to joining CIBC, Mr. Pearson was instrumental in developing the middle market leveraged finance business of IBJ Schroder from 1992 through 1997. In 1995, he became responsible for the entire \$500 million leveraged finance portfolio and was involved in approving all new senior and mezzanine commitments. Previously, he was a senior lending officer in First Fidelity Bank's middle market lending group primarily focused on restructurings and prior to that Mr. Pearson invested in distressed securities. Mr. Pearson began his career at Chase Manhattan Bank after receiving a B.A. from Claremont Men's College and an M.B.A. from the University of Chicago.

R. Jon Corless, Chief Investment Officer

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

Michael I. Wirth, Chief Financial Officer and Chief Compliance Officer

Mr. Wirth has over 23 years of experience in the financial services sector and has managed over \$2 billion in real estate debt and equity securities and advised or structured over \$4.4 billion in structured real estate debt. Prior to joining the Company, from 2003 to 2006, Mr. Wirth was a co-founder, Chief Financial Officer and Executive Vice President of New York Mortgage Trust, a mortgage REIT that completed its initial public offering in 2004. Mr. Wirth served from 2002 to 2003 as Chief Financial Officer of Newcastle

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Investment Corp., a mortgage REIT. Mr. Wirth also served as a Senior Vice President of Fortress Investment Group, the external advisor of Newcastle, from 2002 to 2003. From 2000 to 2002, Mr. Wirth served as the Senior Vice President and Chief Financial Officer of Charter Municipal Mortgage Acceptance Company (now known as CharterMac), a residential finance company, American Mortgage Acceptance Company, a mortgage REIT, and Aegis Realty Inc., a retail property REIT. Mr. Wirth also served as a Senior Vice President of Related Capital Company, which externally managed each of the foregoing companies from 2000 to 2002. From 1997 to 2000, Mr. Wirth served as a Vice President at CGA Investment Management, a monoline insurer of structured debt and an investor in real estate and asset-backed securities. Mr. Wirth received a B.B.A. from Georgia State University and is a member of the American Institute of Certified Public Accountants.

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

Mr. Kratzman has primary responsibility for the overall management and direction of the business activities of Katonah Debt Advisors since May 2005. Mr. Kratzman oversees portfolio management, trading, structuring, analytics and operations at Katonah Debt Advisors and serves as chairman of the Investment Committee. Mr. Kratzman has previously been at Rabobank International in New York where he was the Head of CLO Management. Prior to that he was employed at First Union's Institutional Debt Management Group (IDM), where as Head of Portfolio Management and one of three co-founders, he was responsible for the development and execution of portfolio investment strategies as well as the management of portfolio management personnel. Mr. Kratzman has over nine years of experience in CDOs/CLOs across 17 funds totaling in excess of \$5 billion. Prior to IDM, Mr. Kratzman was with Societe Generale, New York where he had, among other responsibilities, the senior credit signature for all real estate and leveraged finance transactions. Prior to joining Societe Generale in 1997, Mr. Kratzman was co-Head of the Asset Recovery Group at Deutsche Bank North America in New York. From 1985 to 1996, Mr. Kratzman was employed by Westpac Banking Corporation, both in New York and London, where he held numerous positions, including founding and managing its Southeast Corporate Banking Group and Real Estate Finance Group, and managing the Workout Division of Westpac Banking Corporation. From 1993 to 1996, Mr. Kratzman was Senior Vice President and Chief Credit Officer for the Americas Division. Mr. Kratzman has over 30 years of leveraged finance experience, including extensive workout experience and has successfully completed the Citibank Credit Training Program. He holds a B.A. from Hobart College and an M.B.A. in finance from Rutgers University, and is a graduate of the Executive Management Program at J.L. Kellogg Graduate School of Management.

David J. Duncan, Vice President; Principal and Portfolio Managing of Katonah Debt Advisors

Mr. Duncan, the Co-Portfolio Manager of the Structured Products Fund at Katonah Debt Advisors, has approximately 25 years of experience in corporate and structured finance. Mr. Duncan was previously a Managing Principal of Redan Capital Advisors LLC ("Redan"), which offered structuring and capital raising services in the area of structured finance. Prior to founding Redan, Mr. Duncan was a Managing Director and Head of Origination and Structuring for CIBC's U.S. Asset Securitization Group, which managed four asset backed commercial paper conduits and also was co-Head of the CDO group that completed 50 CDO transactions and raised close to \$35 billion in debt and equity capital. Mr. Duncan was also responsible for managing CIBC's approximately \$2.5 billion CDO debt portfolio and its \$450 million CDO equity portfolio. Prior to joining CIBC, Mr. Duncan spent 10 years in Citicorp's securitization group focusing on the origination and structuring of a wide variety of transactions and asset types. Mr. Duncan is a Chartered Accountant and worked in the audit practice of Touche Ross & Co. as well as relationship banking at The Bank of Montreal. Mr. Duncan has a B.Comm (Hons) degree from the University of Manitoba.

Philip E. Theoharides, Vice President; Principal and Portfolio Manager of Katonah Debt Advisors

Philip Theoharides, the Co-Portfolio Manager of the Structured Products Fund at Katonah Debt Advisors, has more than 20 years of corporate and structured finance experience. For two years prior to joining Katonah Debt Advisors in 2006, Mr. Theoharides was the Managing Principal of August Christian Capital Advisors LLC, a structured finance advisory firm, where he completed over \$250 million in structured transactions. During 2002 and 2003, Mr. Theoharides was the Chief Operating Officer of Katonah Capital, the predecessor to Katonah Debt Advisors. From 1996 to 2002, Mr. Theoharides was a senior vice president at GE Capital where he implemented a CDO investment strategy and managed a portfolio of over \$2 billion. For six years prior to that, Mr. Theoharides was a

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team leader in the structuring and management of over \$5 billion in securitization transactions at Capital Markets Assurance Corporation. Mr. Theoharides began his career at National Westminster BankUSA and Chemical Bank. Mr. Theoharides received a B.S. from Skidmore College.

Board of Directors

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

Our Board of Directors is divided into three classes. One class holds office initially for a term expiring at the annual meeting of stockholders to be held in 2007, a second class holds office initially for a term expiring at the annual meeting of stockholders to be held in 2008, and a third class holds office initially for a term expiring at the annual meeting of stockholders to be held in 2009. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Messrs. Lacovara and Kohlberg's current term expires in 2009, Messrs. Frieder, Jacobi and Pastino's current term expires in 2008 and Messrs. Stevens and Cademartori current term expires in 2007. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Compensation of Directors

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

We have applied for exemptive relief from the SEC to permit us to grant options to purchase our common stock to our independent directors as a portion of their compensation for service on our Board of Directors.

Committees of the Board of Directors

Audit Committee. Our Board of Directors has established an Audit Committee. The Audit Committee is comprised of Mr. Pastino, Mr. Jacobi and Mr. Cademartori, each of whom is an independent director and satisfies the independence requirements for purposes of The Nasdaq Global Market listing standards. Mr. Pastino serves as chairman of the Audit Committee. The Audit Committee is responsible for approving our independent registered public accounting firm, reviewing with our independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by our independent registered public accounting firm, reviewing the independence of our independent registered public accounting firm and reviewing the adequacy of our internal accounting controls.

Valuation Committee. Our Board of Directors has established a Valuation Committee. The Valuation Committee is comprised of Mr. Lacovara, Mr. Frieder and Mr. Stevens. Mr. Lacovara serves as chairman of the Valuation Committee. The Valuation Committee is responsible for reviewing and recommending to the full board the fair value of debt and equity securities for which market quotations are not readily available. The Valuation Committee may utilize the services of an independent valuation firm in arriving at fair value of these securities.

Compensation Committee. Our Board of Directors has established a Compensation Committee. The Compensation Committee is comprised of Mr. Cademartori and Mr. Stevens, each of whom is an independent director and satisfies the independence requirements for purposes of The Nasdaq Global Market listing standards. Mr. Cademartori serves as chairman of the Compensation Committee. The Compensation Committee determines compensation for our executive officers, in addition to administering our Equity Incentive Plan, which is described below. Neither Mr. Cademartori nor Mr. Stevens is or was an officer or employee of the Company, nor does either of them have, or has either of them had, an "interlocking" or other relationship with the Company that would detract from his independence as a member of the Compensation Committee.

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We were formed in August 2006 and, as a result, we did not pay compensation during 2005. The following table sets forth information regarding the compensation expected to be earned by our directors and our three highest paid executive officers in all capacities during the fiscal year ending December 31, 2007, together with the options granted in 2006.

Summary Compensation Table

| Name | Aggregate Compensation from the Company | Pension or Retirement Benefits Accrued as Part of Company Expenses | Options Granted | Directors' Fees by the Company |
|-----------------------------------|---|--|-----------------|--------------------------------|
| Independent Directors: | | | | |
| C. Michael Jacobi | — | — | — | 33,000 |
| Albert G. Pastino | — | — | — | 43,000 |
| C. Turney Stevens | — | — | — | 33,000 |
| Gary Cademartori | — | — | — | 33,000 |
| Non-Independent Directors: | | | | |
| Christopher Lacovara | (1) | (1) | 250,000 | (1) |
| James A. Kohlberg | (1) | (1) | 5,000 | (1) |
| Samuel P. Frieder | (1) | (1) | 5,000 | (1) |
| Executive Officers | | | | |
| Dayl W. Pearson | \$ 650,000(2) | 29,000(2)(4) | 250,000 | — |
| E.A. Kratzman | \$ 800,000(2)(3) | 29,000(2)(4) | 150,000 | — |
| Michael I. Wirth | \$ 600,000(2) | 29,000(2)(4) | 150,000 | — |

- (1) Non-independent directors do not receive any cash compensation or pension or retirement benefits from the Company in respect of their services as director. They will receive compensation in respect of the services provided as an officer or employee of the Company.
- (2) We were formed in August 2006, and no compensation was paid in the fiscal year ended December 31, 2005. Amounts shown reflect our estimate of aggregate compensation to be paid in the fiscal year ending December 31, 2007. As of September 30, 2006, Katonah Debt Advisors had paid aggregate compensation of \$177,308 and \$812,500 to Messrs. Pearson and Kratzman, respectively, for the current fiscal year.
- (3) Mr. Kratzman does not receive compensation as an officer of the Company. The amount shown reflects expected compensation to be paid to Mr. Kratzman by Katonah Debt Advisors.
- (4) Messrs. Pearson, Kratzman and Wirth received compensation pursuant to the Katonah Debt Advisors Money Purchase Pension Plan and the Katonah Debt Advisors Employee Savings and Profit Sharing Plan.

Compensation of Portfolio Management Employees

Our portfolio is managed by our Investment Committee, consisting of Christopher Lacovara, Samuel P. Frieder, Dayl W. Pearson, R. Jon Corless and E.A. Kratzman. Messrs. Pearson, Corless and Kratzman are compensated in the form of annual salaries, annual cash bonuses based on performance and long-term compensation in the form of stock option grants. Messrs. Lacovara and

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Frieder will not receive any cash compensation for their service on the Investment Committee but will receive stock option grants in respect of their services as officers of the Company.

Salaries and Annual Bonus

The Compensation Committee of our Board of Directors meets with our CEO to receive his recommendations regarding the salary and annual bonus for each member of the Investment Committee other than the CEO. The committee also considers the recent performance of our portfolio of investments and our profitability in light of general economic and competitive conditions. Based on this information and any other considerations it deems relevant, the Compensation Committee sets salaries and annual bonus guidelines in its sole discretion.

Long Term Compensation

Long-term performance-based compensation generally includes stock option grants under our Equity Incentive Plan. Stock option grants to each Investment Committee member are based on criteria established by the Compensation Committee, including responsibility level, salary level, committee member performance, overall investment portfolio performance and overall profitability.

Option Grants in Fiscal 2006

Option Grants in Fiscal 2006

| Name | Number of Securities Underlying Option | Percent of Total Options Granted to Employees in Fiscal Year | Exercise Price (\$/Sh) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽¹⁾ | |
|----------------------|--|--|------------------------|-----------------|---|-------------|
| | | | | | 5% | 10% |
| Christopher Lacovara | 250,000 ⁽²⁾ | 19.53% | \$ 15.00 | 12/11/2016 | \$2,358,355 | \$5,976,534 |
| Dayl W. Pearson | 250,000 ⁽³⁾ | 19.53% | \$ 15.00 | 12/11/2016 | \$2,358,355 | \$5,976,534 |
| E.A. Kratzman | 150,000 ⁽⁴⁾ | 11.72% | \$ 15.00 | 12/11/2016 | \$1,415,013 | \$3,585,921 |
| Michael I. Wirth | 150,000 ⁽³⁾ | 11.72% | \$ 15.00 | 12/11/2016 | \$1,415,013 | \$3,585,921 |
| R. Jon Corless | 100,000 ⁽³⁾ | 7.81% | \$ 15.00 | 12/11/2016 | \$ 943,342 | \$2,390,614 |
| James A. Kohlberg | 5,000 ⁽²⁾ | * | \$ 15.00 | 12/11/2016 | \$ 47,167 | \$ 119,531 |
| Samuel P. Frieder | 5,000 ⁽²⁾ | * | \$ 15.00 | 12/11/2016 | \$ 47,167 | \$ 119,531 |

* Less than 1%.

- (1) The amounts shown on this table represent hypothetical gains that could be achieved for the respective options or warrants if exercised at the end of the term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options or warrants were granted to their expiration date. The gains shown are net of the applicable exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on exercises will depend on the future performance of our common stock, the holder's continued employment through the option or warrant period and the date on which the options or warrants are exercised. If our common stock does not increase in value after the grant date of the options and warrants, the options and warrants are valueless.
- (2) These options vest in two equal annual installments.
- (3) These options vest in four equal annual installments.
- (4) These options vest in three equal annual installments.

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Employment Agreements

We have entered into employment agreements with Messrs. Pearson, Wirth and Corless. Each of these employment agreements provides for a term ending on December 31, 2008. The term will be automatically extended for one year on January 1, 2009, and for successive one-year periods on January 1 of each subsequent year, unless either party to the employment agreement provides at least 30 days prior written notice of its decision not to extend the term of the employment agreement. Under their respective employment agreements, Messrs. Pearson, Wirth and Corless are entitled to receive an annual base salary of \$300,000, \$300,000 and \$200,000, respectively. If any of these executive officers is terminated other than for cause, such officer is entitled to the continued payment of his base salary and the employer portion of his health care premiums for six months, plus any accrued but unpaid base salary and bonus. Mr. Pearson's agreement grants him an option to purchase 250,000 shares of our common stock, Mr. Wirth's agreement grants him an option to purchase 150,000 shares of our common stock, and Mr. Corless's agreement grants him an option to purchase 100,000 shares of our common stock. These options vest in four equal annual installments. Each employment agreement also contains provisions governing death, disability, and non-competition covenants.

Katonah Debt Advisors and the Company have each entered into an employment agreement with Mr. Kratzman. Mr. Kratzman's agreement with Katonah Debt Advisors provides for a term ending on December 31, 2009. The term will be automatically extended for one year on January 1, 2010, and for successive one-year periods on January 1 of each subsequent year, unless previously terminated in writing by either party. Under the employment agreement, Mr. Kratzman is entitled to receive an annual salary of \$300,000 and is eligible for an annual bonus from Katonah Debt Advisors of not less than \$500,000 and not more than \$1,000,000 based on achievement of performance objectives. If Mr. Kratzman is terminated other than for cause, he is entitled to the continued payment of his base salary and the employer portion of his health care premiums for six months, plus any accrued but unpaid base salary and bonus. The agreement also contains provisions governing death, disability, and non-competition covenants. Mr. Kratzman's agreement with Kohlberg Capital provides for an indefinite term ending upon Mr. Kratzman's resignation, death or removal with or without cause. The agreement grants Mr. Kratzman an option to purchase 150,000 shares of our common stock, which option vests in three equal annual installments. The agreement also contains provisions regarding non-competition covenants.

Equity Incentive Plan

Our Board of Directors and our current stockholders have approved our Equity Incentive Plan, for the purpose of attracting and retaining the services of executive officers, directors and other key employees. Under our Equity Incentive Plan, our Board of Directors may award incentive stock options ("ISOs") within the meaning of Section 422 of the Code to employees, and nonstatutory stock options to employees and directors.

Under the Equity Incentive Plan, we have authorized for issuance up to 1,500,000 shares of common stock. Participants in the Equity Incentive Plan may receive awards of options to purchase our common stock, as determined by our Compensation Committee. Options granted under the Equity Incentive Plan generally may be exercised for a period of no more than ten years from the date of grant. Unless sooner terminated by our Board of Directors, the Equity Incentive Plan will terminate on the tenth anniversary of its adoption and no additional awards may be made under the Equity Incentive Plan after that date. The Equity Incentive Plan provides that all awards granted under the plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act applicable to us.

Options granted under the Equity Incentive Plan will entitle the optionee, upon exercise, to purchase shares of common stock from us at a specified exercise price per share. ISOs must have a per share exercise price of no less than the fair market value of a share of common stock on the date of the grant or, if the optionee owns or is treated as owning (under Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of our stock, 110% of the fair market value of a share of stock on the date of the grant. Nonstatutory stock options granted under the Equity Incentive Plan must have a per share exercise price of no less than the fair market value of a share of common stock on the date of the grant. Options will not be transferable other than by laws of descent and distribution, or in the case of nonstatutory stock options, by gift, and will generally be exercisable during an optionee's lifetime only by the optionee.

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Our Board of Directors administers the Equity Incentive Plan and has the authority, subject to the provisions of the Equity Incentive Plan, to determine who will receive awards under the Equity Incentive Plan and the terms of such awards. Our Board of Directors will adjust the number of shares available for awards, the number of shares subject to outstanding awards and the exercise price for awards following the occurrence of certain specified events such as stock splits, dividends, distributions and recapitalizations. The exercise price of an option may be paid in the form of shares of stock that are already owned by such optionholder.

Upon specified covered transactions (as defined in the Equity Incentive Plan), all outstanding awards under the Equity Incentive Plan may either be assumed or substituted for by the surviving entity. If the surviving entity does not assume or substitute similar awards, the awards held by the participants will be accelerated in full and then terminated to the extent not exercised prior to the covered transaction.

Awards under the Equity Incentive Plan will be granted to our executive officers and other employees as determined by our Board of Directors at the time of each issuance. As of March 16, 2007, the Board of Directors had approved the grant of, and we have granted, options to purchase an aggregate of 1,280,000 shares of our common stock.

The exercise price per share for all such options is equal to the closing price of our common stock on the Nasdaq Global Market on the date of grant, or our initial public offering price in the case of the options granted at the time of our initial public offering. The outstanding options granted to our executive officers and other employees represent approximately 7% of our fully-diluted equity capitalization. The options granted to our executive officers and employees will generally vest over three or four years and the options granted to Messrs. Kohlberg, Frieder and Lacovara will vest over two years. We expect that, subject to compliance with applicable regulations governing BDCs, we will grant additional awards to our officers and employees. We further expect that, subject to our receipt of exemptive relief from the SEC, we will grant options to our independent directors which will generally vest over two years.

Under current SEC rules and regulations applicable to BDCs, a BDC may not grant options to directors who are not officers or employees of the BDC. We have applied for exemptive relief from the SEC to permit us to grant options to purchase shares of our common stock to our independent directors as a portion of their compensation for service on our Board of Directors. Similarly, under the 1940 Act, BDCs cannot issue stock for services. We also have applied for exemptive relief from the SEC to permit us to grant restricted stock or other non-option stock-based compensation in exchange for or in recognition of services. We cannot provide any assurance that we will receive the exemptive relief from the SEC in either case.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

In connection with our Restructuring and our initial public offering we entered into a Transitional Services agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. agreed to continue to provide us with accounting services, cash management and budgeting services, tax services, internal legal services, payroll administration and other human resource services and intellectual technology services for a period of up to six months from the date of our initial public offering (the "Transition Services Agreement"). In addition, under this agreement and during this period, Kohlberg & Co. agreed to continue the participation of our employees in Kohlberg & Co.'s medical, dental, retirement and other benefit plans until they can be transitioned to similar plans of the Company and to continue to maintain the participation of the Company in Kohlberg & Co. insurance programs until the Company has established its own insurance programs. As of March 16, 2007, the transition period was near complete, and Kohlberg & Co. was only providing us with certain human resources services and tax services. Kohlberg & Co. does not receive any fees under the Transition Services Agreement and receives only a reimbursement of expenses incurred in connection with providing the transition services.

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

Certain entities and affiliates of Kohlberg & Co. together own, in the aggregate, approximately 19% of our outstanding common stock, 57,555 shares of which are being registered for resale pursuant to this prospectus. See "Restructuring."

We used the net proceeds of our initial public offering to acquire a portfolio of approximately \$185 million in aggregate principal amount of senior secured loans that were originated during 2006 by Katonah Debt Advisors' middle market lending group and are held by a special purpose vehicle organized by Katonah Debt Advisors. These loans were acquired by us for cash at their fair market value, as determined by our Board of Directors, which approximated the cost of acquisition by such special purpose vehicle. The purchase of these loans was financed with a credit facility and the proceeds that we paid to the special purpose vehicle in order to acquire these loans was used by that entity to repay the facility.

Under the 1940 Act we will not be permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment unless we obtain SEC exemptive relief.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

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

The following table sets forth, as of December 31, 2006, information with respect to the beneficial ownership of our common stock by:

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

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of December 31, 2006 are deemed to be outstanding and beneficially owned by the person holding such options or warrants. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 17,946,333 shares of common stock outstanding.

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

| Name and Address | Number of Shares | Percentage of Class | Dollar Range of Equity Securities |
|--|---------------------|------------------------|---|
| Principal Stockholders: | | | |
| T. Rowe Price Associates, Inc.(1) | 1,535,500 | 9.0% | |
| Directors and Executive Officers: | | | |
| C. Michael Jacobi | — | — | — |
| Albert G. Pastino | — | — | — |
| C. Turney Stevens | — | — | — |
| Gary Cademartori | | | |
| James A. Kohlberg (2)(4) | 2,017,164 | 11.2% | > \$100,000 |
| Christopher Lacovara (3)(4) | 462,134 | 2.6% | > \$100,000 |
| Samuel P. Frieder (3)(4) | 462,134 | 2.6% | > \$100,000 |
| E.A. Kratzman (4) | 94,272 | * | > \$100,000 |
| Michael I. Wirth (4) | — | — | — |
| Dayl W. Pearson (4) | — | — | — |
| R. Jon Corless (4) | — | — | — |
| David J. Duncan | — | — | — |
| Philip Theoharides | — | — | — |
| Directors and Executive Officers as a Group (13 persons) | 3,035,704 | 16.9% | > \$100,000 |

* Less than 1%.

- (1) The information about T. Rowe Price Associates, Inc. is based solely on information filed by T. Rowe Price Associates, Inc. with the SEC on Schedule 13G. T. Rowe Price Associates, Inc. indicated that it has sole dispositive power as to 1,535,500 shares of our common stock and has sole voting power as to 980,700 of those shares.

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- (2) Includes 1,258,000 shares of common stock held by the KKAT Entities as follows: 300,000 shares of common stock held by KKAT Acquisition Company III, LLC, 210,000 shares of common stock held by KKAT Acquisition Company IV, LLC, 221,333 shares of common stock held by KKAT Acquisition Company V, LLC, 300,000 shares of common stock held by KKAT Acquisition Company VII, LLC and 226,667 shares of common stock held by KKAT Acquisition Company VIII, LLC, as to which Mr. Kohlberg has both voting and dispositive power. Mr. Kohlberg disclaims beneficial ownership of the shares held by KKAT Acquisition Company III, LLC, KKAT Acquisition Company IV, LLC, KKAT Acquisition Company V, LLC, KKAT Acquisition Company VII, LLC and KKAT Acquisition Company VIII, LLC (collectively, the “KKAT Entities”), except to the extent of his pecuniary interest therein. Excludes shares of our common stock owned by KAT Associates, LLC. Mr. Kohlberg is a beneficiary under certain trusts that are members of KAT Associates, LLC and, as such, may have a pecuniary interest in a portion of such shares.
- (3) Excludes shares of common stock held by the KKAT Entities. Messrs. Lacovara and Frieder are members of the KKAT Entities and therefore may have a pecuniary interest in certain of the shares held by the KKAT Entities. Messrs. Lacovara and Frieder disclaim beneficial ownership of the shares held by the KKAT Entities except to the extent of their respective pecuniary interests therein.
- (4) Excludes shares of common stock issuable upon the exercise of unvested options granted under our Equity Incentive Plan. See “Management—Equity Incentive Plan.” As of December 31, 2006, we had granted options to purchase 250,000, 250,000, 150,000, 150,000, 100,000, 5,000 and 5,000 shares to Messrs. Lacovara, Pearson, Kratzman, Wirth, Corless, Kohlberg and Frieder, respectively. See “—Compensation of Portfolio Management Employees—Option Grants in Fiscal 2006.”

SELLING SHAREHOLDERS

Below is information with respect to the number of shares of common stock and stock options owned by the selling stockholder. The selling stockholder may offer the shares of common stock for resale from time to time. See “Plan of Distribution.”

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

| Name | Shares Owned and Ownership Percentage Prior to this Offering | | Shares Offered Hereby | Shares Owned and Ownership Percentage After this Offering | |
|---------------|--|------------|-----------------------|---|------------|
| | Shares | Percentage | | Shares | Percentage |
| E.A. Kratzman | 94,272 | * | 57,555 | 36,717(1) | * |

* Less than one percent (1%).

(1) Assumes all shares offered by the selling stockholder hereunder are sold and excludes 150,000 shares of common stock issuable upon the exercise of an unvested option granted to Mr. Kratzman under the Equity Incentive Plan. See “Management—Equity Incentive Plan” and “—Compensation of Portfolio Management Employees—Option Grants in Fiscal 2006.”

DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of December 31, 2006, we did not have any preferred stock outstanding.

Value, as defined in Section 2(a)(41) of 1940 Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value as determined in good faith by our Board of Directors, based on the recommendations of the Valuation Committee of the Board of Directors. Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment. Preliminary valuation conclusions will then be documented and discussed with our senior management. The Valuation Committee of our Board of Directors will review these preliminary valuations and make recommendations to our Board of Directors. Where appropriate, the Valuation Committee may utilize an independent valuation firm selected by the Board of Directors. The Valuation Committee is currently in the process of selecting an independent valuation firm to assist with the periodic valuation of our illiquid securities. The Board of Directors will discuss valuations and will determine the fair value of each investment in our portfolio in good faith based on the recommendations of the Valuation Committee.

Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined under our procedures may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

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

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

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

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

DIVIDEND REINVESTMENT PLAN

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

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

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

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

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

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

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

REGULATION

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

A BDC is a unique kind of investment company that primarily focuses on investing in or lending to private companies and making managerial assistance available to them. A BDC provides stockholders with the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage privately-owned companies. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of (i) 67% or more of such company’s shares present at a meeting or represented by proxy if more than 50% of the outstanding shares of such company are present or represented by proxy or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

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

- Securities of an “eligible portfolio company” purchased in transactions not involving any public offering. An “eligible portfolio company” is defined in the 1940 Act as any issuer which:
 - (a) is organized under the laws of, and has its principal place of business in, the United States;
 - (b) is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - (c) satisfies any of the following:
 - (i) does not have outstanding any class of securities with respect to which a broker or dealer may extend margin credit;
 - (ii) is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company;
 - (iii) is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million; or
 - (iv) does not have any class of securities listed on a national securities exchange.
- Securities of any eligible portfolio company that we control;
- Securities purchased in a private transaction from a U.S. issuer that is not an investment company and is in bankruptcy and subject to reorganization;
- Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the conversion of warrants or rights relating to such securities;
- Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment; and
- Under certain circumstances, securities of companies that were eligible portfolio companies at the time of the initial investment but that are not eligible portfolio companies at the time of the follow-on investment.

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

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See “Risk Factors—Risks Related to Our Operations as a BDC—If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy” above for a discussion of the possible impact of any failure to invest a sufficient portion of our assets in qualifying assets.

Significant Managerial Assistance

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

Temporary Investments

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

Senior Securities; Coverage Ratio

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, with respect to certain types of senior securities, we must make provisions to prohibit any dividend distribution to our stockholders or the repurchase of certain of our securities, unless we meet the applicable asset coverage ratios at the time of the dividend distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes. For a discussion of the risks associated with the resulting leverage, see “Risk Factors—Risks Related to Our Business—If we incur additional debt, it could increase the risk of investing in our Company.”

Code of Ethics

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

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Privacy Principles

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

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

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

Proxy Voting Policies and Procedures

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

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

Other

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

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

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

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

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of certain material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, regulated investment companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as in effect as of March 16, 2007 and all of which are subject to change,

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possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the “IRS”) regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets in which we do not currently intend to invest.

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

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

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

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

Election to be Taxed as a Regulated Investment Company

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

Taxation as a Regulated Investment Company

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

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

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

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

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, with increasing interest rates or that are issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. We could also be subject to a federal income tax (including interest charges) on distributions received from investments in passive foreign investment companies “PFICs” (defined below) or on proceeds received from the disposition of shares in PFICs, which tax cannot be eliminated by making distributions to our shareholders. A PFIC is any foreign corporation in which (i) 75% or more of the gross income for the taxable year is passive income, or (ii) the average percentage of the assets (generally by value, but by adjusted tax basis in certain cases) that produce or are held for the production of passive income is at least 50%. Generally, passive income for this purpose means dividends, interest (including income equivalent to interest), royalties, rents, annuities, the excess of gains over losses from certain property transactions and commodities transactions, and foreign currency gains. Passive income for this purpose does not include rents and royalties received by the foreign corporation from active business and certain income received from related persons. If we are in a position to treat and so treat such a PFIC as a “qualified electing fund” (“QEF”) we will be required to include our share of the company’s income and net capital gain annually, regardless of whether we receive any distribution from the company. Alternately, we may make an election to mark the gains (and to a limited extent losses) in such holdings “to the market” as though we had sold and repurchased our holdings in those PFICs on the last day of our taxable year. Such gains and losses are treated as ordinary income and loss. The QEF and mark-to-market elections may have the effect of accelerating the recognition of income (without the receipt of cash) and increasing the amount required to be distributed for us to avoid taxation.

We may also invest in “controlled foreign corporations” (“CFCs”). A non-U.S. corporation will be a CFC if “U.S. Shareholders” (i.e., each U.S. investor that owns (directly or by attribution) 10% or more of the interests in the non-U.S. corporation (by vote)) own (directly or by attribution) more than 50% (by vote or value) of the outstanding interests of the non-U.S. corporation. If we are a U.S.

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Shareholder with respect to a non-U.S. corporation, we will be required each year to include in income our pro rata share of the corporation's "Subpart F income" (as defined in the Code). Therefore, investments in CFCs may have the effect of accelerating the recognition of income (without the receipt of cash) and increasing the amount required to be distributed for us to avoid taxation.

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

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

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

Failure to Qualify as a Regulated Investment Company

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

net built-in gains in the assets held by us during the period in which we failed to qualify for tax treatment as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

Taxation of U.S. Stockholders

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

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

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared. A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year.

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Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss. For taxable years beginning before January 1, 2011, individual U.S. stockholders are subject to a maximum federal income tax rate of 15% on their net capital gain (*i.e.*, the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year (\$1,500 for married individuals filing separately); any net capital losses of a non-corporate stockholder in excess of \$3,000 (\$1,500 for married individuals filing separately) generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

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

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

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

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a non-U.S. stockholder will depend upon that person's particular circumstances. Non-U.S. stockholders should consult their tax advisors before investing in our common stock. In general, dividend

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

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

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

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

DESCRIPTION OF CAPITAL STOCK

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

Stock

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.01 per share, of which 17,946,333 shares were outstanding as of December 31, 2006, and 5,000,000 shares of preferred stock, par value \$0.01 per share, of which none were outstanding as of December 31, 2006. Our common stock is traded on The Nasdaq Global Market under the symbol "KCAP." A total of 1,500,000 shares of our common stock have been authorized for issuance under the Equity Incentive Plan. Under Delaware law, our stockholders will not be personally liable for our debts or obligations solely based on their ownership of our common stock.

Set forth below is a chart describing the classes of our securities outstanding as of December 31, 2006:

| <u>(1)</u> | <u>(2)</u> | <u>(3)</u> | <u>(4)</u> |
|-----------------------|--------------------------|---|--|
| <u>Title of Class</u> | <u>Amount Authorized</u> | <u>Amount Held by Us or for our Account</u> | <u>Amount Outstanding Exclusive of Amount Under Column (3)</u> |
| Common Stock | 100,000,000 | — | 17,946,333 |
| Preferred Stock | 5,000,000 | — | — |

Common Stock

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

Preferred Stock

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

Every issuance of preferred stock will be required to comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are unpaid in an amount equal to two full years'

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dividends, and to continue to be so represented until all dividends in arrears shall have been paid or otherwise provided for. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. Although, at this time, we do not expect to issue preferred stock, we believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

Registration Rights

In connection with our Restructuring, we entered into a registration rights agreement with certain affiliates of Kohlberg & Co. who hold shares of our common stock. Pursuant to the registration rights agreement, we have agreed that, upon demand by the holders of a specified percentage of these shares, we will file a registration statement to cover resales of the shares of common stock held by the requesting stockholders. In addition, pursuant to the registration rights agreement, we have agreed to grant these holders piggyback registration rights to include the shares held by these holders in any registration statement that we file for newly issued shares of our common stock, subject to certain exceptions. All expenses incurred in connection with these registrations will be borne by the Company. Holders of approximately 3,484,333 shares of our common stock are, subject to the lock-up agreements described in “Shares Eligible for Future Sale,” entitled to have such shares included in any such registration statement.

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

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

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

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

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

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Act provides, among other things, that a company may not indemnify any director or officer against liability to it or its stockholders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

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

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

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

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

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

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

Our certificate of incorporation and bylaws also provide that:

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

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

Delaware's law generally provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws requires a greater percentage. Under our certificate of incorporation and bylaws, the affirmative vote of the holders of at least 75% of the shares of our capital stock entitled to vote will be required to amend or repeal any of the provisions of our bylaws. Moreover, our bylaws

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

SHARES ELIGIBLE FOR FUTURE SALE

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

We, our executive officers and directors and certain other stockholders have agreed with the underwriters who underwrote our initial public offering not to sell any shares of our common stock, other than an aggregate of 433,333 shares of our common stock which were only subject to a lock-up period that ended on March 12, 2007 and as to which we have filed a registration statement (of which this prospectus forms a part) covering the resale of 57,555 of such shares to enable the holder of such shares to fund certain tax liabilities arising out of the Restructuring, that we or they own for a period of either 360 days or 180 days from December 11, 2006, the date of the prospectus for our initial public offering, as described below. This agreement, referred to as a “lock-up agreement,” may be waived by Lehman Brothers, Inc. as representative of the underwriters of our initial public offering. Notwithstanding the foregoing, we are permitted, pursuant to the terms of our lock-up agreement, to file, and we have filed, a shelf registration statement (of which this prospectus is a part) covering 57,555 shares of our common stock outstanding prior to our initial public offering.

As a result of the issuance of 14,462,000 shares of common stock in our initial public offering, we have 17,946,333 shares of our common stock outstanding, of which 3,484,333 shares are “restricted” securities within the meaning of Rule 144 promulgated under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including exemptions contained in Rule 144. Pursuant to a registration rights agreement, we have agreed to file one or more registration statements in respect of the shares of common stock that are restricted securities.

In general, under Rule 144 as currently in effect, if one year has elapsed since the date of acquisition of restricted securities from us or any of our affiliates, the holder of such restricted securities can sell such securities; provided that the number of securities sold by such person within any three-month period cannot exceed the greater of:

- 1% of the total number of securities then outstanding, or
- the average weekly trading volume of our securities during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

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

Lock-Up Agreements

Our executive officers and directors and certain of our other stockholders who hold in the aggregate 1,961,840 shares of our common stock are subject to agreements with the underwriters of our initial public offering that restrict their ability to transfer shares of our common stock for a period of up to 360 days from December 11, 2006, the date of the prospectus for our initial public offering, other than with respect to an aggregate of 433,333 shares of our common stock held by such stockholders that are subject only to a lock-up that ended on March 12, 2007 to enable such holders to fund certain tax liabilities arising out of the Restructuring. We and all of our other stockholders who received an aggregate of 1,522,493 shares of our common stock in the Restructuring are subject to agreements with the underwriters of our initial public offering that restrict our and

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their ability to transfer shares of our common stock for a period of up to 180 days from December 11, 2006, the date of the prospectus for our initial public offering. After all of the lock-up agreements expire on December 11, 2007, an aggregate of 3,484,333 additional shares will be eligible for sale in the public market in accordance with Rule 144 under the Securities Act, assuming none of the 57,555 shares registered hereby are sold hereunder. These lock-up agreements provide that these persons will not offer, sell, contract to sell, pledge (other than to us), hedge or otherwise dispose of our common stock or any securities convertible into or exchangeable for our common stock, owned by them for a period specified in the agreement without the prior written consent of Lehman Brothers Inc, one of the underwriters of our initial public offering.

Stock Options

As of March 16, 2007, there were options to purchase 1,280,000 shares of our common stock outstanding under our Equity Incentive Plan. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates and, in the case of some of the options, the expiration of lock-up agreements.

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

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, we do not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we will generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided.

PLAN OF DISTRIBUTION

We previously issued shares representing 3,484,333 shares of our common stock to affiliates of Kohlberg & Co. in connection with the Restructuring. The underwriting agreement and the related lock-up agreement that we entered into in connection with our initial public offering permit the registration of up to 433,333 of those 3,484,333 shares of common stock after a 90-day lock-up period that ended on March 12, 2007, to enable our executive officers and directors and certain of our other stockholders to fund certain tax liabilities arising out of our Restructuring. This prospectus relates to the offer and sale of up to 57,555 of such 433,333 shares of our common stock. The registration of the common stock does not necessarily mean that any or all of the shares will be offered or sold by the selling stockholder under this prospectus.

The selling stockholder and his pledgees, donees, transferees or other successors in interest may offer their shares at various times in one or more of the following transactions:

- a block trade on The Nasdaq Global Market or other market on which the shares may at the time be traded in which the broker-dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this prospectus;
- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- privately negotiated transactions between the selling stockholder and a purchaser without the involvement of a broker-dealer;
- through the writing of options or short sales;
- any combination of the above; and
- through any other method permitted pursuant to applicable law.

The sale price to the public may be the market price prevailing at the time of sale, a price relating to such prevailing market price or such other price as the selling stockholder determines from time to time.

The selling stockholder may also sell the shares directly to market makers acting as principals or broker-dealers acting as agents for themselves or their customers. Brokers acting as agents for the selling stockholder will receive usual and customary commissions for brokerage transactions, and market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that the selling stockholder will attempt to sell the shares in block transactions to market makers or other purchasers at a price per share which may be below the then market price. In addition, any shares covered by this prospectus may also be sold under Rule 144 promulgated under the Securities Act, rather than pursuant to this prospectus, provided such sales meet the criteria, including the minimum holding period, and otherwise conform to the requirements of Rule 144. There can be no assurance that all or any of the shares offered hereby will be sold by the selling stockholder.

Upon being notified by the selling stockholder that any material arrangement has been entered into with a broker or dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplemental prospectus, if required, pursuant to Rule 497 of the Securities Act, disclosing: (a) the name of each broker or dealer; (b) the number of shares involved; (c) the price at which the shares were sold; (d) the commissions paid or discounts or concessions allowed to the broker(s) or dealer(s), where applicable; (e) that the broker(s) or dealer(s) did not conduct any investigation to verify the information set out in this prospectus, as supplemented; and (f) other facts material to the transaction. To comply with the securities laws of various jurisdictions, the shares offered by this prospectus may need to be offered or sold in such jurisdictions only through registered or licensed brokers or dealers. The selling stockholder and any other persons participating in the sale or distribution of the shares of our common stock will be subject to the relevant provisions of the Exchange Act, and the rules and regulations thereunder, which provisions may limit the timing of purchases and sales of any of the shares by the selling stockholder or any other person. The foregoing may affect the marketability of such shares and the ability of any person or entity to engage in market-making activities with respect to such shares.

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We are bearing all costs relating to the registration of the shares offered pursuant to this prospectus. The selling stockholder has agreed to suspend use of this prospectus for limited periods upon notification that actions, such as amending or supplementing this prospectus, are required in order to comply with federal or state securities laws.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

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

LEGAL MATTERS

Certain legal matters regarding the common stock offered by this prospectus will be passed upon for us by Ropes & Gray LLP, Boston, Massachusetts.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of August 17, 2006 and for the period from August 8, 2006 (inception date) to August 17, 2006 included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and have been so included in reliance on the report of such firm given upon their authority as experts in auditing and accounting. The principal business address of Deloitte & Touche LLP is Two World Financial Center, New York, New York 10281.

AVAILABLE INFORMATION

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

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

INDEX TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

| | |
|---|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Statement of Assets, Liabilities, and Member's Capital of Kohlberg Capital, LLC as of August 17, 2006 | F-3 |
| Statement of Operations of Kohlberg Capital, LLC for the Period from August 8, 2006 (Inception) through August 17, 2006 | F-4 |
| Statement of Cash Flows of Kohlberg Capital, LLC for the Period from August 8, 2006 (Inception) through August 17, 2006 | F-5 |
| Statement of Members' Capital of Kohlberg Capital, LLC for the Period from August 8, 2006 (Inception) through August 17, 2006 | F-6 |
| Notes to Consolidated Financial Statements | F-7 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Managers and Members of
Kohlberg Capital, LLC
New York, NY

We have audited the accompanying statement of assets, liabilities and member's capital of Kohlberg Capital, LLC as of August 17, 2006, and the related statements of operations, cash flows and statement of members' capital for the period August 8, 2006 (inception date) to August 17, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Kohlberg Capital, LLC as of August 17, 2006, the results of its operations, its cash flows and the changes in members' capital for the period August 8, 2006 (inception date) to August 17, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP

November 17, 2006

KOHLBERG CAPITAL, LLC
STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' CAPITAL

| | August 17, 2006 |
|---|--------------------|
| ASSETS | |
| Current Assets | |
| Cash | \$ 1,000 |
| Due from Katonah Debt Advisors | 52,119 |
| Total Current Assets | 53,119 |
| Other Assets | |
| Deferred Offering Costs | 543,676 |
| Total Other Assets | 543,676 |
| TOTAL ASSETS | <u>\$ 596,794</u> |
| LIABILITIES & MEMBERS' CAPITAL | |
| Current Liabilities | |
| Accrued Expenses | \$ 571,719 |
| Due to Katonah Debt Advisors | 24,075 |
| Total Current Liabilities | 595,794 |
| Members' Capital | |
| Capital Contributed | 1,000 |
| Net Income (Loss) | — |
| Total Members' Capital | 1,000 |
| TOTAL LIABILITIES & MEMBERS' CAPITAL | <u>\$ 596,794</u> |

KOHLBERG CAPITAL, LLC
STATEMENT OF OPERATIONS

**For the Period August 8,
2006 (Inception)
through August 17, 2006**

| | |
|--|-------------|
| INCOME | |
| Interest & Dividends | |
| Interest | \$ — |
| Total Interest & Dividends | — |
| TOTAL INCOME | — |
| EXPENSES | |
| Organizational Expenses | |
| Accounting fees | 10,000 |
| Legal fees | 10,000 |
| Recruiting fees | 32,119 |
| Reimbursement from Katonah Debt Advisors | (52,119) |
| TOTAL EXPENSES | — |
| NET INCOME (LOSS) | \$ — |

KOHLBERG CAPITAL, LLC
STATEMENT OF CASH FLOWS

**For the Period August 8,
2006 (Inception)
through August 17, 2006**

| OPERATING ACTIVITIES | |
|---|------------------------|
| Net Income (Loss) | \$ — |
| <i>Adjustments to Reconcile Net Income (Loss) to Net Cash Used in Operating Activities:</i> | |
| Increase in Deferred Offering Cost | (543,676) |
| Net (Increase) Decrease in Due from Katonah Debt Advisors | (52,118) |
| Net Increase (Decrease) in Due to Katonah Debt Advisors | 24,075 |
| Increase (Decrease) in Accrued Expenses | 571,719 |
| Net Cash Used in Operating Activities | <u>—</u> |
| FINANCING ACTIVITIES | |
| Contributions from Members | 1,000 |
| Net Cash Provided by Financing Activities | <u>1,000</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,000 |
| Cash, Beginning Balance | <u>—</u> |
| Cash, Ending Balance | <u><u>\$ 1,000</u></u> |

KOHLBERG CAPITAL, LLC
STATEMENT OF MEMBERS' CAPITAL

| | For the Period August 8, 2006 (Inception) through August 17, 2006 |
|--|--|
| BEGINNING CAPITAL—AUGUST 8, 2006 (Inception) | \$ — |
| Capital Contributions | 1,000 |
| Net Income from Operations | — |
| Capital Distributions | — |
| ENDING CAPITAL—AUGUST 17, 2006 | <u>\$ 1,000</u> |

KOHLBERG CAPITAL, LLC
(a Delaware limited liability company)

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Kohlberg Capital, LLC (the “LLC”) was organized on August 8, 2006 as a Delaware limited liability company. The LLC is a newly non-diversified closed-end investment company that intends to elect to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended, prior to the IPO. The Company intends to raise common equity in an initial public offering (“IPO”) which is anticipated to be finalized in the fourth quarter of 2006. In connection with the IPO, the LLC will convert, in accordance with Delaware Law, to a Delaware corporation to be named Kohlberg Capital Corporation (“the Company”).

Other than the capitalization of the LLC by its members and certain organizational costs and registration fees related to the pending IPO, the LLC has not commenced operations.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income or loss and expenses during the reporting period. Actual results could differ from those estimates.

3. AGREEMENTS

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

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

The LLC has also entered into a transition services agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. will provide accounting services, cash management and budgeting services, tax services, internal legal services, payroll administration and other human resource services and intellectual technology services for a period of up to six months from the date of the agreement. Kohlberg & Co. will not receive a fee for such services but will be reimbursed for any normal out of pocket expenses that it incurs.

4. ORGANIZATIONAL AND OFFERING EXPENSES

A portion of the net proceeds of the proposed IPO will be used to pay offering costs. Offering costs will be charged against proceeds from the IPO when received and organizational expenses will be treated as an expense in the year incurred. Katonah Debt Advisors, an affiliate of the Company, has agreed to pay organizational expenses on behalf of the Company, and to be subsequently reimbursed through the proceeds of the offering. Offering costs are currently estimated to be \$16.2 million. Such offering and organization expenses reflect management’s best estimate and are subject to change upon the completion of the IPO and conclusion of the organization process. In the event the IPO does not occur, the LLC will not incur all such expenses and may not be able to pay expenses that are incurred.

KOHLBERG CAPITAL, LLC
(a Delaware limited liability company)

NOTES TO FINANCIAL STATEMENTS—(Continued)

5. FEDERAL INCOME TAXES

No provision for federal, state and local income taxes has been made in the accompanying financial statements, as partners are individually liable for their own tax payments.

When the LLC converts to a corporation it intends to file an election to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and, among other things, intends to make the requisite distributions to its stockholders which will relieve it from Federal income or excise taxes. Therefore, no provision is anticipated to be recorded for Federal income or excise taxes.

57,555 Shares

KOHLBERG
CAPITAL CORPORATION

Common Stock

PROSPECTUS

, 2007

PART C—OTHER INFORMATION**Item 25. Financial Statements and Exhibits****1. Financial Statements**

The following financial statements of the Company are included in this registration statement:

AUDITED FINANCIAL STATEMENTS

| | |
|---|-----|
| Index to Financial Statements | F-1 |
| Report of Independent Registered Public Accounting Firm | F-2 |
| Statement of Assets, Liabilities, and Members' Capital | F-3 |
| Statement of Operations | F-4 |
| Statement of Cash Flows | F-5 |
| Statement of Members' Capital | F-6 |
| Notes to Financial Statements | F-7 |

2. Exhibits

| Exhibit Number | Description |
|-----------------------|--|
| a | Form of Certificate of Incorporation of Kohlberg Capital Corporation (the "Company"). (1) |
| b | Form of Bylaws of the Company. |
| d.1 | Specimen certificate of the Company's common stock, par value \$0.01 per share. (1) |
| d.2 | Form of Registration Rights Agreement. (2) |
| e | Form of Dividend Reinvestment Plan. (2) |
| i.1 | Form of the 2006 Equity Incentive Plan. (2) |
| i.2 | Form of Kohlberg Capital Non-Qualified Stock Option Certificate. (2) |
| j | Form of Custodian Agreement by and among Kohlberg Capital Corporation and U.S. Bank National Association. (2) |
| k.1 | Form of Amended and Restated Irrevocable Exchange and Subscription Agreement—Katonah Debt Advisors, effective as of August 17, 2006 between Katonah Capital, LLC, James A. Kohlberg and KAT Associates LLC. (2) |
| k.2 | Form of Irrevocable Exchange and Subscription Agreement—CDO Securities, dated August 17, 2006 between Kohlberg Capital, LLC, KKAT Acquisition Company III, LLC, KKAT Acquisition Company IV, LLC, KKAT Acquisition Company V, LLC, KKAT Acquisition Company VII, LLC and KKAT Acquisition Company VIII, LLC. (1) |
| k.3 | Form of Transition Services Agreement between the Company and Kohlberg & Company, LLC. (1) |
| k.4 | Form of License and Referral Agreement between the Company and Kohlberg & Company, LLC. (1) |
| k.5 | Form of Overhead Allocation Agreement between the Company and Katonah Debt Advisors, LLC. (2) |
| k.6 | Form of Employment Agreement between Kohlberg Capital Corporation and Dayl W. Pearson. (2) |
| k.7 | Form of Employment Agreement between Kohlberg Capital Corporation and Michael I. Wirth. (2) |
| k.8 | Form of Employment Agreement between Kohlberg Capital Corporation and R. Jon Corless. (2) |

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- k.9 Form of Employment Agreement between Kohlberg Capital Corporation and E.A. Kratzman. (2)
 - k.10 Form of Employment Agreement between Katonah Debt Advisors and E.A. Kratzman. (3)
 - k.11 Form of Indemnification Agreement for Officers and Directors of the Company. (3)
 - k.12 Form of Loan Funding and Servicing Agreement dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I, Kohlberg Capital Corporation, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Services, and U.S. Bank National Association, as Trustee. (4)
 - k.13 Form of Purchase and Sale Agreement dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I and Kohlberg Capital Corporation. (4)
 - l Opinion of Ropes & Gray LLP, counsel to the Registrant.
 - n.1 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
 - n.2 Consent of Ropes & Gray LLP, counsel to the Registrant (included in Exhibit I).
 - r Form of Code of Ethics of the Company adopted under Rule 17j-1. (2)
-
- 1. Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1, as filed on October 6, 2006 (File No. 333-136714).
 - 2. Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 2, as filed on November 20, 2006 (File No. 333-136714).
 - 3. Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 3, as filed on November 24, 2006 (File No. 333-136714).
 - 4. Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, as filed on February 16, 2007 (File No. 814-00735).

Item 26. Marketing Arrangements

None.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses payable by us in connection with the offering (excluding underwriting discounts and commissions):

| | <u>Amount</u> |
|------------------------------|-----------------|
| SEC registration fee | \$ 28 |
| Accounting fees and expenses | 2,500 |
| Legal fees and expenses | 25,000 |
| Printing expenses | 10,000 |
| Transfer Agent's fee | 1,000 |
| Miscellaneous | 1,472 |
| Total | <u>\$40,000</u> |

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The amounts set forth above, except for the Securities and Exchange Commission fee, are in each case estimated. All of the expenses set forth above shall be borne by the Registrant.

Item 28. Persons Controlled by or Under Common Control

The information contained under the heading “Control Persons and Principal Stockholders” is incorporated herein by reference.

Item 29. Number of Holders of Securities

The following table sets forth the number of record holders of the Registrant’s common stock on February 21, 2007.

| <u>Title of Class</u> | <u>Number of Record Holders</u> |
|-----------------------|---------------------------------|
| Common Stock | 5,078 |

Item 30. Indemnification

The information contained under the heading “Description of Capital Stock—Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses” is incorporated herein by reference.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the “Securities Act”) may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person in the successful defense of an action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Registrant carries liability insurance for the benefit of its directors and officers (other than with respect to claims resulting from the willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office) on a claims-made basis of up to \$10 million.

Item 31. Business and Other Connections of Investment Adviser

Not applicable.

Item 32. Location of Accounts and Records

Registrant maintains physical possession of each account, book or other document required to be maintained by Section 31(a) of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder at the offices of:

- (1) The Registrant, 295 Madison Avenue, 6th Floor, New York, New York 10017;
- (2) The Custodian, U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110; and
- (3) The Transfer Agent, American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038.

Item 33. Management Services

Not applicable.

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Item 34. Undertakings

1. The Registrant undertakes to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of this registration statement, the net asset value declines more than ten percent from the net asset value as of the effective date of this registration statement or (2) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.

2. The Registrant undertakes:

(a) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement (1) to include any prospectus required by Section 10(a)(3) of the Securities Act, (2) to reflect in the prospectus any facts or events after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement and (3) to include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement;

(b) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof; and

(c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

3. The Registrant undertakes that:

(a) for purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(b) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 16th day of March, 2007.

KOHLBERG CAPITAL CORPORATION

By: /s/ DAYL W. PEARSON
Name: Dayl W. Pearson
Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Dayl W. Pearson and Michael I. Wirth, and each of them, his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to this registration statement, and to file the same, with all exhibits thereto and all documents in connection therewith, making such changes in this registration statement as such person or persons so acting deems appropriate, with the Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his, her or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

* * * * *

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|--|--|----------------|
| <u>/s/ DAYL W. PEARSON</u> DAYL W. PEARSON | President and Chief Executive Officer (principal executive officer) | March 16, 2007 |
| <u>/s/ MICHAEL I. WIRTH</u> MICHAEL I. WIRTH | Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer (principal financial and accounting officer) | March 16, 2007 |
| <u>/s/ CHRISTOPHER LACOVARA</u> CHRISTOPHER LACOVARA | Director | March 16, 2007 |
| <u>/s/ JAMES A. KOHLBERG</u> JAMES A. KOHLBERG | Director | March 16, 2007 |
| <u>/s/ SAMUEL P. FRIEDER</u> SAMUEL P. FRIEDER | Director | March 16, 2007 |
| <u>/s/ GARY CADEMARTORI</u> GARY CADEMARTORI | Director | March 16, 2007 |
| <u>/s/ C. MICHAEL JACOBI</u> C. MICHAEL JACOBI | Director | March 16, 2007 |
| <u>/s/ ALBERT G. PASTINO</u> ALBERT G. PASTINO | Director | March 16, 2007 |
| <u>/s/ C. TURNEY STEVENS</u> C. TURNEY STEVENS | Director | March 16, 2007 |

INDEX OF EXHIBITS

| Exhibit Number | Description |
|-----------------------|---|
| a | Form of Certificate of Incorporation of Kohlberg Capital Corporation (the “Company”). (1) |
| b | Form of Bylaws of the Company. |
| d.1 | Specimen certificate of the Company’s common stock, par value \$0.01 per share. (1) |
| d.2 | Form of Registration Rights Agreement. (2) |
| e | Form of Dividend Reinvestment Plan. (2) |
| i.1 | Form of the 2006 Equity Incentive Plan. (2) |
| i.2 | Form of Kohlberg Capital Non-Qualified Stock Option Certificate. (2) |
| j | Form of Custodian Agreement by and among Kohlberg Capital Corporation and U.S. Bank National Association. (2) |
| k.1 | Form of Amended and Restated Irrevocable Exchange and Subscription Agreement—Katonah Debt Advisors, effective as of August 17, 2006 between Katonah Capital, LLC, James A. Kohlberg and KAT Associates LLC. (2) |
| k.2 | Form of Irrevocable Exchange and Subscription Agreement—CDO Securities, dated August 17, 2006 between Kohlberg Capital, LLC, KKAT Acquisition Company III, LLC, KKAT Acquisition Company IV, LLC, KKAT Acquisition Company V, LLC, KKAT Acquisition Company VII, LLC and KKAT Acquisition Company VIII, LLC. (1) |
| k.3 | Form of Transition Services Agreement between the Company and Kohlberg & Company, LLC. (1) |
| k.4 | Form of License and Referral Agreement between the Company and Kohlberg & Company, LLC. (1) |
| k.5 | Form of Overhead Allocation Agreement between the Company and Katonah Debt Advisors, LLC. (2) |
| k.6 | Form of Employment Agreement between Kohlberg Capital Corporation and Dayl W. Pearson. (2) |
| k.7 | Form of Employment Agreement between Kohlberg Capital Corporation and Michael I. Wirth. (2) |
| k.8 | Form of Employment Agreement between Kohlberg Capital Corporation and R. Jon Corless. (2) |
| k.9 | Form of Employment Agreement between Kohlberg Capital Corporation and E.A. Kratzman. (2) |
| k.10 | Form of Employment Agreement between Katonah Debt Advisors and E.A. Kratzman. (3) |
| k.11 | Form of Indemnification Agreement for Officers and Directors of the Company. (3) |
| k.12 | Form of Loan Funding and Servicing Agreement dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I, Kohlberg Capital Corporation, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Services, and U.S. Bank National Association, as Trustee. (4) |
| k.13 | Form of Purchase and Sale Agreement dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I and Kohlberg Capital Corporation. (4) |
| l | Opinion of Ropes & Gray LLP, counsel to the Registrant. |

Table of Contents

n.1 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.

n.2 Consent of Ropes & Gray LLP, counsel to the Registrant (included in Exhibit I).

r Form of Code of Ethics of the Company adopted under Rule 17j-1. (2)

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1. Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1, as filed on October 6, 2006 (File No. 333-136714).
 2. Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 2, as filed on November 20, 2006 (File No. 333-136714).
 3. Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 3, as filed on November 24, 2006 (File No. 333-136714).
 4. Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, as filed on February 16, 2007 (File No. 814-00735).

BYLAWS
OF
KOHLBERG CAPITAL CORPORATION

**ARTICLE I
OFFICES**

SECTION 1. Registered Office. The registered office of the Corporation in the State of Delaware shall be located at 1209 Orange Street, Wilmington, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company. The registered office and/or registered agent of the Corporation may be changed from time to time by action of the Board of Directors.

SECTION 2. Other Offices. The Corporation may have an office or offices other than said registered office at such place or places, either within or without the State of Delaware, as the Board of Directors shall from time to time determine or the business of the Corporation may require.

**ARTICLE II
MEETINGS OF STOCKHOLDERS**

SECTION 1. Place of Meetings. All meetings of the stockholders for the election of directors or for any other purpose shall be held at any such place, either within or outside the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver of notice thereof.

SECTION 2. Annual Meeting. An annual meeting of stockholders shall be held each year and stated in a notice of meeting or in a duly executed waiver thereof. The date, time and place of such meeting shall be determined by the Chief Executive Officer of the Corporation; provided that if the Chief Executive Officer does not act, the Board of Directors shall determine the date, time, and place of such meeting. At such annual meeting, the stockholders shall elect, by a plurality vote, the directors whose term expires at such annual meeting and transact such other business as may properly be brought before the meeting.

SECTION 3. Special Meetings. Special meetings of stockholders may be called for any purpose by the Board of Directors, the Chairman of the Board of Directors or the Chief Executive Officer and may be held on such date and at such time and place, either within or outside the State of Delaware, as shall be stated in a notice of meeting or in a duly executed waiver of notice thereof.

SECTION 4. Notice of Meetings. Except as otherwise expressly required by statute, written notice of each annual and special meeting of stockholders stating the date, time and place of the meeting (and, in the case of a special meeting, the purpose or purposes for which the meeting is called) shall be given to each stockholder of record entitled to vote thereat not less

than ten (10) nor more than sixty (60) days before the date of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice. Notice shall be given personally or by mail and, if by mail, shall be sent in a postage prepaid envelope, addressed to the stockholder at his address as it appears on the records of the Corporation. Notice by mail shall be deemed given at the time when the same shall be deposited in the United States mail, postage prepaid. Notice of any meeting shall not be required to be given to any person (a) who attends such meeting, except when such person attends the meeting in person or by proxy for the express purpose of objecting (at the beginning of the meeting) to the transaction of any business because the meeting is not lawfully called or convened, or (b) who (either before or after the meeting) shall submit a signed written waiver of notice thereof either in person or by proxy. Neither the business to be transacted at, nor the purpose of, an annual or special meeting of stockholders need be specified in any written waiver of notice.

SECTION 5. List of Stockholders. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before each meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 6. Quorum; Adjournments. Except where a greater percentage is required by law, the holders of a majority of the voting power of the issued and outstanding stock of the Corporation entitled to vote thereat (present in person or represented by proxy) shall constitute a quorum for the transaction of business at all meetings of stockholders, except as otherwise provided by statute or by the Certificate of Incorporation. If such quorum shall not be present or represented by proxy at any meeting of stockholders, then the stockholders entitled to vote thereat (present in person or represented by proxy) shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented by proxy. At such adjourned meeting at which a quorum shall be present or represented by proxy, any business may be transacted which might have been transacted at the meeting as originally called. If the adjournment is for more than thirty (30) days, or, if after adjournment a new record date is set, then a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 7. Organization. At each meeting of stockholders, the Chairman of the Board of Directors (if one shall have been elected, or, in his absence or if one shall not have been elected, the Chief Executive Officer, or in the absence of the Chief Executive Officer, the President, or in the absence of the President, such officer as the Board of Directors may designate) shall act as chairman of the meeting. The Secretary (or, in his absence or inability to act, the person whom the chairman of the meeting shall appoint the secretary of the meeting) shall act as secretary of the meeting and keep the minutes thereof.

SECTION 8. Order of Business. The order of business at all meetings of the stockholders shall be as determined by the chairman of the meeting.

SECTION 9. Voting. Except as otherwise provided by the Certificate of Incorporation or the Investment Company Act of 1940, as amended (together with the rules and regulations thereunder, the “1940 Act”) or the General Corporation Law of the State of Delaware, each stockholder of the Corporation shall be entitled at each meeting of stockholders to one (1) vote for each share of capital stock of the Corporation standing in his name on the record of stockholders of the Corporation: (a) on the date fixed pursuant to the provisions of Section 7 of Article V of these Bylaws as the record date for the determination of the stockholders who shall be entitled to notice of and to vote at such meeting; or (b) if no such record date shall have been so fixed, then at the close of business on the day next preceding the day on which notice thereof shall be given, or, if notice is waived, at the close of business on the date next preceding the day on which the meeting is held.

Each stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for him by a proxy that is in writing or transmitted as permitted by law, including, without limitation, electronically, via telegram, internet, interactive voice response system, or other means of electronic transmission executed or authorized by such stockholder or his attorney-in-fact, but no proxy shall be voted after three (3) years from its date, unless the proxy provides for a longer period. Any such proxy shall be delivered to the secretary of the meeting at or prior to the time designated in the order of business for so delivering such proxies. Any proxy transmitted electronically shall set forth information from which it can be determined by the secretary of the meeting that such electronic transmission was authorized by the stockholder. When a quorum is present at any meeting, the vote of the holders of a majority of the voting power of the issued and outstanding stock of the Corporation entitled to vote thereon, present and voting, in person or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which under the 1940 Act or other applicable law or under the Certificate of Incorporation or of these Bylaws, a different vote is required, in which case such other provision shall govern and control the decision of such question. Unless required by statute, or determined by the chairman of the meeting to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and shall state the number of shares voted and the number of votes to which each share is entitled.

SECTION 10. Inspectors. The Board of Directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, then the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and

questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

SECTION 11. Advance Notice Provisions for Election of Directors. Except as required by law, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders, or at any special meeting of stockholders called for the purpose of electing directors as provided under Section 3 of this Article II, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 11 and on the record date for the determination of stockholders entitled to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 11.

In addition to any other applicable requirements, for a nomination to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of the first annual meeting not less than 90 days prior to the date of such meeting and in the case of any subsequent annual meeting, not less than ninety (90) days prior to the date of the anniversary of the previous year's annual meeting; provided, however, that in the event the annual meeting is scheduled to be held on a date more than thirty (30) days prior to or delayed by more than sixty (60) days after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the later of the close of business ninety (90) days prior to such annual meeting or the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the

stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 11. If the chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

SECTION 12. Advance Notice Provisions for Business to be Transacted at Annual Meeting. Except as required by applicable law, no business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 12 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 12.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of the first annual meeting not less than 90 days prior to the date of such meeting and (b) in the case of any subsequent annual meeting, not less than ninety (90) days prior to the date of the anniversary of the previous year's annual meeting; provided, however, that in the event the annual meeting is scheduled to be held on a date more than thirty (30) days prior to or delayed by more than sixty (60) days after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the later of the close of business ninety (90) days prior to such annual meeting or the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to

each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 12; provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 12 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

ARTICLE III BOARD OF DIRECTORS

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board of Directors may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by statute or the Certificate of Incorporation directed or required to be exercised or done by the stockholders.

SECTION 2. Number and Election. Subject to the Certificate of Incorporation, the number of directors which shall constitute the Board of Directors shall initially be seven (7) but may be increased or decreased from time to time by the Board of Directors; provided, however, that (i) the number of directors shall not be fewer than five (5) or greater than eleven (11) and (ii) no decrease in the number of directors shall shorten the term of any incumbent director. Except as otherwise provided by the Bylaws or the Certificate of Incorporation, the directors shall be elected at the annual meeting of stockholders.

SECTION 3. Place of Meetings. Meetings of the Board of Directors shall be held at such place or places, within or outside the State of Delaware, as the Board of Directors from time to time may determine or as shall be specified in the notice of any such meeting.

SECTION 4. Annual Meetings. The Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business, as soon as practicable after each annual meeting of stockholders (which, if required by law, shall be on the same day and at the same place where such annual meeting of stockholders shall be held). In the event such annual meeting is not so held, the annual meeting of the Board of Directors may be held at such other time or place (within or outside the State of Delaware) as shall be specified in a notice thereof given as hereinafter provided in Section 7 of this Article III.

SECTION 5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may fix. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day.

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board of Directors (if one shall have been elected), by two or more directors of the Corporation or by the Chief Executive Officer.

SECTION 7. Notice of Meetings. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by law or these Bylaws. Notice of each special meeting of the Board of Directors, and of each regular and annual meeting of the Board of Directors for which notice shall be required, shall be given by the Secretary as hereinafter provided in this Section 7, in which notice shall be stated the time and place of the meeting. Except as otherwise required by these Bylaws, such notice need not state the purposes of such meeting. Notice of any special meeting, and of any regular or annual meeting for which notice is required, shall be given to each director at least (a) twelve (12) hours before the meeting if by telephone or by being personally delivered or sent by telex, telecopy, email or similar means or (b) three (3) days before the meeting if delivered by mail to the director's residence or usual place of business. Such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage prepaid, or when transmitted if sent by telex, telecopy, or similar means. Except as required by applicable law, neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting. Any director may waive notice of any meeting by a writing signed by the director entitled to the notice and filed with the minutes or corporate records.

SECTION 8. Waiver of Notice and Presumption of Assent. Any member of the Board of Directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Such member shall be conclusively presumed to have assented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

SECTION 9. Quorum and Manner of Acting. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and, except as otherwise expressly required by applicable law or the Certificate of Incorporation or these Bylaws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum

at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn such meeting to another time and place. Notice of the time and place of any such adjourned meeting shall be given to all of the directors unless such time and place were announced at the meeting at which the adjournment was taken, in which case such notice shall only be given to the directors who were not present thereat. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. The directors shall act only as a Board of Directors and the individual directors shall have no power as such.

SECTION 10. Organization. At each meeting of the Board of Directors, the Chairman of the Board of Directors, if one shall have been elected, or, in the absence of the Chairman of the Board of Directors or if one shall not have been elected, the Chief Executive Officer (or, in his absence, another director chosen by a majority of the directors present) shall act as chairman of the meeting and preside thereat. The Secretary or, in his absence, any person appointed by the chairman of the meeting, shall act as secretary of the meeting and keep the minutes thereof.

SECTION 11. Resignations; Newly Created Directorships; Vacancies; and Removals. Any director of the Corporation may resign at any time by giving notice in writing or by electronic transmission of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Newly created directorships resulting from any increase in the number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal or any other cause shall be filled as provided in the Certificate of Incorporation. Any director may be removed as provided in the Certificate of Incorporation.

SECTION 12. Compensation. The Board of Directors shall have authority to fix the compensation, including fees and reimbursement of expenses, of directors for services to the Corporation in any capacity.

SECTION 13. Committees. The following Committees of the Board of Directors shall be established by the Board of Directors in addition to any additional Committee the Board of Directors may in its discretion establish as described in subsection (e) below:

(a) Compensation Committee. There shall be a Compensation Committee composed of at least three directors. The members of the Compensation Committee shall not be "interested persons" of the Corporation, as such term is defined in the 1940 Act, and shall be "independent directors" as defined in applicable listing standards and regulations. A majority of the entire members of the Compensation Committee shall constitute a quorum and the actions of a majority of those present at a meeting at which a quorum is present shall be the actions of the Committee. The Compensation Committee shall have and may exercise those rights, powers and authority of the Board of Directors as may from time to time be granted to it by the Board of Directors; provided, however, that in addition to any such rights, powers or authority, the Compensation Committee shall have the power to set the salaries, compensation, benefits, stock options and other related matters of all officers of the Corporation.

(b) Audit Committee. There shall be an Audit Committee composed of at least three directors. The members of the Audit Committee shall not be “interested persons” of the Corporation, as such term is defined in the 1940 Act, and shall be “independent directors” as defined in applicable listing standards and regulations. The Audit Committee shall have and may exercise those rights, powers and authority of the Board of Directors as may from time to time be granted to it by the Board of Directors; provided, however, that in addition to any such rights, powers or authority, the Audit Committee shall issue instructions to and receive reports from outside accounting firms and serve as the liaison between the Corporation and the said firms; and review all potential conflict-of-interest situations arising in respect of the Corporation’s affairs and involving the Corporation’s affiliates or employees, and to make a report, oral or written, to the full Board of Directors with recommendations for their resolutions.

(c) Valuation Committee. There shall be a Valuation Committee composed of at least three directors. A majority of the entire members of the Valuation Committee shall constitute a quorum and the actions of a majority of those present at a meeting at which a quorum is present shall be the actions of the Committee. The Valuation Committee shall have and may exercise those rights, powers and authority of the Board of Directors as may from time to time be granted to it by the Board of Directors; provided, however, that in addition to any such rights, powers or authority, the Valuation Committee shall be responsible for reviewing and approving for submission to the Board of Directors, in good faith, the fair value of the Corporation’s debt and equity investments that are not publicly traded or for which current market values are not readily available.

(d) Other Committees. The Board of Directors, by resolution passed by a majority of the entire Board of Directors, may designate one or more additional committees, each committee to consist of one or more of the directors of the Corporation. Subject to subsections (a), (b), (c) and (d) of this Section 13, the Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Except to the extent restricted by statute or the Certificate of Incorporation, each such committee, to the extent provided in the resolution creating it, shall have and may exercise all the powers and authority of the Board of Directors and may authorize the seal of the Corporation to be affixed to all papers which require it. Each such committee shall serve at the pleasure of the Board of Directors and shall have such name as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors.

SECTION 14. Committee Rules. Each committee of the Board of Directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by a resolution of the Board of Directors designating such committee, a charter of such committee as approved by the Board of Directors or in these Bylaws. Unless otherwise provided in such a resolution, such charter or in these Bylaws, the presence of at least a majority of the members of the committee shall be necessary to constitute a quorum. Unless

otherwise provided by resolution, such charter or in these Bylaws, in the event that a member and that member's alternate, if alternates are designated by the Board of Directors as provided in Section 13(e) of this Article III, of such committee is or are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member.

SECTION 15. Action by Written Consent. Unless restricted by the Certificate of Incorporation or the 1940 Act, any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

SECTION 16. Telephonic and Other Meetings. Unless restricted by the Certificate of Incorporation or the 1940 Act, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV OFFICERS

SECTION 1. Number and Qualifications. The officers of the Corporation shall be elected by the Board of Directors and shall include the Chief Executive Officer, the President, the Chief Financial Officer, the Chief Compliance Officer, the Chief Investment Officer, the Treasurer and the Secretary. The Corporation, at the discretion of the Board of Directors, may also have such other officers as are desired, including a Chairman of the Board of Directors, one or more Vice Presidents, one or more Assistant Treasurers, one or more Assistant Secretaries, and such other officers as may be necessary or desirable for the business of the Corporation. If there are two or more Vice Presidents, then one or more may be designated as Executive Vice President, Senior Vice President, Assistant Vice President or other similar or dissimilar title. At the time of the election of officers, the directors may by resolution determine the order of their rank. Any number of offices may be held by the same person, and no officer (except the Chairman of the Board of Directors, if any) need be a director. In its discretion, the Board of Directors may choose not to fill any office for any period as it may deem advisable, except that the offices of Chief Executive Officer and the Secretary shall be filled as expeditiously as possible.

SECTION 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the Board of Directors at its first meeting held after each annual meeting of stockholders or as soon thereafter as is convenient. The Chairman of the Board of Directors (if one is elected) and Chief Executive Officer shall be elected annually by the Board of Directors at

the first meeting of the Board of Directors held after each annual meeting of stockholders or as soon thereafter as is convenient. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall have resigned or have been removed, as hereinafter provided in these Bylaws.

SECTION 3. Resignations. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon receipt. Unless otherwise specified therein, the acceptance of any such resignation shall not be necessary to make it effective.

SECTION 4. Removal. Any officer of the Corporation may be removed, either with or without cause, at any time, by the Board of Directors at any meeting thereof.

SECTION 5. Vacancies. Any vacancy occurring in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term by the Board of Directors then in office.

SECTION 6. Compensation. The compensation of the officers of the Corporation for their services as such officers shall be fixed from time to time by the Board of Directors or, in accordance with Section 13(a) of Article III, by the Compensation Committee thereof. An officer of the Corporation shall not be prevented from receiving compensation by reason of the fact that he is also a director of the Corporation.

SECTION 7. Chairman of the Board. The Chairman of the Board of Directors (if such an officer be elected) shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as from time to time may be assigned to him by the Board of Directors or prescribed by these Bylaws. If there is no Chief Executive Officer, then the Chairman of the Board of Directors shall also be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Section 8 of this Article IV.

SECTION 8. Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and shall have the powers and perform the duties incident to that position. He shall, in the absence of the Chairman of the Board of Directors, or if a Chairman of the Board of Directors shall not have been elected, preside at each meeting of the Board of Directors or the stockholders. He shall have the right to attend the meetings of the Board of Directors and all committees of the Board of Directors. Subject to the powers of the Board of Directors, he shall be in the general and active charge of the entire business and affairs of the Corporation, including authority over its officers, agents and employees, and shall have such other duties as may from time to time be assigned to him by the Board of Directors. The Chief Executive Officer shall be responsible for implementing all orders and resolutions of the Board of Directors, and shall execute bonds, mortgages and other contracts required to be executed under the seal of the Corporation, except when required or permitted by law to be otherwise signed and executed and except when the signing and execution thereof shall be expressly delegated by the Board of Directors or the Chief Executive Officer to some other officer or agent of the Corporation.

SECTION 9. President. The President shall perform all duties incident to the office of President and shall have general charge of the business and affairs of the Corporation. The President shall report to the Chief Executive Officer and shall have such other duties as may from time to time be assigned to him by the Board of Directors or the Chief Executive Officer or as may be provided in these Bylaws. At the written request of the Chief Executive Officer, or in his absence or in the event of his inability to act, the President shall perform the duties of the Chief Executive Officer, and, when so acting, shall have the powers of and be subject to the restrictions placed upon the Chief Executive Officer in respect of the performance of such duties.

SECTION 10. Chief Operating Officer. The Chief Operating Officer shall perform all duties incident to such office and shall be responsible for the general direction of the operations of the business. The Chief Operating Officer shall report to the Chief Executive Officer and shall have such other duties as may be assigned to him by the Board of Directors, or the Chief Executive Officer or as may be provided in these Bylaws.

SECTION 11. Chief Compliance Officer. The Chief Compliance Officer shall perform the duties and shall have the responsibilities of the chief compliance officer of the Corporation, including any such duties and responsibilities imposed by Rule 38a-1 under the 1940 Act, and shall have such other duties and powers as may be designated from time to time by the Board of Directors.

SECTION 12. Vice President. Each Vice President shall perform all such duties as from time to time may be assigned to him by the Board of Directors, the President or the Chief Executive Officer. At the written request of the President, or in the absence or disability of the President, Vice Presidents (in order of their rank as fixed by the Board of Directors, or if not ranked, the Vice President designated by the Board of Directors) shall perform the duties of the President, and when so acting shall have all the powers of and be subject to all the restrictions placed upon the President in respect of the performance of such duties.

SECTION 13. Chief Financial Officer; Treasurer.

The Chief Financial Officer:

- (a) Shall have charge and custody of, and be responsible for, all the funds and securities of the Corporation;
- (b) Shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation;
- (c) Shall deposit all moneys and other valuables to the credit of the Corporation in such depositories as may be designated by the Board of Directors or pursuant to its direction;
- (d) Shall receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever;

- (e) Shall disburse the funds of the Corporation and supervise the investments of its funds, taking proper vouchers therefore;
- (f) Shall render to the Board of Directors, whenever the Board of Directors may require, an account of the financial condition of the Corporation; and
- (g) Shall in general, perform all duties incident to the office of Chief Financial Officer and such other duties as from time to time may be assigned to him by the Board of Directors, the Chief Executive Officer or the President.

The Chief Financial Officer may also be the Treasurer of the Corporation if so determined by the Board of Directors. The Treasurer shall assist the Chief Financial Officer in the performance of his duties and shall perform such other duties as may be required by law or as from time to time may be assigned to such officer by the Board of Directors, the Chief Executive Officer or the President

SECTION 14. Secretary. The Secretary:

- (a) Shall keep or cause to be kept in one or more books provided for the purpose, the minutes of all meetings of the Board of Directors, the committees of the Board of Directors and the stockholders;
- (b) Shall verify all notices are duly given in accordance with the provisions of these Bylaws and as required by law;
- (c) Shall be custodian of the records and the seal of the Corporation and affix and attest the seal to all certificates for shares of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal;
- (d) Shall verify that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and
- (e) Shall, in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors, the Chief Executive Officer or the President.

SECTION 15. The Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or, if there be no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of his inability to act or his failure to act (in violation of a duty to act or in contravention of direction to act by the Board of Directors), perform the duties and exercise

the powers of the Treasurer and shall perform such other duties as from time to time may be assigned by the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer.

SECTION 16. The Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the Secretary or in the event of his inability to act or his failure to act (in violation of a duty to act or in contravention of direction to act by the Board of Directors), perform the duties and exercise the powers of the Secretary and shall perform such other duties as from time to time may be assigned by the Board of Directors, the Chief Executive Officer, the President or the Secretary.

SECTION 17. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these Bylaws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the Board of Directors.

SECTION 18. Officers' Bonds or Other Security. If required by the Board of Directors, any officer of the Corporation shall give a bond or other security for the faithful performance of his duties, in such amount and with such surety as the Board of Directors may require.

SECTION 19. Absence or Disability of Officers. In the case of the absence or disability of any officer of the Corporation and of any person hereby authorized to act in such officer's place during such officer's absence or disability, the Board of Directors may by resolution delegate the powers and duties of such officer to any other officer or to any director, or to any other person whom it may select.

ARTICLE V STOCK CERTIFICATES AND THEIR TRANSFER

SECTION 1. Stock Certificates. The Board of Directors may issue stock certificates, or may provide by resolution or resolutions that some or all of any or all classes or series of stock of the Corporation shall be uncertificated shares of stock. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by a certificate and, upon request, every holder of uncertificated shares shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chairman of the Board or, the Chief Executive Officer, the President or a Vice-President and by the Chief Financial Officer, Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him or her in the Corporation. A certificate representing shares issued by the Corporation shall, if the Corporation is authorized to issue more than one class or series of stock, set forth upon the face or back of the certificate, or shall state that the Corporation will furnish to any stockholder upon request and without charge, a full statement of the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. The Corporation shall furnish to any holder of uncertificated shares, upon request and without charge, a full statement of the designations, preferences and relative, participating, optional or

other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Any request by a holder for a certificate shall be in writing and directed to the Secretary of the Corporation.

SECTION 2. Facsimile Signatures. Any or all of the signatures on a certificate may be a facsimile, engraved or printed. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

SECTION 3. Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as it may direct sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 4. Transfers of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its records; provided, however, that the Corporation shall be entitled to recognize and enforce any lawful restriction on transfer. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of transfer if, when the certificates are presented to the Corporation for transfer, both the transferor and the transferee request the Corporation to do so.

SECTION 5. Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

SECTION 6. Regulations. The Board of Directors may make such additional rules and regulations, not inconsistent with these Bylaws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 7. Fixing the Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. If no record date is fixed

by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 8. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of stock to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments a person registered on its records as the owner of shares of stock, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VI GENERAL PROVISIONS

SECTION 1. Dividends. Subject to the provisions of statutes and the Certificate of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of stock of the Corporation, unless otherwise provided by law or the Certificate of Incorporation.

SECTION 2. Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may, from time to time, in its absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors may think conducive to the interests of the Corporation. The Board of Directors may modify or abolish any such reserves in the manner in which it was created.

SECTION 3. Seal. The seal of the Corporation shall be in such form as shall be approved by the Board of Directors, which form may be changed by resolution of the Board of Directors.

SECTION 4. Fiscal Year. The fiscal year of the Corporation shall end on December 31 of each fiscal year and may thereafter be changed by resolution of the Board of Directors.

SECTION 5. Checks, Notes, Drafts, Etc. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

SECTION 6. Execution of Contracts, Deeds, Etc. The Board of Directors may authorize

any officer or officers, agent or agents, in the name and on behalf of the Corporation to enter into or execute and deliver any and all deeds, bonds, mortgages, contracts and other obligations or instruments, and such authority may be general or confined to specific instances.

SECTION 7. Inspection of Books and Records. Except as otherwise provided in the 1940 Act, any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the Corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean any purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right of inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the Corporation at its registered office in the State of Delaware or at its principal place of business.

SECTION 8. References to Days. For purposes of these Bylaws, all references herein to "days" shall mean calendar days unless otherwise expressly indicated to mean business days. Any period of time referenced herein that is scheduled to end on a day that is not a business day and any event that is scheduled to occur on a day that is not a business day, unless otherwise expressly indicated, shall instead end or occur on the next succeeding business day.

SECTION 9. Inconsistent Provisions. In the event that any provision of these Bylaws is or becomes inconsistent with any provision of the Certificate of Incorporation, the General Corporation Law of the State of Delaware, the 1940 Act or any other applicable law, the provision of these Bylaws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

ARTICLE VII AMENDMENTS

Except as otherwise provided in these Bylaws, these Bylaws may be amended or repealed or new Bylaws adopted only in accordance with Article V(H) of the Certificate of Incorporation.

[Letterhead of Ropes & Gray LLP]

March 16, 2007

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017

Re: Registration Statement on Form N-2

Ladies and Gentlemen:

This opinion is furnished to you in connection with a registration statement on Form N-2 (the "Registration Statement"), filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, for the registration of 57,555 shares of Common Stock, \$.01 par value (the "Common Stock"), of Kohlberg Capital Corporation, a Delaware corporation (the "Company"). All of the shares of Common Stock to be registered pursuant to the Registration Statement are being offered by a selling stockholder (the "Shares").

We have acted as counsel for the Company in connection with the registration of the Shares. For purposes of this opinion, we have examined and relied upon such documents, records, certificates and other instruments as we have deemed necessary.

The opinions expressed below are limited to the Delaware General Corporation Law, including the applicable provisions of the Delaware Constitution and the reported cases interpreting those laws.

Based upon and subject to the foregoing, we are of the opinion that the Shares have been duly authorized and are validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus included therein. In giving this consent we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Ropes & Gray LLP

Ropes & Gray LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form N-2 of our report dated November 17, 2006, relating to the financial statements of Kohlberg Capital, LLC appearing in the Prospectus, which is part of such Registration Statement, and to the reference to us under the heading “Independent Registered Public Accounting Firm”.

/s/ Deloitte & Touche LLP

New York, New York
March 16, 2007