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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

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

For the transition period from to

Commission File No. 814-00735

Kohlberg Capital Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**20-5951150**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

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

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

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

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

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

Large accelerated filer ☐		Accelerated filer	x
Non-accelerated filer ☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

The number of outstanding shares of common stock of the registrant as of July 31, 2009 was **21,836,010**.

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KOHLBERG CAPITAL CORPORATION

BALANCE SHEETS

	As of June 30, 2009 (unaudited)	As of December 31, 2008
ASSETS		
Investments at fair value:		
Time deposits (cost: 2009 - $6,465,241; 2008 - $12,185,997)	$ 6,465,241	$ 12,185,997
Money market account (cost: 2009 - $3,876; 2008 - $10)	3,876	10
Debt securities (cost: 2009 - $390,234,848; 2008 - $423,859,086)	338,972,249	384,486,111
CLO fund securities managed by non-affiliates (cost: 2009 - $15,683,559; 2008 - $15,590,951)	3,588,000	9,099,000
CLO fund securities managed by affiliate (cost: 2009 - $52,474,750; 2008 - $50,785,644)	52,865,236	47,536,236
Equity securities (cost: 2009 - $5,256,660; 2008 - $5,256,660)	4,389,081	4,389,831
Asset manager affiliates (cost: 2009 - $38,917,322; 2008 - $38,948,271)	56,503,709	56,528,088
Total Investments at fair value	462,787,392	514,225,273
Cash	184,929	251,412
Restricted cash	1,346,509	2,119,991
Interest and dividends receivable	3,816,016	4,168,599
Receivable for open trades	6,794,143	—
Due from affiliates	1,288,800	390,590
Other assets	1,475,528	1,716,446
Total assets	$ 477,693,317	$ 522,872,311
LIABILITIES		
Borrowings	$ 233,806,661	$ 261,691,148
Payable for open trades	—	1,955,000
Accounts payable and accrued expenses	2,678,805	3,064,403
Dividend payable	—	5,879,660
Total liabilities	$ 236,485,466	$ 272,590,211
Commitments and contingencies (note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value $0.01 per share, 100,000,000 common shares authorized; 22,077,720 and 21,743,470 common shares issued and outstanding at June 30, 2009 and 21,776,519 and 21,436,936 issued and outstanding at December 31, 2008	$ 217,435	$ 214,369
Capital in excess of par value	283,749,129	282,171,860
Accumulated undistributed net investment income	9,303,730	977,904
Accumulated net realized losses	(5,813,579)	(680,687)
Net unrealized depreciation on investments	(46,248,864)	(32,401,346)
Total stockholders' equity	$ 241,207,851	$ 250,282,100
Total liabilities and stockholders' equity	$ 477,693,317	$ 522,872,311
NET ASSET VALUE PER COMMON SHARE	$ 11.09	$ 11.68

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Investment Income:				
Interest from investments in debt securities	$ 6,923,006	$ 7,464,325	$ 14,327,758	$ 17,164,160
Interest from cash and time deposits	5,016	56,969	9,686	143,572
Dividends from investments in CLO fund securities managed by non-affiliates	337,908	2,211,687	818,300	3,749,894
Dividends from investments in CLO fund securities managed by affiliate	2,083,803	2,404,109	4,211,129	3,927,192
Dividends from affiliate asset manager	—	—	—	350,000
Capital structuring service fees	162,479	128,434	279,214	1,263,548
Total investment income	9,512,212	12,265,524	19,646,087	26,598,366
Expenses:				
Interest and amortization of debt issuance costs	1,577,641	2,400,789	3,085,652	5,745,212
Compensation	866,094	1,531,876	1,708,667	2,708,715
Professional fees	304,304	303,426	640,633	920,074
Insurance	85,712	64,979	177,475	138,414
Administrative and other	267,987	305,794	529,545	651,021
Total expenses	3,101,738	4,606,864	6,141,972	10,163,436
Net Investment Income	**6,410,474**	**7,658,660**	**13,504,115**	**16,434,930**
Realized And Unrealized Gains (Losses) On Investments:				
Net realized gains (losses) from investment transactions	(3,125,520)	104,320	(5,132,892)	(621,993)
Net change in unrealized appreciation (depreciation) on:				
Debt securities	(10,360,248)	(329,631)	(11,889,624)	(8,075,608)
Equity securities	(196)	(8,456)	(750)	(1,199,302)
CLO fund securities managed by affiliate	7,046,938	(577,213)	3,639,894	(1,227,456)
CLO fund securities managed by non-affiliate	(1,804,292)	(374,142)	(5,603,608)	(2,518,521)
Affiliate asset manager investments	(1,363,112)	823,747	6,570	4,700,487
Net realized and unrealized depreciation on investments	(9,606,430)	(361,375)	(18,980,410)	(8,942,393)
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	$ (3,195,956)	$ 7,297,285	$ (5,476,295)	$ 7,492,537
Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share—Basic and Diluted	$ (0.15)	$ 0.36	$ (0.25)	$ 0.39
Net Investment Income Per Common Share—Basic and Diluted	$ 0.29	$ 0.38	$ 0.62	$ 0.86
Net Investment Income and Net Realized Gains/Losses Per Common Share—Basic and Diluted	$ 0.15	$ 0.38	$ 0.38	$ 0.82
Weighted Average Shares of Common Stock Outstanding—Basic and Diluted	21,692,003	20,302,781	21,612,819	19,188,863

See accompanying notes to financial statements.

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

	Six Months Ended June 30,	
	2009	**2008**
Operations:		
Net investment income	$ 13,504,115	$ 16,434,930
Net realized loss from investment transactions	(5,132,892)	(621,993)
Net change in unrealized depreciation on investments	(13,847,518)	(8,320,400)
Net increase (decrease) in net assets resulting from operations	(5,476,295)	7,492,537
Stockholder distributions:		
Dividends from net investment income to common stockholders	(5,178,289)	(16,124,802)
Net decrease in net assets resulting from stockholder distributions	(5,178,289)	(16,124,802)
Capital transactions:		
Issuance of common stock for dividend reinvestment plan	1,100,366	1,292,625
Issuance of common stock for rights offering	—	26,925,213
Vesting of restricted stock	53	—
Stock based compensation	479,916	325,307
Net increase in net assets resulting from capital transactions	1,580,335	28,543,145
Net assets at beginning of period	250,282,100	259,068,164
Net assets at end of period (including undistributed net investment income of $9,303,730 in 2009 and accumulated distributions in excess of net investment income of $1,351,756 in 2008)	$ 241,207,851	$ 278,979,044
Net asset value per common share	$ 11.09	$ 13.14
Common shares outstanding at end of period	21,743,470	21,234,482

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
OPERATING ACTIVITIES:		
Net increase (decrease) in stockholders' equity resulting from operations	$ (5,476,295)	$ 7,492,537
Adjustments to reconcile net increase (decrease) in stockholders' equity resulting from operations to net cash provided by operations:		
Net realized losses on investment transactions	5,132,892	621,993
Net change in unrealized depreciation on investments	13,847,518	8,320,400
Net accretion of discount on securities	(1,275,699)	(971,885)
Amortization of debt issuance cost	412,345	210,561
Purchases of investments	(3,907,954)	(58,437,814)
Payment-in-kind interest	(1,374,362)	(662,223)
Proceeds from sale and redemption of investments	32,032,172	55,418,329
Stock based compensation expense	479,916	325,307
Changes in operating assets and liabilities:		
Decrease in interest and dividends receivable	352,583	1,337,434
(Increase) decrease in other assets	(171,429)	376,797
(Increase) decrease in due from affiliates	(2,664,037)	223,109
Decrease in accounts payable and accrued expenses	(385,598)	(2,328,127)
Net cash provided by operating activities	37,002,052	11,926,418
FINANCING ACTIVITIES:		
Issuance of stock (net of offering costs)	53	26,925,213
Dividends paid in cash	(9,957,583)	(13,009,340)
Proceeds from issuance of debt (net of offering costs)	—	(25,000,000)
Cash paid on repayment of debt	(27,884,487)	—
Decrease (increase) in restricted cash	773,482	1,361,061
Net cash used in financing activities	(37,068,535)	(9,723,066)
CHANGE IN CASH	(66,483)	2,203,352
CASH, BEGINNING OF PERIOD	251,412	12,088,529
CASH, END OF PERIOD	$ 184,929	$ 14,291,881
Supplemental Information:		
Interest paid during the period	$ 2,670,145	$ 4,753,989
Non-cash dividends paid during the period under dividend reinvestment plan	$ 1,100,366	$ 1,292,625

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
As of June 30, 2009
(unaudited)

Debt Securities Portfolio

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Deferred Draw Term Loan (First Lien) 3.5%, Due 6/13	$ 325,242	$ 318,659	$ 325,242
Advanced Lighting Technologies, Inc.[15] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Revolving Loan 3.3%, Due 6/13	—	—	—
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan — Second Lien Term Loan Note 6.3%, Due 6/14	5,000,000	5,000,000	5,000,000
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Term Loan (First Lien) 3.1%, Due 6/13	1,671,536	1,671,536	1,671,536
Aero Products International, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Term Loan 9.5%, Due 4/12	3,118,560	3,118,560	2,494,848
Aerostructures Acquisition LLC[6] *Aerospace and Defense*	Senior Secured Loan — Delayed Draw Term Loan 6.8%, Due 3/13	418,244	418,244	418,244
Aerostructures Acquisition LLC[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 6.8%, Due 3/13	5,291,964	5,291,964	5,291,964
AGA Medical Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Tranche B Term Loan 2.7%, Due 4/13	1,832,209	1,831,225	1,653,569
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan — Delayed Draw Term Loan 3.3%, Due 5/13	426,444	421,974	405,122
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan — Initial Term Loan 3.3%, Due 5/13	3,048,032	3,016,082	2,895,631
AmerCable Incorporated[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan — Initial Term Loan 4.1%, Due 6/14	5,870,163	5,870,163	5,870,163
Astoria Generating Company Acquisitions, L.L.C.[6] *Utilities*	Junior Secured Loan — Term C 4.1%, Due 8/13	4,000,000	4,036,311	3,613,340

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Atlantic Marine Holding Company[6] *Cargo Transport*	Senior Secured Loan — Term Loan 4.6%, Due 3/14	$ 1,689,931	$ 1,698,144	$ 1,689,931
Aurora Diagnostics, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Tranche A Term Loan (First Lien) 5.0%, Due 12/12	4,156,545	4,127,878	4,156,545
Awesome Acquisition Company (CiCi's Pizza)[6] *Personal, Food and Miscellaneous Services*	Junior Secured Loan — Term Loan (Second Lien) 5.6%, Due 6/14	4,000,000	3,979,641	3,820,000
AZ Chem US Inc. *Chemicals, Plastics and Rubber*	Junior Secured Loan — Second Lien Term Loan 5.8%, Due 2/14	3,300,000	2,711,937	2,640,000
AZ Chem US Inc.[6] *Chemicals, Plastics and Rubber*	Junior Secured Loan — Second Lien Term Loan 5.8%, Due 2/14	4,000,000	3,967,138	3,200,000
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan — Loan (Second Lien) 6.6%, Due 7/13	2,431,250	2,457,836	1,896,375
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan — Term Loan (First Lien) 4.3%, Due 7/12	1,890,497	1,898,273	1,743,983
Bicent Power LLC[6] *Utilities*	Junior Secured Loan — Advance (Second Lien) 4.6%, Due 12/14	4,000,000	4,000,000	3,730,000
BP Metals, LLC[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan — Term Loan 10.0%, Due 6/13	4,556,122	4,556,122	4,556,122
Broadlane, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan 8.5%, Due 8/13	4,962,500	4,900,973	4,962,500
Caribe Information Investments Incorporated[6] *Printing and Publishing*	Senior Secured Loan — Term Loan 2.6%, Due 3/13	1,687,161	1,681,874	1,358,165
Cast & Crew Payroll, LLC (Payroll Acquisition)[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan — Initial Term Loan 3.6%, Due 9/12	8,548,100	8,569,676	8,548,100
CEI Holdings, Inc. (Cosmetic Essence)[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Term Loan 5.0%, Due 3/13	1,467,266	1,412,309	1,115,122
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan — Term Loan (First Lien) 9.3%, Due 10/12	2,770,187	2,745,530	2,770,187

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	Mezzanine Investment — Senior Subordinated Notes 15.5%, Due 6/13	$ 11,763,740	$ 11,631,350	$ 7,058,244
Clarke American Corp.[6] *Printing and Publishing*	Senior Secured Loan — Tranche B Term Loan 3.0%, Due 6/14	2,940,000	2,940,000	2,284,380
CoActive Technologies, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan — Term Loan (First Lien) 3.6%, Due 7/14	3,940,000	3,925,547	3,940,000
CoActive Technologies, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan — Term Loan (Second Lien) 7.3%, Due 1/15	2,000,000	1,969,456	1,840,000
Coastal Concrete Southeast, LLC *Buildings and Real Estate*[4]	Mezzanine Investment — Mezzanine Term Loan 10.0%, Due 3/13	9,339,338	9,048,788	2,801,801
Cooper-Standard Automotive Inc[6, 10] *Automobile*	Senior Unsecured Bond — 8.4%, Due 12/14	4,000,000	3,315,690	1,520,000
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan — Term Loan (Second Lien) 5.8%, Due 10/13	1,000,000	1,007,087	990,000
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan — Term Loan (Third Lien) 7.8%, Due 4/14	7,700,000	7,519,771	6,747,125
Delta Educational Systems, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan 7.0%, Due 6/12	2,684,217	2,684,217	2,684,217
Dex Media West LLC *Printing and Publishing*	Senior Secured Loan — Tranche B Term Loan 7.0%, Due 10/14	4,720,061	4,293,907	4,241,305
Dresser, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan — Term Loan (Second Lien) 6.1%, Due 5/15	3,000,000	2,967,393	2,830,005
DRI Holdings, Inc.[6] *Healthcare, Education and Childcare*	Junior Secured Loan — US Term Loan (Second Lien) 6.8%, Due 7/15	6,000,000	5,456,632	6,000,000
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Junior Secured Loan — Loan (Second Lien) 6.6%, Due 12/14	5,000,000	5,000,000	4,600,000
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Senior Secured Loan — Term Loan (First Lien) 3.3%, Due 12/13	4,433,246	4,437,143	4,433,246

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Initial Term Loan 4.3%, Due 7/13	$ 4,455,452	$ 4,455,452	$ 4,455,452
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Junior Secured Loan — Term Loan (Second Lien) 7.8%, Due 7/14	10,000,000	10,000,000	10,000,000
Endeavor Energy Resources, L.P.[6] *Oil and Gas*	Junior Secured Loan — Initial Loan (Second Lien) 5.3%, Due 4/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan — Term Loan 5.6%, Due 12/12	4,063,494	4,068,639	4,063,494
FD Alpha Acquisition LLC (Fort Dearborn)[6] *Printing and Publishing*	Senior Secured Loan — US Term Loan 3.4%, Due 11/12	1,546,525	1,456,659	1,546,525
First American Payment Systems, L.P.[6] *Finance*	Senior Secured Loan — Term Loan 4.4%, Due 10/13	3,218,000	3,218,000	3,218,000
First Data Corporation *Finance*	Senior Secured Loan — Initial Tranche B-2 Term Loan 3.1%, Due 9/14	3,453,429	3,173,984	2,624,606
Ford Motor Company[6] *Automobile*	Senior Secured Loan — Term Loan 3.6%, Due 12/13	1,957,407	1,955,643	1,448,481
Freescale Semiconductor, Inc. *Electronics*	Senior Subordinated Bond — 10.1%, Due 12/16	3,000,000	3,007,686	2,287,500
Frontier Drilling USA, Inc.[6] *Oil and Gas*	Senior Secured Loan — Term B Advance 9.3%, Due 6/13	2,000,000	1,998,456	2,000,000
Ginn LA Conduit Lender, Inc.[10] *Buildings and Real Estate*[4]	Senior Secured Loan — First Lien Tranche A Credit-Linked Deposit 7.8%, Due 6/11	1,257,143	1,224,101	150,857
Ginn LA Conduit Lender, Inc.[10] *Buildings and Real Estate*[4]	Senior Secured Loan — First Lien Tranche B Term Loan 7.8%, Due 6/11	2,694,857	2,624,028	323,383
Ginn LA Conduit Lender, Inc.[10] *Buildings and Real Estate*[4]	Junior Secured Loan — Loan (Second Lien) 11.8%, Due 6/12	3,000,000	2,715,997	90,000
Hawkeye Renewables, LLC[6, 10] *Farming and Agriculture*	Senior Secured Loan — Term Loan (First Lien) 8.3%, Due 6/12	2,908,544	2,857,697	552,623

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
HMSC Corporation (aka Swett and Crawford)[6] *Insurance*	Junior Secured Loan — Loan (Second Lien) 5.8%, Due 10/14	$ 5,000,000	$ 4,846,403	$ 4,550,000
Huish Detergents Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan — Loan (Second Lien) 4.6%, Due 10/14	1,000,000	1,000,000	940,000
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Initial Term Loan (First Lien) 2.8%, Due 4/14	3,723,929	3,591,606	3,165,339
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan — Loan (Second Lien) 7.1%, Due 10/14	3,000,000	3,000,000	2,347,500
Infiltrator Systems, Inc.[6] *Ecological*	Senior Secured Loan — Term Loan 8.5%, Due 9/12	2,713,860	2,708,146	2,713,860
Inmar, Inc.[6] *Retail Stores*	Senior Secured Loan — Term Loan 2.6%, Due 4/13	3,547,864	3,547,864	3,547,864
International Aluminum Corporation (IAL Acquisition Co.)[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan — Term Loan 5.0%, Due 3/13	2,986,132	2,986,132	2,388,905
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Senior Secured Loan — 1st Lien Term Loan 3.8%, Due 5/12	4,037,531	4,048,044	4,037,531
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Junior Secured Loan — Term Loans (Second Lien) 7.8%, Due 5/13	3,000,000	3,015,806	3,000,000
Jones Stephens Corp.[6] *Buildings and Real Estate*[4]	Senior Secured Loan — Term Loan 7.8%, Due 9/12	9,578,305	9,560,393	9,578,305
JW Aluminum Company[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan — Term Loan (Second Lien) 7.1%, Due 12/13	5,371,429	5,385,594	2,148,571
KIK Custom Products Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan — Loan (Second Lien) 5.3%, Due 12/14	5,000,000	5,000,000	3,400,000
La Paloma Generating Company, LLC[6] *Utilities*	Junior Secured Loan — Loan (Second Lien) 4.1%, Due 8/13	2,000,000	2,012,621	2,000,000
LBREP/L-Suncal Master I LLC[6, 10] *Buildings and Real Estate*[4]	Senior Secured Loan — Term Loan (First Lien) 5.5%, Due 1/10	3,875,156	3,854,442	290,637

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
LBREP/L-Suncal Master I LLC[6, 10] *Buildings and Real Estate*[4]	Junior Secured Loan — Term Loan (Second Lien) 5.5%, Due 1/11	$ 2,000,000	$ 1,920,211	$ 7,500
LBREP/L-Suncal Master I LLC[10] *Buildings and Real Estate*[4]	Junior Secured Loan — Term Loan (Third Lien) 11.3%, Due 2/12	2,332,868	2,332,868	1,000
Lear Corporation[10] *Automobile*	Senior Secured Loan — Term Loan 3.3%, Due 4/12	1,993,927	1,751,930	1,415,688
Legacy Cabinets, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Term Loan 7.0%, Due 8/12	2,258,184	2,258,184	1,942,038
Levlad, LLC & Arbonne International, LLC[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Term Loan 7.8%, Due 3/14	2,667,680	2,667,680	1,653,962
LN Acquisition Corp. (Lincoln Industrial)[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan — Initial Term Loan (Second Lien) 6.1%, Due 1/15	2,000,000	2,000,000	2,000,000
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan (First Lien) 4.5%, Due 12/12	5,784,895	5,771,323	5,784,895
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Junior Secured Loan — Term Loan (Second Lien) 7.9%, Due 6/13	1,000,000	1,000,000	1,000,000
Murray Energy Corporation[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan — Tranche B Term Loan (First Lien) 6.9%, Due 1/10	1,852,915	1,855,491	1,815,857
National Interest Security Company, L.L.C. *Aerospace and Defense*	Mezzanine Investment — Mezzanine Facility 15.0%, Due 6/13	3,000,000	3,000,000	3,000,000
National Interest Security Company, L.L.C. *Aerospace and Defense*	Junior Secured Loan — Second Lien Term Loan 15.0%, Due 6/13	1,000,000	1,000,000	1,000,000
National Interest Security Company, L.L.C.[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan - 1st Lien 7.8%, Due 12/12	7,862,500	7,862,500	7,862,500
Northeast Biofuels, LP[6, 10] *Farming and Agriculture*	Senior Secured Loan — Construction Term Loan 8.8%, Due 6/13	1,389,127	1,391,214	277,825
Northeast Biofuels, LP[6, 10] *Farming and Agriculture*	Senior Secured Loan — Synthetic LC Term Loan 8.8%, Due 6/13	57,547	57,634	11,509

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan — Incremental Term Loan Add On 5.0%, Due 6/11	$ 688,202	$ 688,202	$ 688,202
PAS Technologies Inc.[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 5.5%, Due 6/11	3,402,778	3,391,547	3,402,778
Pegasus Solutions, Inc.[13] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Unsecured Bond — 10.5%, Due 4/15	2,000,000	2,000,000	1,600,000
Pegasus Solutions, Inc.[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan — Term Loan 7.8%, Due 4/13	5,642,500	5,642,500	5,642,500
Primus International Inc.[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 2.8%, Due 6/12	1,240,209	1,241,871	1,240,209
QA Direct Holdings, LLC[6] *Printing and Publishing*	Senior Secured Loan — Term Loan 6.3%, Due 8/14	4,563,854	4,529,263	4,563,854
Resco Products, Inc.[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan — Term Loan (Second Lien) 8.7%, Due 6/14	6,650,000	6,487,392	6,650,000
Rhodes Companies, LLC, The[6, 10] *Buildings and Real Estate*[4]	Senior Secured Loan — First Lien Term Loan 11.8%, Due 11/10	1,719,509	1,670,576	515,853
Rhodes Companies, LLC, The[6, 10] *Buildings and Real Estate*[4]	Junior Secured Loan — Second Lien Term Loan 11.0%, Due 11/11	2,019,011	2,025,888	201,901
San Juan Cable, LLC[6] *Broadcasting and Entertainment*	Junior Secured Loan — Loan (Second Lien) 5.8%, Due 10/13	3,000,000	2,984,392	2,850,000
Schneller LLC[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 3.6%, Due 6/13	4,326,246	4,296,451	4,326,246
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan — Term Loan 3.9%, Due 6/12	1,258,041	1,255,966	1,258,041
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan — Term Loan 3.9%, Due 6/12	838,694	837,310	838,694
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan — Loan (Second Lien) 7.3%, Due 12/14	7,500,000	7,500,000	7,500,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan — Term Loan (First Lien) 2.8%, Due 6/14	$ 3,910,151	$ 3,910,151	$ 3,910,151
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan — Delayed Draw Term Loan 8.3%, Due 7/12	742,224	745,598	742,224
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan — Initial Term Loan 9.0%, Due 7/12	3,682,640	3,699,379	3,682,640
Standard Steel, LLC[6] *Cargo Transport*	Junior Secured Loan — Loan (Second Lien) 14.5%, Due 7/13	1,750,000	1,757,450	1,750,000
Texas Competitive Electric Holdings Company, LLC (TXU) *Utilities*	Senior Secured Loan — Initial Tranche B-2 Term Loan 3.8%, Due 10/14	984,912	905,464	704,212
TPF Generation Holdings, LLC[6] *Utilities*	Junior Secured Loan — Loan (Second Lien) 4.6%, Due 12/14	2,000,000	2,025,968	1,900,000
TransAxle LLC[10,16] *Automobile*	Senior Secured Loan — Revolving Loan 8.0%, Due 8/11	854,545	852,159	256,364
TransAxle LLC[10] *Automobile*	Senior Secured Loan — Term Loan 8.0%, Due 9/12	1,456,743	1,456,743	437,023
TUI University, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan (First Lien) 3.3%, Due 10/14	3,736,736	3,593,502	3,736,736
Twin-Star International, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Term Loan 5.2%, Due 4/13	4,315,807	4,315,807	4,315,807
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Junior Secured Loan — Term Loan (Second Lien) 7.8%, Due 12/13	6,500,000	6,487,700	6,500,000
Walker Group Holdings LLC *Cargo Transport*	Junior Secured Loan — Term Loan B 12.5%, Due 12/12	526,500	526,500	526,500
Walker Group Holdings LLC[6] *Cargo Transport*	Junior Secured Loan — Term Loan B 12.5%, Due 12/12	5,000,000	5,000,000	5,000,000
Water PIK, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Loan (First Lien) 3.6%, Due 6/13	1,887,118	1,878,301	1,887,118

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Wesco Aircraft Hardware Corp. *Aerospace and Defense*	Junior Secured Loan — Loan (Second Lien) 6.1%, Due 3/14	$ 2,000,000	$ 1,930,691	$ 1,845,000
Wesco Aircraft Hardware Corp.[6] *Aerospace and Defense*	Junior Secured Loan — Loan (Second Lien) 6.1%, Due 3/14	4,132,887	4,158,388	3,812,589
WireCo WorldGroup Inc. [6, 13] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment — 11.0%, Due 2/15	10,000,000	10,000,000	10,000,000
WireCo WorldGroup Inc. [13] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment — 11.0%, Due 2/15	5,000,000	4,812,179	5,000,000
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan — Acquisition Term Loan 2.8%, Due 6/12	771,447	764,150	725,160
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan — Synthetic Letter of Credit 0.2%, Due 6/12	668,412	662,089	628,307
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan — Synthetic Revolver Deposit 1.5%, Due 6/12	167,103	165,522	157,077
Wolf Hollow I, LP[6] *Utilities*	Junior Secured Loan — Term Loan (Second Lien) 5.1%, Due 12/12	2,683,180	2,687,056	2,468,525
X-Rite, Incorporated[6] *Electronics*	Junior Secured Loan — Loan (Second Lien) 14.4%, Due 10/13	645,361	645,361	645,361
X-Rite, Incorporated[6] *Electronics*	Senior Secured Loan — Term Loan (First Lien) 8.0%, Due 10/12	623,958	621,874	623,958
Total Investment in Debt Securities **(141% of net asset value at fair value)**		$ 395,460,023	$ 390,234,848	$ 338,972,249

Equity Portfolio

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value[2]
Aerostructures Holdings L.P.[7] *Aerospace and Defense*	Partnership Interests	1.2%	$ 1,000,000	$ 750,000
Aerostructures Holdings L.P.[7] *Aerospace and Defense*	Series A Preferred Interests	0.0%	160,361	160,361

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value[2]
Allen-Vanguard Corporation[3, 7] *Aerospace and Defense*	Common Shares	10,253	42,542	1,103
Coastal Concrete Southeast, LLC[7, 8] *Buildings and Real Estate*[4]	Warrants	580	474,140	—
eInstruction Acquisition, LLC[7] *Healthcare, Education and Childcare*	Membership Units	1.1%	1,079,617	1,079,617
FP WRCA Coinvestment Fund VII, Ltd.[3, 7] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Class A Shares	15,000	1,500,000	2,398,000
Park Avenue Coastal Holding, LLC[7] *Buildings and Real Estate*[4]	Common Interests	2.0%	1,000,000	—
Total Investment in Equity Securities (2% of net asset value at fair value)			$ 5,256,660	$ 4,389,081

CLO Fund Securities

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Grant Grove CLO, Ltd.[3, 13, 14]	Subordinated Securities	22.2%	$ 4,713,559	$ 2,579,000
Katonah III, Ltd.[3, 13]	Preferred Shares	23.1%	4,500,000	799,000
Katonah IV, Ltd.[3, 13, 14]	Preferred Shares	17.1%	3,150,000	209,000
Katonah V, Ltd.[3, 13, 14]	Preferred Shares	26.7%	3,320,000	1,000
Katonah VII CLO Ltd.[3, 9, 13, 14]	Subordinated Securities	16.4%	4,500,000	1,520,000
Katonah VIII CLO Ltd[3, 9, 13, 14]	Subordinated Securities	10.3%	3,400,000	1,536,000
Katonah IX CLO Ltd[3, 9, 13, 14]	Preferred Shares	6.9%	2,000,000	1,288,000
Katonah X CLO Ltd [3, 9, 13]	Subordinated Securities	33.3%	11,579,744	12,123,000
Katonah 2007-I CLO Ltd.[3, 9, 13]	Preferred Shares	100.0%	29,918,479	28,859,236
Katonah 2007-I CLO Ltd.[3, 9, 13]	Class B-2L Notes Par Value of $10,500,000 6.1%, Due 4/22	100.0%	1,076,527	7,539,000
Total Investment in CLO Fund Securities (23% of net asset value at fair value)			$ 68,158,309	$ 56,453,236

Asset Manager Affiliate

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah Debt Advisors, L.L.C.	Membership Interests	100%	$ 38,917,322	$ 56,503,709
Total Investment in Asset Manager Affiliate (23% of net asset value at fair value)			$ 38,917,322	$ 56,503,709

Time Deposits and Money Market Account

Time Deposits and Money Market Account	Investment	Yield	Cost	Value[2]
US Bank Eurodollar Sweep CL2[3, 11]	Time Deposit	0.10%	6,454,326	6,454,326
JP Morgan Asset Account	Time Deposit	0.07%	10,915	10,915
JP Morgan Business Money Market Account[12]	Money Market Account	0.15%	3,876	3,876
Total Investment in Time Deposit and Money Market Accounts (3% of net asset value at fair value)			$ 6,469,117	$ 6,469,117
Total Investments[5] (192% of net asset value at fair value)			$ 509,036,256	$ 462,787,392

See accompanying notes to financial statements.

1 A majority of the variable rate loans to the Company's portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which typically resets semi-annually, quarterly, or monthly. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at June 30, 2009.

2 Reflects the fair market value of all existing investments as of June 30, 2009, as determined by the Company's Board of Directors.

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

4 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of June 30, 2009, the Company had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through the Company's investments in CLO funds.

5 The aggregate cost of investments for federal income tax purposes is approximately $509 million. The aggregate gross unrealized appreciation is approximately $27 million and the aggregate gross unrealized depreciation is approximately $73 million.

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

7 Non-income producing.

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

[9] An affiliate CLO fund managed by Katonah Debt Advisors, L.L.C. or its affiliate.
[10] Loan or debt security is on non-accrual status and therefore is considered non-income producing.
[11] Time deposit investment partially restricted under terms of the secured credit facility (see Note 6 to financial statements).
[12] Money market account holding restricted cash for employee flexible spending accounts.
[13] These securities were acquired in a transaction that was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Rule 144A thereunder. These securities may be resold only in transactions that are exempt from the registration requirements of the Securities Act, normally to qualified institutional buyers.
[14] As of June 30, 2009, these CLO Fund Securities were not providing a dividend distribution.
[15] Unfunded $2 million revolving commitment.
[16] Unfunded $1 million revolving commitment.

KOHLBERG CAPITAL CORPORATION
SCHEDULE OF INVESTMENTS
As of December 31, 2008

Debt Securities Portfolio

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Deferred Draw Term Loan (First Lien) 6.6%, Due 6/13	$ 356,819	$ 356,819	$ 356,819
Advanced Lighting Technologies, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Revolving Loan 3.9%, Due 6/13	960,000	952,585	960,000
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan — Second Lien Term Loan Note 8.5%, Due 6/14	5,000,000	5,000,000	5,000,000
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Term Loan (First Lien) 4.6%, Due 6/13	1,834,277	1,834,277	1,834,277
Aero Products International, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Term Loan 7.0%, Due 4/12	3,118,560	3,118,560	3,118,560
Aerostructures Acquisition LLC[6] *Aerospace and Defense*	Senior Secured Loan — Delayed Draw Term Loan 7.5%, Due 3/13	429,397	429,397	429,397
Aerostructures Acquisition LLC[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 7.5%, Due 3/13	5,436,949	5,436,949	5,436,949
AGA Medical Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Tranche B Term Loan 4.2%, Due 4/13	3,832,209	3,829,883	3,458,569
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan — Delayed Draw Term Loan 3.5%, Due 5/13	442,044	436,817	419,942
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan — Initial Term Loan 3.5%, Due 5/13	3,159,324	3,121,965	3,001,357
AmerCable Incorporated[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan — Initial Term Loan 5.0%, Due 6/14	5,900,113	5,900,113	5,900,113
Astoria Generating Company Acquisitions, L.L.C.[6] *Utilities*	Junior Secured Loan — Term C 4.2%, Due 8/13	4,000,000	4,040,652	3,613,340

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Atlantic Marine Holding Company[6] *Cargo Transport*	Senior Secured Loan — Term Loan 6.5%, Due 3/14	$ 1,721,939	$ 1,731,184	$ 1,721,939
Aurora Diagnostics, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Tranche A Term Loan (First Lien) 6.7%, Due 12/12	4,265,636	4,231,984	4,265,636
Awesome Acquisition Company (CiCi's Pizza)[6] *Personal, Food and Miscellaneous Services*	Junior Secured Loan — Term Loan (Second Lien) 6.5%, Due 6/14	4,000,000	3,977,593	3,820,000
AZ Chem US Inc. *Chemicals, Plastics and Rubber*	Junior Secured Loan — Second Lien Term Loan 6.0%, Due 2/14	3,300,000	2,649,436	2,640,000
AZ Chem US Inc.[6] *Chemicals, Plastics and Rubber*	Junior Secured Loan — Second Lien Term Loan 6.0%, Due 2/14	4,000,000	3,963,645	3,200,000
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan — Loan (Second Lien) 8.1%, Due 7/13	2,443,750	2,473,717	1,906,125
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan — Term Loan (First Lien) 4.5%, Due 7/12	1,955,000	1,964,334	1,803,488
Bicent Power LLC[6] *Utilities*	Junior Secured Loan — Advance (Second Lien) 5.5%, Due 12/14	4,000,000	4,000,000	3,730,000
BP Metals, LLC[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan — Term Loan 10.1%, Due 6/13	4,937,500	4,937,500	4,937,500
Broadlane, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan 8.5%, Due 8/13	4,987,500	4,918,231	4,987,500
Caribe Information Investments Incorporated[6] *Printing and Publishing*	Senior Secured Loan — Term Loan 3.4%, Due 3/13	1,694,554	1,688,542	1,364,116
Cast & Crew Payroll, LLC (Payroll Acquisition)[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan — Initial Term Loan 4.4%, Due 9/12	9,208,100	9,234,910	9,208,100
CEI Holdings, Inc. (Cosmetic Essence)[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Term Loan 6.3%, Due 3/14	1,469,323	1,403,698	1,322,391
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan — Term Loan (First Lien) 9.3%, Due 10/12	2,792,043	2,763,495	2,652,440

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	Mezzanine Investment — Senior Subordinated Notes 15.5%, Due 6/13	$ 10,893,401	$ 10,744,496	$ 7,625,381
Clarke American Corp.[6] *Printing and Publishing*	Senior Secured Loan — Tranche B Term Loan 4.2%, Due 6/14	2,955,000	2,955,000	2,296,035
CoActive Technologies, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan — Term Loan (First Lien) 4.5%, Due 7/14	3,960,000	3,944,053	3,960,000
CoActive Technologies, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan — Term Loan (Second Lien) 8.2%, Due 1/15	2,000,000	1,966,739	2,000,000
Coastal Concrete Southeast, LLC *Buildings and Real Estate*[4]	Mezzanine Investment — Mezzanine Term Loan 10.0%, Due 3/13	8,886,903	8,557,108	6,931,785
Cooper-Standard Automotive Inc[6] *Automobile*	Senior Unsecured Bond — 8.4%, Due 12/14	4,000,000	3,259,487	2,800,000
DaimlerChrysler Financial Services Americas LLC[6] *Finance*	Senior Secured Loan — Term Loan (First Lien) 6.0%, Due 8/12	3,959,925	3,723,431	2,771,947
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan — Term Loan (Second Lien) 6.0%, Due 10/13	1,000,000	1,007,900	990,000
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan — Term Loan (Third Lien) 8.0%, Due 4/14	7,700,000	7,501,237	6,747,125
Delta Educational Systems, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan 7.5%, Due 6/12	2,748,162	2,748,162	2,748,162
Dex Media West LLC *Printing and Publishing*	Senior Secured Loan — Tranche B Term Loan 7.1%, Due 10/14	7,000,000	6,309,065	6,289,990
Dresser, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan — Term Loan (Second Lien) 8.0%, Due 5/15	3,000,000	2,964,626	2,830,005
DRI Holdings, Inc.[6] *Healthcare, Education and Childcare*	Junior Secured Loan — US Term Loan (Second Lien) 10.1%, Due 7/15	6,000,000	5,411,785	6,000,000
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Junior Secured Loan — Loan (Second Lien) 7.5%, Due 12/14	5,000,000	5,000,000	4,850,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Senior Secured Loan — Term Loan (First Lien) 4.2%, Due 12/13	$ 4,455,857	$ 4,460,205	$ 3,965,713
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Initial Term Loan 5.8%, Due 7/13	4,781,365	4,781,365	4,781,365
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Junior Secured Loan — Term Loan (Second Lien) 9.3%, Due 7/14	10,000,000	10,000,000	10,000,000
Emerson Reinsurance Ltd.[3] *Insurance*	Senior Secured Loan — Series C Loan 7.3%, Due 12/11	1,000,000	1,000,000	1,000,000
Endeavor Energy Resources, L.P.[6] *Oil and Gas*	Junior Secured Loan — Initial Loan (Second Lien) 6.3%, Due 4/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan — Term Loan 6.6%, Due 12/12	4,320,878	4,327,124	4,277,670
FD Alpha Acquisition LLC (Fort Dearborn)[6] *Printing and Publishing*	Senior Secured Loan — US Term Loan 6.3%, Due 11/12	1,740,026	1,624,251	1,713,926
First American Payment Systems, L.P.[6] *Finance*	Senior Secured Loan — Term Loan 4.3%, Due 10/13	3,398,000	3,398,000	3,398,000
First Data Corporation *Finance*	Senior Secured Loan — Initial Tranche B-2 Term Loan 3.2%, Due 9/14	4,974,811	4,534,131	4,520,860
Flatiron Re Ltd.[3, 6] *Insurance*	Senior Secured Loan — Closing Date Term Loan 5.7%, Due 12/10	96,855	97,333	96,855
Flatiron Re Ltd.[3, 6] *Insurance*	Senior Secured Loan — Delayed Draw Term Loan 5.7%, Due 12/10	46,914	47,146	46,914
Ford Motor Company[6] *Automobile*	Senior Secured Loan — Term Loan 5.0%, Due 12/13	1,969,849	1,967,877	1,378,894
Freescale Semiconductor, Inc. *Electronics*	Senior Subordinated Bond — 10.3%, Due 12/16	3,000,000	3,008,197	2,287,500
Frontier Drilling USA, Inc.[6] *Oil and Gas*	Senior Secured Loan — Term B Advance 9.3%, Due 6/13	2,000,000	1,998,263	1,940,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Getty Images, Inc. *Printing and Publishing*	Senior Secured Loan — Initial Term Loan 8.1%, Due 7/15	$ 2,981,250	$ 2,981,250	$ 2,712,938
Ginn LA Conduit Lender, Inc.[10] *Buildings and Real Estate*[4]	Senior Secured Loan — First Lien Tranche A Credit-Linked Deposit 7.8%, Due 6/11	1,257,143	1,224,101	150,857
Ginn LA Conduit Lender, Inc.[10] *Buildings and Real Estate*[4]	Senior Secured Loan — First Lien Tranche B Term Loan 7.8%, Due 6/11	2,694,857	2,624,028	323,383
Ginn LA Conduit Lender, Inc.[10] *Buildings and Real Estate*[4]	Junior Secured Loan — Loan (Second Lien) 11.8%, Due 6/12	3,000,000	2,715,997	90,000
Gleason Works, The[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan — New US Term Loan 4.9%, Due 6/13	2,437,280	2,443,443	2,205,739
Hawkeye Renewables, LLC[6] *Farming and Agriculture*	Senior Secured Loan — Term Loan (First Lien) 7.3%, Due 6/12	2,908,544	2,856,515	1,250,674
HMSC Corporation (aka Swett and Crawford)[6] *Insurance*	Junior Secured Loan — Loan (Second Lien) 6.0%, Due 10/14	5,000,000	4,831,923	4,550,000
Huish Detergents Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan — Loan (Second Lien) 4.7%, Due 10/14	1,000,000	1,000,000	765,000
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Initial Term Loan (First Lien) 4.7%, Due 4/14	3,723,929	3,577,920	3,165,339
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan — Loan (Second Lien) 7.6%, Due 10/14	3,000,000	3,000,000	2,347,500
Infiltrator Systems, Inc.[6] *Ecological*	Senior Secured Loan — Term Loan 7.3%, Due 9/12	2,727,813	2,721,193	2,727,813
Inmar, Inc.[6] *Retail Stores*	Senior Secured Loan — Term Loan 2.7%, Due 4/13	3,755,829	3,755,829	3,755,829
International Aluminum Corporation (IAL Acquisition Co.)[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan — Term Loan 4.8%, Due 3/13	3,001,367	3,001,367	3,001,367
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Senior Secured Loan — First Lien Term Loan 6.9%, Due 5/12	4,316,295	4,329,467	4,316,295

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Junior Secured Loan — Term Loans (Second Lien) 10.9%, Due 5/13	$ 3,000,000	$ 3,017,825	$ 3,000,000
Jones Stephens Corp.[6] *Buildings and Real Estate*[4]	Senior Secured Loan — Term Loan 5.2%, Due 9/12	10,090,295	10,068,492	10,090,295
JW Aluminum Company[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan — Term Loan (Second Lien) 7.2%, Due 12/13	5,371,429	5,387,168	3,222,857
Kepler Holdings Limited[3, 6] *Insurance*	Senior Secured Loan — Loan 7.0%, Due 6/09	5,000,000	5,006,639	5,000,000
KIK Custom Products Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan — Loan (Second Lien) 8.5%, Due 12/14	5,000,000	5,000,000	3,400,000
La Paloma Generating Company, LLC[6] *Utilities*	Junior Secured Loan — Loan (Second Lien) 5.0%, Due 8/13	2,000,000	2,014,136	2,000,000
LBREP/L-Suncal Master I LLC[6, 10] *Buildings and Real Estate*[4]	Senior Secured Loan — Term Loan (First Lien) 5.5%, Due 1/10	3,875,156	3,835,789	290,637
LBREP/L-Suncal Master I LLC[6, 10] *Buildings and Real Estate*[4]	Junior Secured Loan — Term Loan (Second Lien) 9.5%, Due 1/11	2,000,000	1,920,211	7,500
LBREP/L-Suncal Master I LLC[10] *Buildings and Real Estate*[4]	Junior Secured Loan — Term Loan (Third Lien) 11.3%, Due 2/12	2,332,868	2,332,868	1,000
Lear Corporation *Automobile*	Senior Secured Loan — Term Loan 3.7%, Due 4/12	1,993,927	1,709,640	1,694,838
Legacy Cabinets, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Term Loan 5.8%, Due 8/12	2,269,824	2,269,824	2,269,824
Levlad, LLC & Arbonne International, LLC[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Term Loan 4.5%, Due 3/14	2,731,786	2,731,786	1,693,708
LN Acquisition Corp. (Lincoln Industrial)[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan — Initial Term Loan (Second Lien) 6.8%, Due 1/15	2,000,000	2,000,000	1,970,000
LPL Holdings, Inc.[6] *Finance*	Senior Secured Loan — Tranche D Term Loan 2.8%, Due 6/13	3,305,000	3,324,288	3,139,750

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Manitowoc Company Inc., The *Diversified/Conglomerate Manufacturing*	Senior Secured Loan — Term B Loan 6.5%, Due 8/14	$ 2,000,000	$ 1,955,000	$ 1,817,500
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan (First Lien) 6.6%, Due 12/12	5,899,925	5,884,108	5,899,925
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Junior Secured Loan — Term Loan (Second Lien) 9.4%, Due 6/13	1,000,000	1,000,000	1,000,000
Murray Energy Corporation[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan — Tranche B Term Loan (First Lien) 6.9%, Due 1/10	1,949,367	1,954,403	1,910,380
Mylan Inc. *Healthcare, Education and Childcare*	Senior Secured Loan — U.S. Tranche B Term Loan 5.0%, Due 10/14	1,969,849	1,912,634	1,792,563
National Interest Security Company, L.L.C. *Aerospace and Defense*	Mezzanine Investment — Mezzanine Facility 15.0%, Due 6/13	3,000,000	3,000,000	3,000,000
National Interest Security Company, L.L.C. *Aerospace and Defense*	Junior Secured Loan — Second Lien Term Loan 15.0%, Due 6/13	1,000,000	1,000,000	1,000,000
National Interest Security Company, L.L.C.[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan - First Lien 7.8%, Due 12/12	8,075,000	8,075,000	8,075,000
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan — Construction Term Loan 8.3%, Due 6/13	1,382,120	1,384,467	276,424
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan — Synthetic LC Term Loan 8.3%, Due 6/13	57,257	57,354	11,451
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan — Incremental Term Loan Add On 6.8%, Due 6/11	744,382	744,382	744,382
PAS Technologies Inc.[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 6.8%, Due 6/11	3,680,556	3,665,393	3,680,556
Pegasus Solutions, Inc.[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan — Term Loan 7.8%, Due 4/13	5,695,000	5,695,000	5,695,000
Pegasus Solutions, Inc.[13] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Unsecured Bond — 10.5%, Due 4/15	2,000,000	2,000,000	2,000,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Primus International Inc.[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 4.3%, Due 6/12	$ 1,246,565	$ 1,248,519	$ 1,215,401
QA Direct Holdings, LLC[6] *Printing and Publishing*	Senior Secured Loan — Term Loan 6.8%, Due 8/14	4,937,343	4,896,292	4,937,343
Resco Products, Inc.[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan — Term Loan (Second Lien) 10.2%, Due 6/14	6,650,000	6,471,193	6,517,000
Rhodes Companies, LLC, The[6] *Buildings and Real Estate*[4]	Senior Secured Loan — First Lien Term Loan 5.0%, Due 11/10	1,685,674	1,629,483	842,837
Rhodes Companies, LLC, The[6] *Buildings and Real Estate*[4]	Junior Secured Loan — Second Lien Term Loan 9.2%, Due 11/11	2,013,977	2,022,278	503,494
San Juan Cable, LLC[6] *Broadcasting and Entertainment*	Junior Secured Loan — Loan (Second Lien) 7.7%, Due 10/13	3,000,000	2,982,607	2,850,000
Schneller LLC[6] *Aerospace and Defense*	Senior Secured Loan — Term Loan 5.1%, Due 6/13	4,694,560	4,658,215	4,694,560
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan — Term Loan 5.8%, Due 6/12	1,430,000	1,427,248	1,430,000
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan — Term Loan 5.8%, Due 6/12	953,333	951,498	953,333
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan — Loan (Second Lien) 7.5%, Due 12/14	7,500,000	7,500,000	7,500,000
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan — Term Loan (First Lien) 3.0%, Due 6/14	3,930,101	3,930,101	3,930,101
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan — Delayed Draw Term Loan 3.0%, Due 7/12	766,973	771,034	766,973
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan — Initial Term Loan 4.0%, Due 7/12	3,805,590	3,825,741	3,805,590
Standard Steel, LLC[6] *Cargo Transport*	Junior Secured Loan — Loan (Second Lien) 7.5%, Due 7/13	1,750,000	1,758,373	1,750,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Texas Competitive Electric Holdings Company, LLC (TXU) *Utilities*	Senior Secured Loan — Initial Tranche B-2 Term Loan 5.6%, Due 10/14	$ 1,989,924	$ 1,814,330	$ 1,810,831
TPF Generation Holdings, LLC[6] *Utilities*	Junior Secured Loan — Loan (Second Lien) 5.7%, Due 12/14	2,000,000	2,028,327	1,900,000
TransAxle LLC *Automobile*	Senior Secured Loan — Revolving Loan 6.0%, Due 8/11	400,000	397,067	398,716
TransAxle LLC *Automobile*	Senior Secured Loan — Term Loan 5.8%, Due 9/12	1,477,554	1,477,554	1,477,554
TUI University, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan — Term Loan (First Lien) 6.1%, Due 7/14	3,736,736	3,581,708	3,568,583
Twin-Star International, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan — Term Loan 7.9%, Due 4/13	4,339,736	4,339,736	4,339,736
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Junior Secured Loan — Term Loan (Second Lien) 9.0%, Due 12/13	6,500,000	6,486,324	6,500,000
Walker Group Holdings LLC *Cargo Transport*	Junior Secured Loan — Term Loan B 12.6%, Due 12/12	526,500	526,500	526,500
Walker Group Holdings LLC[6] *Cargo Transport*	Junior Secured Loan — Term Loan B 12.5%, Due 12/12	5,000,000	5,000,000	5,000,000
Water PIK, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan — Loan (First Lien) 4.2%, Due 6/13	1,965,050	1,954,720	1,965,050
Wesco Aircraft Hardware Corp. *Aerospace and Defense*	Junior Secured Loan — Loan (Second Lien) 6.2%, Due 3/14	2,000,000	1,923,443	1,845,000
Wesco Aircraft Hardware Corp.[6] *Aerospace and Defense*	Junior Secured Loan — Loan (Second Lien) 6.2%, Due 3/14	4,132,887	4,161,055	3,812,589
WireCo WorldGroup Inc. [6, 13] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment — 11.0%, Due 2/15	10,000,000	10,000,000	10,000,000
WireCo WorldGroup Inc. [13] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment — 11.0%, Due 2/15	5,000,000	4,795,580	5,000,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan — Acquisition Term Loan 3.7%, Due 6/12	$ 775,624	$ 767,066	$ 729,087
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan — Synthetic Letter of Credit .4%, Due 6/12	668,413	661,032	628,304
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan — Synthetic Revolver Deposit 1.1%, Due 6/12	167,103	165,259	157,077
Wolf Hollow I, LP[6] *Utilities*	Junior Secured Loan — Term Loan (Second Lien) 6.0%, Due 12/12	2,683,177	2,687,607	2,468,522
X-Rite, Incorporated[6] *Electronics*	Junior Secured Loan — Loan (Second Lien) 14.4%, Due 10/13	645,361	645,361	645,361
X-Rite, Incorporated[6] *Electronics*	Senior Secured Loan — Term Loan (First Lien) 7.3%, Due 10/12	633,560	631,128	633,560
Total Investment in Debt Securities (158% of net asset value at fair value)		$ 430,366,772	$ 423,859,086	$ 384,486,111

Equity Portfolio

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value[2]
Aerostructures Holdings L.P.[7] *Aerospace and Defense*	Partnership Interests	1.2%	$ 1,000,000	$ 750,000
Aerostructures Holdings L.P.[7] *Aerospace and Defense*	Series A Preferred Interests	0.0%	160,361	160,361
Allen-Vanguard Corporation[3, 7] *Aerospace and Defense*	Common Shares	10,253	42,542	1,853
Coastal Concrete Southeast, LLC[7, 8] *Buildings and Real Estate[4]*	Warrants	580	474,140	—
eInstruction Acquisition, LLC[7] *Healthcare, Education and Childcare*	Membership Units	1.1%	1,079,617	1,079,617

Portfolio Company / Principal Business	Investment	Percentage Interest/Shares	Cost	Value[2]
FP WRCA Coinvestment Fund VII, Ltd.[3, 7] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Class A Shares	15,000	$ 1,500,000	$ 2,398,000
Park Avenue Coastal Holding, LLC *Buildings and Real Estate*[4]	Common Interests	2.0%	1,000,000	—
Total Investment in Equity Securities (2% of net asset value at fair value)			$ 5,256,660	$ 4,389,831

CLO Fund Securities

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Grant Grove CLO, Ltd.[3, 13]	Subordinated Securities	22.2%	$ 4,620,951	$ 4,665,000
Katonah III, Ltd.[3, 13]	Preferred Shares	23.1%	4,500,000	1,661,000
Katonah IV, Ltd.[3, 13]	Preferred Shares	17.1%	3,150,000	1,601,000
Katonah V, Ltd.[3, 13]	Preferred Shares	26.7%	3,320,000	1,172,000
Katonah VII CLO Ltd.[3, 9, 13]	Subordinated Securities	16.4%	4,500,000	2,629,000
Katonah VIII CLO Ltd[3, 9, 13]	Subordinated Securities	10.3%	3,400,000	2,252,000
Katonah IX CLO Ltd[3, 9, 13]	Preferred Shares	6.9%	2,000,000	1,921,000
Katonah X CLO Ltd [3, 9, 13]	Subordinated Securities	33.3%	11,324,758	11,875,000
Katonah 2007-I CLO Ltd.[3, 9, 13]	Preferred Shares	100.0%	29,560,886	28,859,236
Total Investment in CLO Fund Securities (23% of net asset value at fair value)			$ 66,376,595	$ 56,635,236

Asset Manager Affiliates

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah Debt Advisors, L.L.C.	Membership Interests	100%	$ 37,151,495	$ 54,731,312
PKSIL LLC	Class A Shares	100%	1,793,276	1,793,276
PKSIL LLC	Class B Shares	35%	3,500	3,500
Total Investment in Asset Manager Affiliates (22% of net asset value at fair value)			$ 38,948,271	$ 56,528,088

Time Deposits and Money Market Account

Time Deposits and Money Market Account	Investment	Yield	Cost	Value[2]
US Bank Eurodollar Sweep CL2[3, 11]	Time Deposit	0.10%	$ 10,462,702	$ 10,462,702
JP Morgan Asset Account	Time Deposit	0.20%	1,723,295	1,723,295
JP Morgan Business Money Market Account[12]	Money Market Account	0.19%	10	10
Total Investment in Time Deposit and Money Market Accounts (5% of net asset value at fair value)			$ 12,186,007	$ 12,186,007
Total Investments[5] (211% of net asset value at fair value)			$ 546,626,619	$ 514,225,273

See accompanying notes to financial statements.

1 A majority of the variable rate loans to the Company's portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which typically resets semi-annually, quarterly, or monthly. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at December 31, 2008.

2 Reflects the fair market value of all existing investments as of December 31, 2008, as determined by the Company's Board of Directors.

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

4 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2008, the Company had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through the Company's investments in CLO funds.

5 The aggregate cost of investments for federal income tax purposes is approximately $547 million. The aggregate gross unrealized appreciation is approximately $20 million and the aggregate gross unrealized depreciation is approximately $53 million.

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

7 Non-income producing.

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

9 An affiliate CLO Fund managed by Katonah Debt Advisors L.L.C. or its affiliate.

10 Loan or debt security is on non-accrual status and therefore is considered non-income producing.

11 Time deposit investment partially restricted under terms of the secured credit facility (see Note 6 to financial statements).

12 Money market account holding restricted cash for employee flexible spending accounts.

13 These securities were acquired in a transaction that was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Rule 144A thereunder. These securities may be resold only in transactions that are exempt from the registration requirements of the Securities Act, normally to qualified institutional buyers.

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Per Share Data:		
Net asset value, at beginning of period	$ 11.68	$ 14.38
Net income (loss)		
Net investment income[1]	0.62	0.86
Net realized losses[1]	(0.24)	(0.03)
Net change in unrealized appreciation/depreciation on investments[1]	(0.80)	(2.60)
Net loss	(0.42)	(1.77)
Net decrease in net assets resulting from distributions		
From net investment income	(0.24)	(0.82)
Net decrease in net assets resulting from distributions	(0.24)	(0.82)
Net increase in net assets relating to stock-based transactions		
Issuance of common stock (not including DRIP)	—	1.27
Issuance of common stock under dividend reinvestment plan	0.05	0.06
Stock based compensation expense	0.02	0.02
Net increase in net assets relating to stock-based transactions	0.07	1.35
Net asset value, end of period	$ 11.09	$ 13.14
Total net asset value return[2]	(3.0)%	(3.3)%
Ratio/Supplemental Data:		
Per share market value at beginning of period	$ 3.64	$ 12.00
Per share market value at end of period	$ 6.32	$ 10.00
Total market return[3]	80.2%	(10.3)%
Shares outstanding at end of period	21,743,470	21,234,482
Net assets at end of period	$ 241,207,851	$ 278,979,044
Portfolio turnover rate[4]	1.2%	11.1%
Average debt outstanding	$ 245,700,052	$ 244,890,110
Asset coverage ratio	203%	$ 221%
Ratio of net investment income to average net assets[5]	10.9%	12.5%
Ratio of total expenses to average net assets[5]	5.0%	7.8%
Ratio of interest expense to average net assets[5]	2.5%	4.4%
Ratio of non-interest expenses to average net assets[5]	2.5%	3.4%

[1] Based on weighted average number of common shares outstanding for the period

[2] Total net asset value return (not annualized) equals the change in the net asset value per share over the beginning of period net asset value per share plus dividends, divided by the beginning net asset value per share.

[3] Total market return (not annualized) equals the change in the ending market value over the beginning of period market value plus dividends, divided by the beginning market value.

[4] Not annualized

[5] Annualized

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION

Kohlberg Capital Corporation ("Kohlberg Capital" or the "Company") is an internally managed, non-diversified closed-end investment company that is regulated as a business development company ("BDC") under the Investment Company Act of 1940. The Company originates, structures and invests in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. The Company defines the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization ("EBITDA"), of $10 million to $50 million and/or total debt of $25 million to $150 million. The Company was formed as a Delaware LLC on August 8, 2006 and, prior to the issuance of shares of the Company's common stock in its initial public offering, converted to a corporation incorporated in Delaware on December 11, 2006. Prior to its initial public offering ("IPO"), the Company did not have material operations. The Company's IPO of 14,462,000 shares of common stock raised net proceeds of approximately $200 million. Prior to the IPO, the Company issued 3,484,333 shares to affiliates of Kohlberg & Co., LLC ("Kohlberg & Co."), a leading middle market private equity firm, in exchange for the contribution of their ownership interests in Katonah Debt Advisors, L.L.C. (collectively with its affiliates, "Katonah Debt Advisors") and in securities issued by collateralized loan obligation funds ("CLO Funds") managed by Katonah Debt Advisors and two other asset managers to the Company. As of June 30, 2009, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

The Company's investment objective is to generate current income and capital appreciation from investments made in senior secured term loans, mezzanine debt and selected equity investments in privately-held middle market companies. The Company also expects to continue to receive distributions of recurring fee income and to generate capital appreciation from its investment in the asset management business of Katonah Debt Advisors. Katonah Debt Advisors manages CLO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. The Company's investment portfolio as well as the investment portfolios of the CLO Funds in which it has invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

The Company has elected to be treated as a Regulated Investment Company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to this election, the Company generally will not have to pay corporate-level taxes on any income that it distributes to its stockholders.

As discussed in Note 6, the Company is currently using any income generated by the assets collateralizing its secured credit facility to pay principal, interest and other expenses of such facility – despite the Company being required, from a tax perspective, to distribute to the shareholders substantially all of its net investment income including the net amounts generated by the collateralized assets. While these collateralized assets make up a significant portion of the Company's investments, they do not make up the entire investment portfolio. Management believes that its unencumbered assets should provide sufficient liquidity for the Company to meet its ongoing operating and distribution requirements over the next twelve months.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements include the accounts of the Company and the accounts of its special purpose financing subsidiary, Kohlberg Capital Funding LLC I. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and Securities Exchange Act of 1934, the Company does not consolidate portfolio company investments, including those in which it has a controlling interest (Katonah Debt Advisors and its affiliates currently is the only company in which the Company has a controlling interest).

The accompanying unaudited financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required for annual financial statements. The unaudited interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission ("SEC").

The financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition for the periods presented. Furthermore, the preparation of the financial statements requires management to make significant estimates and assumptions including the fair value of investments that do not have a readily available market value. Actual results could differ from those estimates, and the differences could be material. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for the full year.

Certain reclassifications were made to prior year's presentation to conform to the current year. Time deposits and money market accounts, which were previously classified as cash and cash equivalents, have been reclassified to short term investments.

The Company considers events or transactions that occur after the date of the Balance Sheet but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through August 10, 2009, the date of issuance of these financial statements.

Investments

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

Valuation of Portfolio Investments. Kohlberg Capital's Board of Directors is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Debt and equity securities for which market quotations are readily available are generally valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued by the Board of Directors based on detailed analyses prepared by management and reviewed quarterly by the Valuation Committee of the Board of Directors. Valuations are conducted on 100% of the investment portfolio at the end of each fiscal quarter.

The Company follows the provisions of Financial Accounting Standards Board *Statement of Financial Accounting Standards No. 157—Fair Value Measurements* ("SFAS 157"). In part, SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to the adoption of SFAS 157, the FASB has issued various staff positions clarifying the initial standard as noted below.

The Company also follows the provisions of *FASB Staff Position No. FAS 157-3—Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (" FSP 157-3") which provides an illustrative example of how to determine the fair value of a financial asset in an inactive market and did not change the fair value measurement principles set forth in SFAS 157. Since adopting SFAS 157 in January 2008, the Company's practices for determining the fair value of its investment portfolio have been, and continue to be, consistent with the guidance provided in the example in FSP 157-3. As a result, the adoption of FSP 157-3 did not affect the Company's practices for determining the fair value of its investment portfolio and did not have a material effect on the Company's financial position or results of operations.

On April 9, 2009, the FASB issued FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"), to provide additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased as well as on identifying circumstances that indicate that a transaction is not orderly. FSP 157-4 provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities). FSP 157-4 further amends SFAS 157 to require the disclosure in interim and annual periods of the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. FSP No. 157-4 is effective for the Company's interim and annual reporting periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a material effect on the Company's financial position or results of operations.

Effective July 23, 2009, the Board established revised valuation procedures reflecting its determination that the Company had sufficient internal expertise and access to market information to carry out the quarterly valuation process in conformity with GAAP without the involvement of, or additional expense associated with, a third-party valuation provider, and terminated the engagement of Duff & Phelps, LLC. The Company expects that this termination will result in cost savings of approximately $360,000 per year.

As part of the valuation process, the Company may take into account the following types of factors, as relevant, in the determination of fair value: the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company's ability to make debt service payments, its earnings, net cash flows, changes in the interest rate environment and the credit markets that may generally affect the price at which similar investment may be made, the markets in which the portfolio company does business, evaluations to peer comparables, seasoning of the loan and other relevant factors. If possible, the Company will corroborate its valuation of an investment with an external event such as a recent purchase transaction, public offering or sale.

The Board of Directors may consider other methods of valuation than those set forth above to determine the fair value of investments as appropriate in conformity with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material. Further, such investments may be generally subject to legal and other restrictions on resale and considered less liquid than publicly traded securities. In addition, changes in the market environment and other events may occur over the life of the investments that may cause the ultimately realized gains or losses on such investments to be different from the currently assigned valuations.

The Company's valuation process at the end of each fiscal quarter through and including the quarter ended June 30, 2009 is described as follows:

1) Each portfolio company or investment is cross-referenced to an independent pricing service to determine if a current market quote is available;

   a) The nature and quality of such quote is reviewed to determine reliability and relevance of the quote – factors considered include if the quote is from a transaction, a broker quote, the date and aging of such quote, if the transaction is arms-length, a liquidation or distressed sale and other factors.

2) If an investment does not have a market quotation on either a broad market exchange or from an independent pricing service, the investment is initially valued by the Company's investment professionals responsible for the portfolio investment in conjunction with the portfolio management team.

3) Preliminary valuation conclusions are discussed and documented by management.

4) The Valuation Committee of the Board of Directors reviews the portfolio valuations for each fiscal quarter together with supporting information prepared by management.

5) Upon approval of the investment valuations by the Valuation Committee of the Board of Directors, the Audit Committee of the Board of Directors reviews the results for inclusion in the Company's quarterly and annual financial statements.

6) The Board of Directors discusses the valuations and determines in good faith whether the fair values of each investment in the portfolio is reasonable based upon the independent pricing service, input of management, independent valuation firm and the recommendations of the Valuation Committee of the Board of Directors.

Loans and Debt Securities. For loans and debt securities for which market quotations are readily available, such as broadly syndicated term loans and bonds, fair value generally is equal to the market price for those loans and securities. For loans and debt securities for which a market quotation is not readily available, such as middle market term loans, second lien term loans and mezzanine debt investments, fair value is determined by evaluating the borrower's enterprise value and other market or income valuation approaches generally used to determine fair value. The analysis of enterprise value or overall financial condition or other factors or methodologies may lead to a determination of fair value at a different amount other than cost.

Equity and Equity-Related Securities. The Company's equity and equity-related securities in portfolio companies for which there is no liquid public market are carried at fair value, which is determined using various factors, including cash flow from operations of the portfolio company and other pertinent factors, such as recent offers to purchase a portfolio company's securities or other liquidation events. The determined fair values are generally discounted to account for restrictions on resale and minority ownership positions. The value of the Company's equity and equity-related securities in public companies for which market quotations are readily available are based upon the closing public market price on the balance sheet date. Securities that carry certain restrictions on sale are typically valued at a discount from the public market value of the security. The Company's investment in its wholly-owned asset management company, Katonah Debt Advisors, is valued based on the considerations of standard measures such as a percentage of assets under management, an income approach to value using a discounted cash flow methodology and a multiple of operating income used to value other asset management companies.

CLO Fund Securities. The Company typically makes a minority investment in the most junior class of securities of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies (collectively "CLO Investments"). The Company's CLO Investments relate exclusively to credit instruments issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages, or consumer borrowings.

The Company's investments in CLO Fund securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and the cash outflows for interest expense, debt paydown and other fund costs for the CLO Funds which are approaching or past the end of their reinvestment period and therefore begin to sell assets and/or use principal repayments to pay-down CLO Fund debt, and for which there continue to be net cash distributions to the class of securities owned by the Company, or (ii) the net asset value of the CLO Fund for CLO Funds which are approaching or past the end of their reinvestment period and therefore begin to sell assets and/or use principal repayments to pay-down CLO Fund debt, and for which there are negligible net cash distributions to the class of securities owned by the Company, or (iii) a discounted cash flow model for more recent CLO Funds that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar securities or preferred shares to those in which the Company has invested. The Company recognizes unrealized appreciation or depreciation on the Company's investments in CLO Fund securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool are updated and the revised cash flows are used in determining the fair value of the CLO Investment. The Company determines the fair value of its investments in CLO Fund securities on an individual security-by-security basis.

For bond rated tranches of CLO Fund securities (those above the junior class), fair value is based on a discounted cash flow of prospective bond payments at a current market yield and considers other factors such as the default and recovery rates of underlying assets in the CLO, as may be applicable.

Cash. The Company defines cash as demand deposits.

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

Time Deposits and Money Market Accounts. Time deposits primarily represent overnight Eurodollar investments of cash held in non-demand deposit accounts. Such time deposits are partially restricted under terms of the secured credit facility. The money market account contains restricted cash held for employee flexible spending accounts.

Interest Income. Interest income, including for amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company generally places a loan or security on non-accrual status and ceases recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if the Company otherwise does not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of June 30, 2009, eight issuers representing 1% of total investments at fair value were considered in default.

Dividends from Affiliate Asset Manager. The Company records dividend income from its affiliate asset manager on the declaration date, which represents the ex-dividend date.

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

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

Capital Structuring Service Fees. The Company may earn ancillary structuring and other fees related to the origination and or investment in debt and investment securities.

Debt Issuance Costs. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized and amortized ratably over the contractual term of the borrowing. At June 30, 2009, there was an unamortized debt issuance cost of approximately $1 million included in other assets in the accompanying balance sheet. Amortization expense for the six months ended June 30, 2009 and 2008 was approximately $412,000 and $211,000, respectively.

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

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

The Company has adopted a dividend reinvestment plan ("DRIP") that provides for reinvestment of its distributions on behalf of its stockholders, unless a stockholder "opts out" of the plan to receive cash in lieu of having their cash dividends automatically reinvested in additional shares of the Company's common stock.

Recent Accounting Pronouncements

Standard on Subsequent Events. On May 28, 2009, the Financial Accounting Standards Board issued SFAS 165—*Subsequent Events* ("SFAS 165"). SFAS 165 provides guidance on management's assessment of subsequent events and requires additional disclosure about the timing of management's assessment of subsequent events. SFAS 165 does not significantly change the accounting requirements for the reporting of subsequent events. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted SFAS 165 as of June 30, 2009 and the adoption of this standard did not materially impact the Company's financial position, results of operations, changes in net assets or disclosures in the financial statements.

On April 9, 2009, *FASB Staff Position No. FAS 107-I and APB 28-I - Interim Disclosures about Fair Value of Financial Instruments*, or FSP 107-1, was issued. This FSP requires disclosures about financial instruments, including fair value, carrying amount, and method and significant assumptions used to estimate the fair value. The Company adopted this standard as of June 30, 2009 and the adoption of this standard did not affect the Company's financial statement disclosures.

Two-Class Method of Presenting Earnings Per Share. In June 2008, *FASB Staff Position EITF 03-06-1—Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities* ("EITF 03-06-1") was issued. This standard requires companies to include unvested share-based payment awards that contain non-forfeitable rights to dividends in the computation of earnings per share pursuant to the two-class method. EITF 03-06-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company adopted this standard beginning with its financial statements ended March 31, 2009 and, as required, applied this standard retroactively to all reported periods. The adoption of this standard did not have a material impact on the Company's calculation of earnings per share.

Codification of Accounting Standards. In June 2009, the Financial Accounting Standards Board issued FASB Statement No.168—*The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168"). When SFAS 168 is effective, the Codification will supersede all then-existing non-SEC literature and all reporting standards. It is not expected that SFAS 168 will change existing accounting standards, but rather changes the way that companies will refer to accounting standards. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. As a result, the Company will adopt SFAS 168 for its financial statements covering the period ending September 30, 2009. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

3. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in stockholders’ equity per share for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Numerator for basic and diluted net increase (decrease) in stockholders’ equity resulting from operations per share:[1]	$ (3,147,457)	$ 7,290,165	$ (5,392,892)	$ 7,488,668
Denominator for basic and diluted weighted average shares:	21,692,003	20,302,781	21,612,819	19,188,863
Basic and diluted net increase (decrease) in stockholders’ equity resulting from operations per share:	$ (0.15)	$ 0.36	$ (0.25)	$ 0.39

[1] Represents the amount of the net increase (decrease) in stockholders' equity from operations allocated to common shares.

The following information sets forth the computation of basic and diluted net investment income per share for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Numerator for basic and diluted net investment income per share:[1]	$ 6,313,195	$ 7,651,187	$ 13,298,450	$ 16,426,442
Denominator for basic and diluted weighted average shares:	21,692,003	20,302,781	21,612,819	19,188,863
Basic and diluted net investment income per share:	$ 0.29	$ 0.38	$ 0.62	$ 0.86

[1] Represents the amount of the net investment income allocated to common shares.

4. INVESTMENTS

The Company invests in senior secured loans and mezzanine debt and, to a lesser extent, equity capital of middle market companies in a variety of industries. The Company generally targets companies that generate positive cash flows because the Company looks to cash flows as the primary source for servicing debt. However, the Company may invest in other industries if it is presented with attractive opportunities.

The following table shows the Company's portfolio by security type at June 30, 2009 and December 31, 2008:

	June 30, 2009 (unaudited)			December 31, 2008		
Security Type	**Cost**	**Fair Value**	**%[1]**	**Cost**	**Fair Value**	**%[1]**
Time Deposits	$ 6,465,241	$ 6,465,241	3%	$ 12,185,997	$ 12,185,997	5%
Money Market Account	3,876	3,876	-	10	10	-
Senior Secured Loan	199,899,670	180,663,414	75	235,123,695	218,342,528	87
Junior Secured Loan	143,519,484	125,041,289	52	143,370,524	126,498,918	51
Mezzanine Investment	38,492,318	27,860,046	12	37,097,183	32,557,165	12
Senior Subordinated Bond	3,007,686	2,287,500	1	3,008,197	2,287,500	1
Senior Unsecured Bond	5,315,690	3,120,000	1	5,259,487	4,800,000	2
CLO Fund Securities	68,158,309	56,453,236	23	66,376,595	56,635,236	23
Equity Securities	5,256,660	4,389,081	2	5,256,660	4,389,831	2
Affiliate Asset Managers	38,917,322	56,503,709	23	38,948,271	56,528,088	22
Total	$ 509,036,256	$ 462,787,392	192%	$ 546,626,619	$ 514,225,273	205%

[1] Calculated as a percentage of net asset value.

The unaudited industry concentrations, based on the fair value of the Company's investment portfolio as of June 30, 2009 and December 31, 2008, were as follows:

	June 30, 2009			December 31, 2008		
Industry Classification	**Cost**	**Fair Value**	**%[1]**	**Cost**	**Fair Value**	**%[1]**
Aerospace and Defense	$ 34,482,761	$ 33,799,196	14%	$ 35,545,254	$ 34,846,047	14%
Asset Management Companies[2]	38,917,322	56,503,709	23	38,948,271	56,528,088	23
Automobile	9,332,166	5,077,556	2	8,811,625	7,750,003	3
Broadcasting and Entertainment	2,984,392	2,850,000	1	2,982,607	2,850,000	1
Buildings and Real Estate[3]	38,451,433	13,961,237	6	38,404,495	19,231,787	8
Cargo Transport	19,914,771	19,891,296	8	20,099,157	20,071,001	8
Chemicals, Plastics and Rubber	6,679,074	5,840,000	2	6,613,081	5,840,000	2
CLO Fund Securities	68,158,309	56,453,236	23	66,376,595	56,635,236	23
Containers, Packaging and Glass	7,063,849	7,037,531	3	7,347,292	7,316,295	3
Diversified/Conglomerate Manufacturing	4,068,639	4,063,494	2	6,282,124	6,095,170	2
Diversified/Conglomerate Service	15,766,260	15,050,509	6	15,868,152	15,139,713	6
Ecological	2,708,146	2,713,860	1	2,721,193	2,727,813	1
Electronics	14,895,055	13,390,679	6	15,172,568	13,686,879	5
Farming and Agriculture	4,306,546	841,958	-	4,298,336	1,538,550	1
Finance	6,391,984	5,842,606	2	14,979,849	13,830,557	6
Healthcare, Education and Childcare	44,900,817	45,513,531	19	49,379,475	49,581,920	20
Home and Office Furnishings, Housewares, and Durable Consumer Goods	20,155,793	18,767,463	8	21,331,162	20,273,496	8
Hotels, Motels, Inns and Gaming	6,183,586	6,070,940	3	6,322,276	6,073,739	2
Insurance	4,846,403	4,550,000	2	10,983,041	10,693,769	4
Leisure, Amusement, Motion Pictures, Entertainment	16,212,176	15,790,600	7	16,929,910	16,903,100	6
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	33,044,738	33,878,168	14	35,514,554	36,263,857	14
Mining, Steel, Iron and Non-Precious Metals	21,270,731	17,559,456	7	21,751,631	19,589,104	8
Oil and Gas	5,998,456	6,000,000	2	5,998,263	5,940,000	2
Personal and Non Durable Consumer Products (Mfg. Only)	15,076,850	11,491,049	5	15,208,764	12,264,708	5
Personal, Food and Miscellaneous Services	15,610,991	10,878,244	5	14,722,088	11,445,381	5
Printing and Publishing	24,338,846	23,027,475	10	29,914,605	28,130,061	11
Retail Stores	3,547,864	3,547,864	1	3,755,829	3,755,829	2
Time Deposits and Money Market Account	6,469,117	6,469,117	3	12,186,007	12,186,007	5
Utilities	17,259,181	15,926,618	7	18,178,415	17,037,163	7
Total	$ 509,036,256	$ 462,787,392	192%	$ 546,626,619	$ 514,225,273	205%

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1 Calculated as a percentage of net asset value.

2 Represents Katonah Debt Advisors and related asset manager affiliates.

3 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of June 30, 2009 and December 31, 2008, the Company had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities) or companies providing mortgage lending.

The Company may invest up to 30% of the investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. The Company expects that these public companies generally will have debt that is non-investment grade. The Company also may invest in debt of middle market companies located outside of the United States, which investments (excluding the Company's investments in CLO Funds) are generally not anticipated to be in excess of 10% of the investment portfolio at the time such investments are made. As a result of regulatory restrictions, the Company is not permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment.

At June 30, 2009 and December 31, 2008, approximately 14% and 15%, respectively, of the Company's investments were foreign assets (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 12% and 11% of its portfolio on such dates).

At June 30, 2009 and December 31, 2008, the Company's ten largest portfolio companies represented approximately 34% and 31%, respectively, of the total fair value of its investments. The Company's largest investment, Katonah Debt Advisors which is its wholly-owned portfolio company, represented 12% and 11% of the total fair value of the Company's investments at June 30, 2009 and December 31, 2008, respectively. Excluding Katonah Debt Advisors and CLO Fund securities, the Company's ten largest portfolio companies represented approximately 17% and 16% of the total fair value of the Company's investments at June 30, 2009 and December 31, 2008, respectively.

Investment in CLO Fund Securities

The Company typically makes a minority investment in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies. It is the Company's intention that its aggregate CLO Investments generally not exceed 15% of the Company's total investment portfolio. Preferred shares or subordinated securities (junior class) issued by CLO Funds are entitled to recurring dividend distributions which generally equal the net remaining cash flow of the payments made by the underlying CLO Fund's securities less contractual payments to senior bond holders and CLO Fund expenses. CLO Funds managed by Katonah Debt Advisors ("CLO fund securities managed by affiliate") invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which the Company has an investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The junior class of CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares.

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

The subordinated securities and preferred share securities are considered equity positions in the CLO Funds and, as of June 30, 2009 and December 31, 2008, the Company had approximately $49 million and $57 million, respectively, of such CLO equity investments at fair value. The cost basis of the Company's investment in CLO Fund equity securities as of June 30, 2009 was approximately $67 million and aggregate unrealized depreciation on the CLO Fund securities totaled approximately $18 million. The cost basis of the Company's investment in CLO Fund equity securities as of December 31, 2008, was approximately $66 million and aggregate unrealized depreciation on the CLO Fund securities totaled approximately $9 million.

In May, 2009 the Company purchased the class B-2L notes of the Katonah 2007-1 CLO investment managed by Katonah Debt Advisors ("Katonah 2007-1 BB"). The Company opportunistically purchased the Katonah 2007-1 BB at a distressed price. The fair value for the Katonah 2007-1 BB is based on a discounted cash flow of prospective bond payments at a current market yield and considers other factors such as the default and recovery rates of underlying assets in the CLO, as may be applicable. The fair value, cost basis, and unrealized appreciation of the Katonah 2007-1 BB investment as of June 30, 2009 were approximately $8 million, $1 million, and $7 million, respectively. Both the BB-rated notes and preferred shares of Katonah 2007-1 are owned 100% by the Company and are making their required quarterly distributions.

Fair Value Measurements

The Company follows the provisions of SFAS 157 which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. SFAS 157 defines fair value and establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Subsequent to the adoption of SFAS 157, the FASB has issued various staff positions clarifying the initial standard (see Significant Accounting Policies-Investments).

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by SFAS 157, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably affect the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include illiquid corporate loans and bonds and less liquid, privately held or restricted equity securities for which some level of recent trading activity has been observed.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable-market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation process.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the investment.

The following table summarizes the fair value of investments by the above SFAS No. 157 fair value hierarchy levels as of June 30, 2009:

	Level I	Level II	Level III	Total
Time deposit and money market account	$ —	$ 6,469,117	$ —	$ 6,469,117
Debt securities	—	—	338,972,249	338,972,249
CLO fund securities	—	—	56,453,236	56,453,236
Equity securities	1,103	—	4,387,978	4,389,081
Asset manager affiliate	—	—	56,503,709	56,503,709
Total	$ 1,103	$ 6,469,117	$ 456,317,172	$ 462,787,392

The following table summarizes the Level III investments by valuation methodology as of June 30, 2009:

Fair Value Based on	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total
Public / private company comparables	75	—	—	12	87
Discounted cash flow	—	12	—	—	12
Residual enterprise value	—	—	1	—	1
Total	75 %	12%	1%	12%	100%

As a BDC, it is required that the Company invest primarily in the debt and equity of non-public companies for which there is little, if any, market-observable information. As a result, most, if not all, of the Company's investments at any given time will most likely be deemed Level III investments. The Company believes that investments classified as Level III for SFAS No. 157 have a further hierarchal framework which prioritizes and ranks such valuations based on the degree of independent and observable inputs, objectivity of data and models and the level of judgment required to adjust comparable data. The hierarchy of such methodologies are presented in the above table and discussed below in descending rank.

Investment values derived by a third party pricing service are deemed Level III values since such values are not traded on an active public exchange and may represent a traded or broker quote on an asset that is infrequently traded.

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

Values derived for asset manager affiliates using public/private company comparables generally utilize market-observable data from such comparables and specific, non-public and non-observable financial measures (such as assets under management, historical and prospective earnings) for the asset manager affiliate. The Company recognizes that comparable asset managers may not be fully comparable to its asset manager affiliates and typically identifies a range of performance measures and/or adjustments within the comparable population for which to determine value. Since any such ranges and adjustments are entity specific they are not considered market-observable data and thus require a Level III grouping.

Values derived through use of discounted cash flow models and residual enterprise value models typically have little, if any, market activity or market-observable data for such investments. Such investments are grouped as Level III assets.

The changes in investments measured at fair value for which the Company has used Level III inputs to determine fair value are as follows:

	Six Months Ended June 30, 2009 (unaudited)				
	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total
Balance, December 31, 2008	$ 384,486,111	$ 56,635,236	$ 4,387,978	$ 56,528,088	$ 502,037,413
Transfers in/out of Level 3	—	—	—	—	—
Net accretion of discount	570,235	705,464	—	—	1,275,699
Purchases (sales), net	(31,276,650)	1,076,250	—	2,184,120	(28,016,280)
Total loss realized and unrealized included in earnings	(14,807,447)	(1,963,714)	—	(2,208,499)	(18,979,660)
Balance, June 30, 2009	$ 338,972,249	$ 56,453,236	$ 4,387,978	$ 56,503,709	$ 456,317,172
Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	$ (11,889,624)	$ (1,963,714)	$ —	$ 6,570	$ (13,846,768)

5. AFFILIATE ASSET MANAGERS

Wholly-Owned Asset Manager

Prior to its IPO, the Company issued an aggregate of 2,226,333 common shares, having a value of approximately $33 million, to affiliates of Kohlberg & Co. to acquire Katonah Debt Advisors. As a result, Katonah Debt Advisors is a wholly-owned portfolio company. As of June 30, 2009, Katonah Debt Advisors and its affiliates had approximately $2.1 billion of assets under management.

Katonah Debt Advisors manages CLO Funds primarily for third party investors that invest in broadly syndicated loans, high yield bonds and other credit instruments issued by corporations. These CLO Funds do not invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. At June 30, 2009, Katonah Debt Advisors had approximately $2.1 billion of assets under management and the Company's 100% equity interest in Katonah Debt Advisors was valued at approximately $57 million.

As a manager of the CLO Funds, Katonah Debt Advisors receives contractual and recurring management fees and may receive a one-time structuring fee from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management (at par value and not subject to changes in market value), and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. The annual management fees Katonah Debt Advisors receives have two components - a senior management fee and a subordinated management fee. At June 30, 2009, Katonah Debt Advisors continued to receive all senior management fees payable by the CLO Funds managed by it. However, certain CLO Funds (representing approximately $1.2 billion of the $2.1 billion of Katonah Debt Advisors' assets under management) are not paying their subordinated management fee. These subordinated management fees, totaling approximately $4 million per year, have been restricted from being paid as a result of the failure by the CLO Funds to satisfy certain restrictive covenants contained in their indenture agreements due to rating downgrades. Such subordinated management fees continue to be accrued by applicable CLO Fund (and on the books of Katonah Debt Advisors), and will be payable to Katonah Debt Advisors when such CLO Fund becomes compliant with the applicable covenants or, if earlier, upon the termination of such CLO Fund. However, there can be no assurance that these fees will become payable or, if they do become payable, that the applicable CLO Fund will have sufficient cash to make the payments to Katonah Debt Advisors.

In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred shares.

On January 2, 2008, the Katonah Debt Advisors platform acquired substantially all of the assets of Scott's Cove Capital Management LLC ("Scott's Cove"), an asset manager focused on an event-driven credit long short investment strategy. As a result of the acquisition, approximately $60 million of fee paying assets under management were integrated into the Katonah Debt Advisors asset management platform. In connection with the acquisition, Katonah Debt Advisors entered into employment agreements with three Scott's Cove investment professionals, and expects these individuals will assist in structuring, raising and investing new funds to be managed by Katonah Debt Advisors. As of June 30, 2009, Scott's Cove had approximately $121 million of assets under management.

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

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

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

Tax goodwill amortization was created upon the purchase of 100% of the equity interests in Katonah Debt Advisors prior to the Company's IPO in exchange for shares of the Company's stock valued at $33 million. Although this transaction was a stock transaction rather than an asset purchase and thus no goodwill was recognized for GAAP purposes, for tax purposes such exchange was considered an asset purchase under Section 351(a) of the Code. At the time of the transfer, Katonah Debt Advisors had equity of approximately $1 million resulting in tax goodwill of approximately $32 million which will be amortized for tax purposes on a straight-line basis over 15 years, resulting in an annual difference between GAAP income and taxable income by approximately $2 million per year over such period.

At June 30, 2009 and at December 31, 2008 a net amount due from affiliates totaled approximately $1 million and approximately $391,000, respectively.

Summarized financial information for Katonah Debt Advisors follows:

	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Unaudited)
Assets:		
Current assets	$ 6,780,063	$ 8,153,011
Noncurrent assets	280,945	318,106
Total assets	$ 7,061,008	$ 8,471,117
Liabilities:		
Current liabilities	$ 2,105,208	$ 3,652,380
Total liabilities	$ 2,105,208	$ 3,652,380

	Six Months Ended June 30, 2009 (Unaudited)	Six Months Ended June 30, 2008 (Unaudited)
Gross revenue	$ 4,982,244	$ 7,077,883
Total expenses	3,965,627	4,936,529
Pre-tax net income	$ 1,016,617	$ 2,141,354
Dividends declared	$ —	$ 350,000

Distressed Debt Platform

In December 2007, a wholly-owned subsidiary of the Company committed to make an investment in a new distressed debt investment platform organized by Steven Panagos and Jonathan Katz named PKSIL LLC (“PKSIL”). The Company committed to invest up to $2.5 million to fund the operation of PKSIL and to invest in an investment fund to be raised and managed by PKSIL. Due to unfavorable global financial market conditions in 2008, PKSIL was not able to raise the planned fund. During the quarter ended June 30, 2009, both Messrs. Panagos and Katz terminated their employment with PKSIL and PKSIL ceased operations. In connection therewith, the Company recognized a loss of approximately $2.2 million.

6. BORROWINGS

The Company’s debt obligations consist of the following:

	As of June 30, 2009 (unaudited)	As of December 31, 2008
Secured revolving credit facility, $275 million commitment due September 29, 2010	$ 233,806,661	$ 261,691,148

On February 14, 2007, the Company entered into an arrangement under which the Company may obtain up to $200 million in financing (the “Facility”). On October 1, 2007, the Company amended the Facility to increase the Company’s borrowing capacity from $200 million to $275 million, extend the maturity date from February 12, 2012 to October 1, 2012 and increase the interest spread charged on outstanding borrowings by 15 basis points, to 0.85% above the prevailing commercial paper rate (or prevailing LIBOR if the commercial paper market is at any time unavailable). Interest is payable monthly.

Advances under the Facility are used by the Company primarily to make additional investments. The Facility is secured by loans that it currently owns and the loans acquired by the Company with the advances under the Facility. The Company borrows under the Facility through its wholly-owned, special-purpose bankruptcy remote subsidiary, Kohlberg Capital Funding LLC I (the "Borrower").

In connection with the Facility, the Company is party to a Loan Funding and Servicing Agreement, dated as of February 14, 2007 (as amended, the "LFSA"), by and among the Borrower, the Company, as the servicer, BMO Capital Markets Corp, as the agent (the "Agent"), U.S. Bank National Association, a national banking association, as the trustee (the "Trustee") and the other lender parties and other parties thereto. As of June 30, 2009 there were outstanding borrowings of approximately $234 million under the LFSA. In accordance with the terms of the LFSA, the financial assets acquired with the proceeds of borrowings under the LFSA are held in a securities account and are subject to a securities account control agreement granting the Agent certain rights in respect of such securities account and the financial assets held therein. As of June 30, 2009 there were financial assets held in the securities account with a market value of approximately $300 million. Borrowings under the Facility are secured only by these assets and amounts in respect of such assets on deposit in a concentration account that is subject to an intercreditor and concentration account administration agreement, and the Facility lenders do not have recourse to any other assets of the Company or the investment income associated with any such other assets. The assets securing the Facility represent approximately 63% of the total assets of the Company (at fair value) at June 30, 2009 and contributed approximately 56% of the Company's investment income for the six months ended June 30, 2009.

In September 2008, the Company was notified by the lenders that the banks providing the underlying funding for the Facility did not intend to renew their liquidity facility to the lenders unless the Company agreed to certain revised terms for the Facility. As a result, the lenders proposed new terms to the Company in order to extend additional fundings under the Facility. The Company viewed such proposed terms as unfavorable and did not agree to them. Consequently, in accordance with the terms of the Facility, all principal and interest collected from the assets securing the Facility are used to amortize the Facility through a termination date of September 29, 2010 (the "amortization period"). At the end of the amortization period, the Company may be required to sell or transfer the remaining assets securing the Facility, potentially at a loss, to repay any remaining outstanding borrowings, or the Company may enter into a new agreement with the lenders providing for continued amortization of the Facility borrowings or into alternative financing arrangements with another lender.

Under the Facility, the Company must maintain a leverage ratio covenant of at least 1:1 based on the ratio of the Facility outstanding balance to the Company's most recently reported GAAP stockholders' equity balance (determined quarterly in conjunction with the Company's financial reporting filings with the SEC) as of the Facility outstanding balance determination date (such date being the last day of each month). At June 30, 2009, the Company satisfied this leverage ratio covenant using the June 30, 2009 Facility balance and the latest filed quarterly stockholders' equity balance which, at that time, was as of March 31, 2009. The Company was in compliance with this covenant at June 30, 2009.

The weighted average daily debt balance for the three months ended June 30, 2009 and 2008 was approximately $237 million and $235 million, respectively. For the three months ended June 30, 2009 and 2008, the weighted average interest rate on weighted average outstanding borrowings was approximately 2% and 4% respectively, which excludes the amortization of deferred financing costs and facility and program fees on unfunded balances. The Company was in compliance with all its debt covenants as of June 30, 2009. As of June 30, 2009, the Company had restricted cash and time deposit balances of approximately $5 million which it maintained in accordance with the terms of the Facility.

Since the fourth quarter of 2008, the Company, the Borrower and the Agent have been engaged in discussions regarding a potential extension of the LFSA in exchange for an increase in the interest rate payable pursuant to the LFSA. The parties have not reached agreement on the terms of such an amendment to the LFSA but discussions are continuing.

On June 9, 2009, notwithstanding the ongoing discussions between the Company, the Borrower and the Agent, the Company, the Borrower and the Trustee received a letter from the Agent stating that the Borrower was in breach of its obligations under the LFSA alleging the failure of the Borrower to properly determine ratings on certain pledged loans, resulting in multiple incorrect calculations, as required under the LFSA and the breach of certain covenants relating to the Borrower. As a result, the Agent has asserted that a Termination Event had occurred or would occur after the expiration of an applicable grace period, (but did not at such time, and has not to date, sought to accelerate repayment of amounts outstanding under the LFSA to cause the sale of the collateral). The Agent also stated in the letter that as a result of the existence of the Termination Event it would calculate the interest payable under the LFSA at the higher rate (equal to the prime rate plus 0.75%) applicable to periods during which a Termination Event has occurred and is continuing. The Company believes that the Agent's claim that breaches have occurred is without merit and responded to their letter (and in further correspondence with the Agent) denying any breach of the LFSA (and denying the existence of any Termination Event) and rejecting as invalid any basis for the Agent's actions seeking to increase the interest rate payable under the LFSA. The Company believes it has sufficient cash and liquid assets which could be sold, potentially at a loss, to generate cash to fund normal operations and dividend distributions during the amortization period.

On June 25, 2009 the Company and the Borrower received further correspondence from the Agent maintaining its position under the LFSA but suggesting that the parties meet to discuss a mutually agreeable resolution to the matter. Since such time, the Company and the Borrower have participated in telephone conferences with the Agent for which the goal of the parties has been to finalize the terms of a mutually agreeable amendment. However, to date, no agreement has been reached on the terms of any such amendment, and there can be no assurance that such an agreement will be reached in the future.

In the case of a default under the LFSA relating to the Facility, the Agent may exercise its right under the securities account control agreement entered into in respect of the security interest granted to the Trustee, as agent, pursuant to the LFSA to take exclusive control of the financial assets in the securities accounts covered by the securities account control agreement. In such case, the Trustee will no longer accept instructions from the Company regarding management of such financial assets under the LFSA and the Trustee will act at the direction of the Agent in respect of all matters relating to such financial assets. The securities account control agreement provides that the Agent will not exercise its right to take exclusive control of the financial assets in the securities account covered by the securities account control agreement unless there has occurred a Termination Event (as defined in the LFSA). If the Company is prevented by the Agent from effecting transactions in the collateral securing the Facility, the Company may suffer losses (or greater losses than it otherwise would have suffered) in respect of the collateral, which could have a material adverse effect on its business, financial condition and results of operations. To date, the Agent did not provide the Company or the Borrower with any notice of such action to exercise such rights of control. However, there can be no assurance that the Company will be able to reach a resolution with the Agent regarding the alleged breach of its obligations under the LFSA on terms acceptable to it or at all.

7. DISTRIBUTABLE TAX INCOME

The Company intends to distribute quarterly dividends to its stockholders. The Company's quarterly dividends, if any, will be determined by the Board of Directors. To maintain its RIC status, the Company must timely distribute an amount equal to at least 90% of its taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution, for each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required. At June 30, 2009, the Company had approximately $9 million of accumulated undistributed taxable income.

For the quarter ended June 30, 2009, the Company declared a dividend on June 12, 2009 of $0.24 per share for a total of approximately $5 million. The record date was July 9, 2009 and the dividend was distributed on July 29, 2009.

The following reconciles net decrease in stockholders' equity resulting from operations to taxable income for the six months ended June 30, 2009:

	Six Months Ended June 30, 2009 (unaudited)
Pre-tax net decrease in stockholders' equity resulting from operations	$ (5,476,295)
Net unrealized losses on investments transactions not deductible	13,847,518
Income not on GAAP books subject to tax	5,126,625
Expenses for tax not currently deductible	(63,636)
Taxable income before deductions for distributions	$ 13,434,212
Taxable income before deductions for distributions per weighted average shares for the period	$ 0.62

8. COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of the Company’s investment in portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on the Company’s balance sheet. Prior to extending such credit, the Company attempts to limit its credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of June 30, 2009 and December 31, 2008, the Company had committed to make a total of approximately $3 million of investments in various revolving senior secured loans, of which approximately $855,000 had been funded as of June 30, 2009 and $1 million had been funded as of December 31, 2008. As of June 30, 2009 and December 31, 2008, the company had no investments in delayed draw senior secured loans.

In October 2007, Katonah Debt Advisors entered into a letter agreement (the “Letter Agreement”) with Bear Stearns & Co. Inc. (“Bear Stearns”) in connection with a warehouse credit line established to fund the initial accumulation of assets for three CLO funds, pursuant to which agreement Katonah Debt Advisors undertook certain “first loss” commitments with respect to potential losses on assets purchased using the warehouse credit line. Such “first loss” commitments relate to (i) losses (if any) as a result of individual loan investments being ineligible for purchase by a new CLO Fund (typically due to a payment default on such loan) when such fund formation is completed or (ii) if a new CLO Fund has not been completed before the expiration of the related warehouse credit line, the loss (if any, and net of any accumulated interest income) on the resale of loans and debt securities funded by such warehouse credit line.

Under the Letter Agreement, Katonah Debt Advisors also engaged Bear Stearns to structure and raise three CLO funds to be managed by Katonah Debt Advisors (directly or indirectly through a services contract with an affiliate of Katonah Debt Advisors). While one of these funds, the Katonah 2007-1 CLO Fund, in which the Company invested approximately $29 million to acquire all of the shares of the most junior class of securities was completed, neither of the other 2008 CLO Funds were successfully raised.

As a result, pursuant to the Letter Agreement, both Katonah Debt Advisors and J.P. Morgan Securities Inc. ("JPMorgan") (f/k/a Bear Stearns & Co. Inc.) asserted claims against each other and defenses thereto with respect to potential “first loss” payments. Without admitting any liability or wrongdoing, Katonah Debt Advisors and JPMorgan agreed to compromise and settle all of the disputes, issues and claims between them relating to the agreements in exchange for an agreement to terminate all obligations and liabilities of Katonah Debt Advisors and of JPMorgan under the existing agreements relating to the 2008 CLO Funds, payment by Katonah Debt Advisors of an aggregate of $6 million in installments over a period of one year and the forfeiture by Katonah Debt Advisors of the net interest income earned through the settlement date on the warehoused assets. In December 2008, Katonah Debt Advisors entered into a settlement and termination agreement with JPMorgan reflecting the settlement terms described above.

As a result of this settlement, Katonah Debt Advisors recognized a $6 million settlement cost and write-off of previously accrued net interest income on warehoused assets of approximately $4 million for the year ended December 31, 2008. The Company recognized the impact of this settlement and forfeiture of warehouse income as a non-cash reduction to the unrealized appreciation of the value of its investment in Katonah Debt Advisors and contributed additional equity to Katonah Debt Advisors. Consequently, this settlement is not expected to have a material impact on Kohlberg Capital's net investment income or quarterly dividend.

9. STOCKHOLDERS’ EQUITY

On December 11, 2006, the Company completed its IPO of 14,462,000 shares of common stock at $15.00 per share, less an underwriting discount and IPO expenses paid by the Company totaling $1.22 per share for net proceeds of approximately $200 million. Prior to its IPO, the Company issued to affiliates of Kohlberg & Co. a total of 3,484,333 shares of its common stock for the acquisition of certain subordinated securities issued by CLO Funds and for the acquisition of Katonah Debt Advisors. On April 28, 2008, the Company completed a rights offering which resulted in the issuance of 3.1 million common shares and net proceeds of approximately $27 million. For the year ended December 31, 2008, the Company issued 359,250 shares of restricted stock for which 16,667 shares were forfeited and 3,000 shares were converted to common stock during the year due to vesting. During the six months ended June 30, 2009, the Company issued 301,201 shares of common stock under its dividend reinvestment plan. The total number of shares issued and outstanding as of June 30, 2009 was 22,077,720 and 21,743,470, respectively, and 21,776,519 and 21,436,936 issued and outstanding, respectively, as of December 31, 2008.

10. EQUITY INCENTIVE PLAN

During 2006, and as amended in 2008, the Company established an equity incentive plan (the “Plan”) and reserved 2,000,000 shares of common stock for issuance under the Plan. The purpose of the Plan is to provide officers and prospective employees of the Company with additional incentives and align the interests of its employees with those of its shareholders. Options granted under the Plan are exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted. Restricted stock granted under the Plan is granted at a price equal to the fair market value (market closing price) of the shares on the day such restricted stock is granted.

Stock Options

On December 11, 2006, concurrent with the completion of the Company's IPO, options to purchase a total of 910,000 shares of common stock were granted to the Company's executive officers and directors with an exercise price per share of $15.00 (the public offering price of the common stock). Such options vest equally over two, three or four years from the date of grant and have a ten-year exercise period. During the year ended December 31, 2007, the Company granted 495,000 options to its employees with a weighted average exercise price per share of $16.63, with a risk-free rate ranging between 4.6% to 5.3%, with volatility rates ranging between 20.5% to 22.4% and for which 25% of such options vest on each of the subsequent four grant date anniversaries and have a ten-year exercise period. During the year ended December 31, 2008, and as approved by shareholders during the annual shareholders' meeting on June 13, 2008, 20,000 options were granted to non-employee directors as partial annual compensation for their services as director. These grants were made with a ten-year exercise period with an exercise price of $11.97, with a risk free rate of 4.6% with a volatility rate of 28% and for which 50% of such options vest upon grant date and 50% vest on the first grant date anniversary. During the six months ended June 30, 2009, 20,000 additional options were granted to non-employee directors as partial annual compensation for their services as director. These grants were made with a ten-year exercise period with an exercise price of $4.93, with a risk free rate of 4.3% with a volatility rate of 41% and for which 50% of such options vest upon grant date and 50% vest on the first grant date anniversary.

On June 13, 2008, the Company's Board of Directors authorized the Company to allow employees who agree to cancel options that they hold to receive one share of restricted stock for every five options so cancelled. The shares of restricted stock received by employees through any such transaction will vest annually generally over the remaining vesting schedule as was applicable to the cancelled options. During the year ended December 31, 2008, employees holding options to purchase 1,295,000 shares individually entered into agreements to cancel such options and to receive 259,000 shares of restricted stock. As a result, as of January 1, 2009, all options granted to employees had been converted to restricted stock.

As of January 1, 2009, 20,000 options to non-employee directors remained outstanding. During the six months ended June 30, 2009, no such options were forfeited. As of June 30, 2009, 40,000 total options were outstanding, 30,000 of which were exercisable. The options have an estimated remaining contractual life of 9 years and 5 months.

Information with respect to options granted, exercised and forfeited under the Plan for the six months ended June 30, 2009 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Remaining Term (years)	Aggregate Intrinsic Value[1]
Options outstanding at January 1, 2009	20,000	$ 11.97		
Granted	20,000	4.93		
Exercised	—			
Forfeited	—			
Outstanding at June 30, 2009	40,000	$ 8.45	9.5	$ 27,800
Total vested at June 30, 2009	30,000	$ 9.62	9.3	

[1] Represents the difference between the market value of the options at June 30, 2009 and the cost for the option holders to exercise the options.

The Company uses a Binary Option Pricing Model (American, call option) as its valuation model to establish the expected value of all stock option grants. For the six months ended June 30, 2009, total stock option expense of approximately $16,000 was recognized and expensed by the Company. At June 30, 2009, the Company had approximately $9,000 of compensation cost related to unvested stock-based awards, the cost for which is expected to be recognized over a weighted average period of 1.0 year.

Restricted Stock

On June 13, 2008, the Company's shareholders approved the Company's 2006 Equity Incentive Plan, as amended and the board of directors approved the grant of awards of 100,250 shares of restricted stock to certain executive officers of the Company. Such awards of restricted stock will vest as to 50% of the shares on the third anniversary of the grant date and the remaining 50% of the shares on the fourth anniversary of the grant date.

On June 13, 2008, the Company's Board of Directors authorized the Company to allow employees who agree to cancel options that they hold to receive shares of the Company's common stock to receive 1 share of restricted stock for every 5 options so cancelled. The shares of restricted stock received by employees through any such transaction will vest annually generally over the remaining vesting schedule as was applicable to the cancelled options. Subsequently, employees holding options to purchase 1,295,000 shares individually entered into agreements to cancel such options and to receive 259,000 shares of restricted stock. As of June 30, 2009 none of such shares had vested.

During the six months ended June 30, 2009, 5,333 shares of restricted stock were vested and converted to common shares. Information with respect to restricted stock granted, exercised and forfeited under the Plan for the six months ended June 30, 2009 is as follows:

	Non-Vested Restricted Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Remaining Term (years)
Non-vested shares outstanding at January 1, 2009	339,583	$ 10.83	2.4
Vested	(5,333)	$ 9.21	
Outstanding at June 30, 2009	334,250	$ 10.84	1.9
Total non-vested shares at June 30, 2009	334,250	$ 10.84	1.9

During the six months ended June 30, 2009, the Company recognized non-cash compensation expense of approximately $464,000 relating to restricted stock grants; of this amount approximately $323,000 was expensed at the Company and approximately $141,000 was expensed at Katonah Debt Advisors. Dividends are paid on all outstanding shares of restricted stock, whether or not vested. In general, shares of unvested restricted stock are forfeited upon the recipient's termination of employment.

11. OTHER EMPLOYEE COMPENSATION

The Company adopted a 401(k) plan ("401K Plan") effective January 1, 2007. The 401K Plan is open to all full time employees. The Plan permits an employee to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. The Company makes contributions to the 401K Plan of up to 2.67% of the employee's first 74.9% of maximum eligible compensation, which fully vest at the time of contribution. For the six months ended June 30, 2009 and 2008 the Company made contributions to the 401K Plan of approximately $17,000 and $21,000, respectively.

The Company has also adopted a deferred compensation plan ("Pension Plan") effective January 1, 2007. Employees are eligible for the Pension Plan provided that they are employed and working with the Company for at least 100 days during the year and remain employed as of the last day of the year. Employees do not make contributions to the Pension Plan. On behalf of the employee, the Company may contribute to the Pension Plan 1) up to 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) up to 5.7% excess contributions on any incremental amounts above the social security wage base limitation and up to the Internal Revenue Service annual maximum. Employees vest 100% in the Pension Plan after five years of service. For the six months ended June 30, 2009, the Company made no contributions to the Pension Plan. For the six months ended June 30, 2008, the Company increased its contributions to the Pension Plan by approximately $98,000.

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

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

The information contained in this section should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this quarterly report. In addition, some of the statements in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The matters discussed in this report, as well as in future oral and written statements by management of Kohlberg Capital, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Important assumptions include our ability to acquire or originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this report should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this report include statements as to:

- our future operating results;
- our business prospects and the prospects of our existing and prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- our ability to operate as a business development company and a regulated investment company;
- 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.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this quarterly report, please see the discussion in Part II, "Item 1A. Risk Factors" below and in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this quarterly report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this quarterly report.

GENERAL

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization, which we refer to as "EBITDA," of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages collateralized loan obligation funds ("CLO Funds") that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., LLC ("Kohlberg & Co."), a leading private equity firm focused on middle market investing. As of June 30, 2009, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

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

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

Our common stock is traded on The NASDAQ Global Select Market under the symbol "KCAP." The net asset value ("NAV") per share of our common stock at June 30, 2009 was $11.09. On June 30, 2009, the last reported sale price of a share of our common stock on The NASDAQ Global Select Market was $6.32.

KEY QUANTITATIVE AND QUALITATIVE FINANCIAL MEASURES AND INDICATORS

Net Asset Value

Our NAV per share was $11.09 and $11.68 as of June 30, 2009 and December 31, 2008, respectively. As we must report our assets at fair value for each reporting period, NAV also represents the amount of stockholder's equity per share for the reporting period. Our NAV is comprised mostly of investment assets less debt and other liabilities:

	June 30, 2009		December 31, 2008	
	Fair Value [1]	Per Share [1]	Fair Value [1]	Per Share [1]
Investments at fair value:				
Investments in time deposits	$ 6,465,241	$ 0.30	$ 12,185,997	$ 0.57
Investments in money market accounts	3,876	-	10	-
Investments in debt securities	338,972,249	15.59	384,486,111	17.94
Investments in CLO fund securities	56,453,236	2.60	56,635,236	2.64
Investments in equity securities	4,389,081	0.20	4,389,831	0.21
Investments in asset manager affiliates	56,503,709	2.60	56,528,088	2.64
Cash	184,929	0.01	251,412	0.01
Other assets	14,720,996	0.66	8,395,626	0.39
Total Assets	$ 477,693,317	$ 21.96	$ 522,872,311	$ 24.40
Borrowings	$ 233,806,661	$ 10.75	$ 261,691,148	$ 12.21
Other liabilities	2,678,805	0.12	10,899,063	0.51
Total Liabilities	$ 236,485,466	$ 10.87	$ 272,590,211	$ 12.72
NET ASSET VALUE	$ 241,207,851	$ 11.09	$ 250,282,100	$ 11.68

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

Leverage

We use borrowed funds, known as "leverage," to make investments and to attempt to increase returns to our shareholders by reducing our overall cost of capital. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. We are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. As of June 30, 2009, we had $234 million of outstanding borrowings and our asset coverage was 203%.

In September 2008, we were notified by the lenders that the banks providing the underlying liquidity for the Facility did not intend to renew their liquidity facility to the lenders unless we agreed to certain revised terms for the Facility. As a result, the lenders proposed new terms to us in order to extend additional fundings under the Facility. We viewed such proposed terms as unfavorable, did not agree to such new terms, and have opted to forego the revolving credit feature of the Facility and to amortize existing borrowings under the Facility. Consequently, in accordance with the terms of the Facility, all principal and excess interest collected from the assets securing the Facility are used to amortize the Facility through a termination date of September 29, 2010 (the "amortization period"). During the amortization period the interest rate will continue to be based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. On June 9, 2009, we received a letter from a representative of the lenders stating that we were in breach of our obligations under the LFSA alleging our failure to properly determine ratings on certain pledged loans, resulting in multiple incorrect calculations, as required under the LFSA and the breach of certain covenants relating to us and asserting that a Termination Event occurred and the interest payable under the LFSA would be calculated at the higher rate (equal to the prime rate plus 0.75%) with respect to periods during which a Termination Event has occurred and is continuing. We believe we have sufficient cash and liquid assets which could be sold, potentially at a loss, to generate cash to fund normal operations and dividend distributions. At the end of the amortization period, we may be required to sell or transfer the remaining assets securing the Facility, potentially at a loss, to repay any remaining outstanding borrowings or we may enter into a new agreement with the lenders providing for continued amortization of the Facility borrowings or into alternative financing arrangements with another lender. See "—Financial Condition, Liquidity and Capital Resources" and Part II, "Item 1A. Risk Factors" below and Notes to our unaudited financial statements for the period ended June 30, 2009.

Under the Facility, we must maintain a leverage ratio covenant of at least 1:1 based on the ratio of the Facility outstanding balance to our most recently reported GAAP stockholders' equity balance (determined quarterly in conjunction with the Company's financial reporting filings with the Securities and Exchange Commission (the "SEC")) as of the Facility outstanding balance determination date at each month-end. At June 30, 2009, we satisfied this leverage ratio covenant using the June 30, 2009 Facility balance and the latest filed quarterly stockholders' equity balance which, at that time, was as of March 31, 2009. We continued to comply with this covenant as of the date of filing of this Quarterly Report on Form 10-Q.

Investment Portfolio Summary Attributes as of and for the Six Months Ended June 30, 2009

Our investment portfolio generates net investment income which is generally used to fund our dividend. Our investment portfolio consists of three primary components: debt securities, CLO fund securities and our investment in our wholly owned asset manager, Katonah Debt Advisors. We also have investments in equity securities of approximately $4 million, which comprises approximately 1% of our investment portfolio. Below are summary attributes for each of our primary investment portfolio components (see "—Investment Portfolio" and "—Investments and Operations" for a more detailed description) as of and for the six months ended June 30, 2009:

Debt Securities

- represent approximately 73% of total investment portfolio;
- represent credit instruments issued by corporate borrowers;
- no asset-backed securities such as those secured by commercial mortgages or residential mortgages and no consumer borrowings;
- primarily senior secured and junior secured loans (53% and 37% of debt securities, respectively);
- spread across 26 different industries and 84 different entities;
- average balance per investment of approximately $4 million;
- all but eight issuers current on their debt service obligations; and
- weighted average interest rate of 6.3%.

CLO Fund Securities (as of the last monthly trustee report prior to June 30, 2009 unless otherwise specified)

- represent approximately 12% of total investment portfolio at June 30, 2009;
- 87% of CLO Fund Securities represent investments in subordinated securities or equity securities issued by CLO Funds and 13% of CLO fund Securities are BB-rated bonds;
- all CLO Funds invest primarily in credit instruments issued by corporate borrowers;
- no asset-backed securities such as those secured by commercial mortgages or residential mortgages and no consumer borrowings;
- ten different CLO Fund securities; six of such CLO Funds are managed by Katonah Debt Advisors; and
- six CLO Fund securities, representing 13% of all such securities at fair value or 2% of total investments at fair value, are not currently providing a dividend payment to the Company.

Katonah Debt Advisors

- represents approximately 12% of total investment portfolio;
- represents our 100% ownership of the equity interest of a profitable CLO Fund manager focused on corporate credit investing;
- has approximately $2.1 billion of assets under management;
- receives contractual and recurring asset management fees based on par value of managed investments;
- typically receives a one-time structuring fee upon completion of a new CLO Fund;
- may receive an incentive fee upon liquidation of a CLO Fund provided that the CLO Fund achieves a minimum designated return on investment;
- dividends paid by Katonah Debt Advisors are recognized as dividend income from affiliate asset manager on our statement of operations and are an additional source of income to pay our dividend;
- for the six months ended June 30, 2009, Katonah Debt Advisors had pre-tax net income of approximately $1 million; and
- for the six months ended June 30, 2009, Katonah Debt Advisors made no distributions in the form of a dividend which is recognized as current earnings to the Company.

Revenue

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

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

Dividends from Investments in CLO Fund Securities. We generate dividend income from our investments in the securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and selective investments in securities issued by funds managed by other asset management companies. CLO Funds managed by Katonah Debt Advisors invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The Company distinguishes CLO Funds managed by Katonah Debt Advisors as “CLO fund securities managed by affiliate.” The underlying assets in each of the CLO Funds in which we have an investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. Our CLO Fund securities that are subordinated securities or preferred shares (“junior securities”) are subordinated to senior bond holders who typically receive a fixed rate of return on their investment. The CLO Funds are leveraged funds and any excess cash flow or “excess spread” (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund’s subordinated securities or preferred shares. The level of excess spread from CLO Fund securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly. In addition, the failure of CLO Funds in which we invest to comply with certain financial covenants my lead to the temporary suspension or deferral of cash distributions to us.

For non-junior class CLO Fund securities, such as our investment in the BB-rated bond tranche of the Katonah 2007-1 CLO, interest is earned at a fixed spread relative to the LIBOR index.

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

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

Expenses

Expenses consist primarily of interest expense on outstanding borrowings, compensation expense and general and administrative expenses, including professional fees.

Interest and Amortization of Debt Issuance Costs. Interest expense is dependent on the average outstanding balance on our Facility and the base index rate for the period. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized and amortized ratably over the contractual term of the borrowing.

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

Professional Fees and General and Administrative Expenses. The balance of our expenses include professional fees, occupancy costs and general administrative and other costs.

Net Change in Unrealized Depreciation on Investments

During the three and six months ended June 30, 2009, the Company's investments had a net change in unrealized depreciation of approximately $6 million and $14 million, respectively. The net change in unrealized depreciation for the three months ended June 30, 2009 is primarily due to (i) an approximate $10 million net decrease in the market value of certain broadly syndicated loans as a result of current market conditions; (ii) an approximate $5 million increase in the net value of CLO Fund securities; and (iii) an approximate $1 million decrease in the value of Katonah Debt Advisors.

The net change in unrealized depreciation for the six months ended June 30, 2009 is primarily due to (i) an approximate $12 million net decrease in the market value of certain broadly syndicated loans as a result of current market conditions; (ii) an approximate $2 million decrease in the net value of CLO fund securities; and (iii) an approximate $7,000 increase in the value of Katonah Debt Advisors.

Net Change in Stockholders’ Equity Resulting From Operations

The net change in stockholders’ equity resulting from operations for the three months ended June 30, 2009 and 2008 was a decrease of approximately $3 million and an increase of $7 million, respectively, or a decrease of $0.15 and an increase of $0.36 per share, respectively. The net change in stockholders’ equity resulting from operations for the six months ended June 30, 2009 and 2008 was a decrease of approximately $5 million, and an increase of approximately $7 million, respectively, or a decrease of $0.25 and an increase of $0.39 per share, respectively.

Net Investment Income and Net Realized Gains (Losses)

Net investment income and net realized gains (losses) represents the net change in stockholders’ equity before net unrealized appreciation or depreciation on investments. For the three months ended June 30, 2009 and 2008, net investment income and realized losses was approximately $3 million and $8 million, respectively, or $0.15 and $0.38, per share, respectively. For the six months ended June 30, 2009 and 2008, net investment income and realized losses were approximately $8 million and $16 million, respectively, or $0.38 and $0.82, per share, respectively.

In December 2007, our wholly-owned subsidiary committed to make an investment in a new distressed debt investment platform organized by Steven Panagos and Jonathan Katz named PKSIL LLC (“PKSIL”). We committed to invest up to $2.5 million to fund the operation of PKSIL and to invest in an investment fund to be raised and managed by PKSIL. Due to unfavorable global financial market conditions in 2008, PKSIL was not able to raise the planned fund. During the quarter ended June 30, 2009, both Messrs. Panagos and Katz terminated their employment with PKSIL and PKSIL ceased operations for which we recognized a loss of approximately $2.2 million.

Dividends

Generally, we seek to fund our dividend from net investment income and net realized gains. For the six months ended June 30, 2009, we declared a $0.24 dividend per share for each of the first and second quarters of 2009. As a result, there was a dividend distribution of approximately $5 million for the first quarter declaration booked in the second quarter and a dividend distribution of approximately $5 million for the second quarter declaration made in the third quarter.

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

- 98% 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.

Generally, we seek to fund our dividend from GAAP current earnings, primarily from net interest and dividend income generated by our investment portfolio and without a return of capital or a high reliance on realized capital gains. The following table sets forth the dividends declared by us since our initial public offering, which represent an amount equal to our estimated net investment income for the specified quarter, including undistributed income from Katonah Debt Advisors, plus a portion of the undistributed amount of 2006 net investment income distributed in 2007:

	Dividend	Declaration Date	Record Date	Pay Date
2009:				
Second quarter	$ 0.24	6/12/2009	7/9/2009	7/29/2009
First quarter	0.24	3/23/2009	4/8/2009	4/29/2009
2008:				
Fourth quarter	$ 0.27	12/19/2008	12/31/2008	1/29/2009
Third quarter	0.35	9/19/2008	10/9/2008	10/28/2008
Second quarter	0.41	6/13/2008	7/9/2008	7/28/2008
First quarter	0.41	3/14/2008	4/8/2008	4/28/2008
Total declared for 2008	$ 1.44			
2007:				
Fourth quarter	$ 0.39	12/14/2007	12/24/2007	1/24/2008
Third quarter	0.37	9/24/2007	10/10/2007	10/26/2007
Second quarter	0.35	6/8/2007	7/9/2007	7/23/2007
First quarter	0.29	3/13/2007	4/6/2007	4/17/2007
Total declared for 2007	$ 1.40			

Due to our ownership of Katonah Debt Advisors and certain timing, structural and tax considerations our dividend distributions may include a return of capital for tax purposes. For the six months ended June 30, 2009, Katonah Debt Advisors had approximately $1 million of pre-tax net income and made no distributions to us. For the six months ended June 30, 2008, Katonah Debt Advisors earned approximately $2 million of pre-tax net income and distributed $350,000 in dividends to us; dividends are recorded as declared (where declaration date represents ex-dividend date) by Katonah Debt Advisors as income on our statement of operations.

INVESTMENT PORTFOLIO

Investment Objective

Our investment objective is to generate current income and capital appreciation from the investments made by our middle market business in senior secured term loans, mezzanine debt and selected equity investments in privately-held middle market companies, and from our investment in Katonah Debt Advisors. We intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. We primarily invest in first and second lien term loans which, because of their priority in a company's capital structure, we expect will have lower default rates and higher rates of recovery of principal if there is a default and which we expect will create a stable stream of interest income. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may also invest in other investments such as loans to larger, publicly-traded companies, high-yield bonds and distressed debt securities. We may also receive warrants or options to purchase common stock in connection with our debt investments. In addition, we may also invest in debt and equity securities issued by CLO Funds managed by Katonah Debt Advisors or by other asset managers. However, our investment strategy is to limit the value of our investments in the debt or equity securities issued by CLO Funds to not more than 15% of the value of our total investment portfolio. We invest almost exclusively in credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by residential mortgages or other consumer borrowings.

The following table shows the Company's portfolio by security type at June 30, 2009 and December 31, 2008:

	June 30, 2009 (unaudited)			December 31, 2008		
Security Type	**Cost**	**Fair Value**	**%[1]**	**Cost**	**Fair Value**	**%[1]**
Time Deposits	$ 6,465,241	$ 6,465,241	1%	$ 12,185,997	$ 12,185,997	2%
Money Market Account	3,876	3,876	—	10	10	—
Senior Secured Loan	199,899,670	180,663,414	40	235,123,695	218,342,528	42
Junior Secured Loan	143,519,484	125,041,289	27	143,370,524	126,498,918	25
Mezzanine Investment	38,492,318	27,860,046	6	37,097,183	32,557,165	6
Senior Subordinated Bond	3,007,686	2,287,500	—	3,008,197	2,287,500	1
Senior Unsecured Bond	5,315,690	3,120,000	1	5,259,487	4,800,000	1
CLO Fund Securities	68,158,309	56,453,236	12	66,376,595	56,635,236	11
Equity Securities	5,256,660	4,389,081	1	5,256,660	4,389,831	1
Affiliate Asset Managers	38,917,322	56,503,709	12	38,948,271	56,528,088	11
Total	$ 509,036,256	$ 462,787,392	100%	$ 546,626,619	$ 514,225,273	100%

[1] Represents percentage of total portfolio at fair value.

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other industries if we are presented with attractive opportunities.

Effective July 23, 2009, the Board established revised valuation procedures reflecting its determination that we had sufficient internal expertise and access to market information to carry out the quarterly valuation process in conformity with GAAP without the involvement of, or additional expense associated with, a third-party valuation provider, and terminated the engagement of Duff & Phelps, LLC. We expect that this termination will result in cost savings of approximately $360,000 per year.

Kohlberg Capital's Board of Directors is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Kohlberg Capital's Board of Directors may consider various methods of valuation to determine the fair value of investments as appropriate in conformity with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material.

At June 30, 2009, the Company's investments in loans and debt securities, excluding CLO Fund securities, had a weighted average interest rate of approximately 6.3%.

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

The investment portfolio (excluding the Company's investment in asset manager affiliates and CLO Funds) at June 30, 2009 was spread across 26 different industries and 85 different entities with an average balance per entity of approximately $4 million. As of June 30, 2009, all but eight of our portfolio companies were current on their debt service obligations. The Company's portfolio, including the CLO Funds in which it invests, and the CLO Funds managed by Katonah Debt Advisors consist almost exclusively of credit instruments issued by corporations and do not include investments in asset-backed securities, such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

We may invest up to 30% of our investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States, which investments are generally not anticipated to be in excess of 10% of our investment portfolio at the time such investments are made. At June 30, 2009, approximately 14% of our investments were foreign assets (including our investments in CLO Funds, which are typically domiciled outside the U.S. and represent approximately 12% of our portfolio). As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Kohlberg & Co. or any fund that it manages has a pre-existing investment.

At June 30, 2009, our ten largest portfolio companies represented approximately 34% of the total fair value of our investments. Our largest investment, Katonah Debt Advisors which is our wholly-owned portfolio company, represented 12% of the total fair value of our investments. Excluding Katonah Debt Advisors and CLO Fund securities, our ten largest portfolio companies represent approximately 17% of the total fair value of our investments.

CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. As of June 30, 2009, we had $56 million invested in CLO Fund securities, including those issued by funds managed by Katonah Debt Advisors. Our CLO Fund subordinated securities and preferred share investments as of June 30, 2009 and December 31, 2008 are as follows:

CLO Fund Securities	Investment	%[1]	June 30, 2009		December 31, 2008	
			Cost	Fair Value	Cost	Fair Value
Grant Grove CLO, Ltd.	Subordinated Securities	22.2 %	$ 4,713,559	$ 2,579,000	$ 4,620,951	$ 4,665,000
Katonah III, Ltd.	Preferred Shares	23.1	4,500,000	799,000	4,500,000	1,661,000
Katonah IV, Ltd.	Preferred Shares	17.1	3,150,000	209,000	3,150,000	1,601,000
Katonah V, Ltd.	Preferred Shares	26.7	3,320,000	1,000	3,320,000	1,172,000
Katonah VII CLO Ltd.[2]	Subordinated Securities	16.4	4,500,000	1,520,000	4,500,000	2,629,000
Katonah VIII CLO Ltd.[2]	Subordinated Securities	10.3	3,400,000	1,536,000	3,400,000	2,252,000
Katonah IX CLO Ltd.[2]	Preferred Shares	6.9	2,000,000	1,288,000	2,000,000	1,921,000
Katonah X CLO Ltd.[2]	Subordinated Securities	33.3	11,579,744	12,123,000	11,324,758	11,875,000
Katonah 2007-1 CLO Ltd.[2]	Preferred Shares	100.0	29,918,479	28,859,236	29,560,886	28,859,236
Total			$ 67,081,782	$ 48,914,236	$ 66,376,595	$ 56,635,236

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

The CLO Funds managed by Katonah Debt Advisors invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have an investment are generally diversified secured or unsecured corporate debt. The underlying assets in our CLO Funds exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The table below summarizes certain attributes of each CLO Fund as per their most recent trustee report as of June 30, 2009:

CLO Fund Securities[1]	Number of Securities	Number of Issuers	Number of Industries	Average Security Position Size	Average Issuer Position Size
Grant Grove CLO, Ltd.	225	167	31	$ 1,224,201	$ 1,649,373
Katonah III, Ltd.	297	194	31	1,216,726	1,862,720
Katonah IV, Ltd.	287	200	29	1,035,011	1,485,240
Katonah V, Ltd.	325	225	30	665,600	961,423
Katonah VII CLO Ltd.	260	207	33	1,339,179	1,682,061
Katonah VIII CLO Ltd.	265	206	33	1,488,150	1,914,368
Katonah IX CLO Ltd.	267	207	33	1,452,062	1,872,949
Katonah X CLO Ltd.	263	207	33	1,788,531	2,272,385
Katonah 2007-1 CLO Ltd.	202	166	30	1,515,127	1,843,709

¹ All data from most recent Trustee reports as of June 30, 2009.

In May, 2009 we purchased the class B-2L notes of the Katonah 2007-1 CLO investment managed by Katonah Debt Advisors (“Katonah 2007-1 BB”). We opportunistically purchased the Katonah 2007-1 BB at a distressed price. The fair value for the Katonah 2007-1 BB is based on a discounted cash flow of prospective bond payments at a current market yield and considers other factors such as the default and recovery rates of underlying assets in the CLO, as may be applicable. Both the BB-rated notes and preferred shares of Katonah 2007-1 are owned 100% by us and are making their required quarterly distributions.

Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. As of June 30, 2009, Katonah Debt Advisors had approximately $2.1 billion of assets under management, and was valued at approximately $57 million.

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

The annual management fees which Katonah Debt Advisors receives are generally based on a fixed percentage of the par value of assets under management and are recurring in nature for the term of the CLO Fund so long as Katonah Debt Advisors manages the fund. As a result, the annual management fees earned by Katonah Debt Advisors are not subject to market value fluctuations in the underlying collateral. The annual management fees Katonah Debt Advisors receives have two components - a senior management fee and a subordinated management fee. At June 30, 2009, Katonah Debt Advisors continued to receive all senior management fees payable by the CLO Funds managed by it. However, certain CLO Funds (representing approximately $1.2 billion of the $2.1 billion of Katonah Debt Advisors' assets under management), are not paying their subordinated management fee. These subordinated management fees, totaling approximately $4 million per year, have been restricted from being paid as a result of the failure by the CLO Funds to satisfy certain restrictive covenants contained in their indenture agreements due to rating downgrades. Such subordinated management fees continue to be accrued by the applicable CLO Fund (and on the books of Katonah Debt Advisors), and will be payable to Katonah Debt Advisors when such CLO Fund becomes compliant with the applicable covenants or, if earlier, upon the termination of such CLO Fund. However, there can be no assurance that these fees will become payable or, if they do become payable, that the applicable CLO Fund will have sufficient cash to make the payments to Katonah Debt Advisors.

In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred shares.

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

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

PORTFOLIO AND INVESTMENT ACTIVITY

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

Total portfolio investment activity (excluding activity in time deposit and money market investments) for the six months ended June 30, 2009 and for the year ended December 31, 2008 was as follows:

	Debt Securities	CLO Fund Securities	Equity Securities	Affiliate Asset Managers	Total Portfolio
Fair Value at December 31, 2007	$ 410,954,082	$ 31,020,000	$ 4,752,250	$ 58,585,360	$ 505,311,692
2008 Activity:					
Purchases / originations /draws	$ 71,949,153	$ 28,859,236	$ 212,710	$ 5,478,276	$ 106,499,375
Pay-downs / pay-offs / sales	(71,671,847)	—	—	—	(71,671,847)
Net accretion of discount	717,195	1,456,095	—	—	2,173,290
Net realized losses	(575,179)	—	—	—	(575,179)
Decrease in fair value	(26,887,293)	(4,700,095)	(575,129)	(7,535,548)	(39,698,065)
Fair Value at December 31, 2008	384,486,111	56,635,236	4,389,831	56,528,088	502,039,266
Year to Date 2009 Activity:					
Purchases / originations /draws	1,828,908	1,076,250	—	2,184,120	5,089,278
Pay-downs / pay-offs / sales	(33,105,558)	—	—	—	(33,105,558)
Net accretion of discount	570,235	705,464	—	—	1,275,699
Net realized losses	(2,917,823)	—	—	(2,215,069)	(5,132,892)
Increase (decrease) in fair value	(11,889,624)	(1,963,714)	(750)	6,570	(13,847,518)
Fair Value at June 30, 2009	$ 338,972,249	$ 56,453,236	$ 4,389,081	$ 56,503,709	$ 456,318,275

We committed to invest up to $2.5 million to fund the operation of PKSIL LLC (“PKSIL”) whose strategy was to form an investment fund to invest in the debt and equity securities of companies that are restructuring due to financial or operational distress and to selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. During the quarter ended June 30, 2009, both Messrs. Panagos and Katz terminated their employment with PKSIL and PKSIL ceased operations. In connection therewith, we recognized a loss of approximately $2.2 million.

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

RESULTS OF OPERATIONS

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

Set forth below is a discussion of our results of operations for the three and six months ended June 30, 2009 and 2008.

Investment Income

Investment income for the three months ended June 30, 2009 and 2008 was approximately $10 million and $12 million, respectively. Of these amounts, approximately $7 million was attributable to interest income on our loan and bond investments in each period. For the three months ended June 30, 2009 and 2008, approximately $2 million and $5 million, respectively, of investment income is attributable to dividends earned on CLO equity investments.

Investment income for the six months ended June 30, 2009 and 2008 was approximately $20 million and $27 million, respectively. Of this amount, approximately $14 million and $17 million, respectively, was attributable to interest income on our loan and bond investments. For the six months ended June 30, 2009 and 2008, approximately $5 million and $8 million, respectively, of investment income is attributable to dividends earned on CLO equity investments.

Investment income is primarily dependent on the composition and credit quality of our investment portfolio. Generally, our debt securities portfolio is expected to generate predictable, recurring interest income in accordance with the contractual terms of each loan. Corporate equity securities may pay a dividend and may increase in value for which a gain may be recognized; generally such dividend payments and gains are less predictable than interest income on our loan portfolio.

Dividends from CLO Fund securities are dependent on the performance of the underlying assets in each CLO Fund; interest payments, principal amortization and prepayments of the underlying loans in each CLO Fund are primary factors which determine the level of income on our CLO Fund securities. The level of excess spread from CLO Fund securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly.

Dividends from Affiliate Asset Manager

As of June 30, 2009, our investment in Katonah Debt Advisors was approximately $57 million. For the three months ended June 30, 2009 and 2008, Katonah Debt Advisors had pre-tax net income of approximately $880,000 and $533,000, respectively. For the six months ended June 30, 2009 and 2008, Katonah Debt Advisors had pre-tax net income of approximately $1 million and $2 million, respectively. For the three and six months ended June 30, 2009, Katonah Debt Advisors made no distributions of net income. For the six months ended June 30, 2008, Katonah Debt Advisors distributed $350,000 of net income. Katonah Debt Advisors made no distributions of net income for the three months ended June 30, 2008.

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

Expenses

Total expenses for the three months ended June 30, 2009 and 2008 were approximately $3 million and $5 million, respectively. Interest expense and amortization on debt issuance costs for the period, which includes facility and program fees on the unused loan balance, was approximately $2 million in both periods, on average debt outstanding of $237 million and $235 million, respectively. Approximately $866,000 and $2 million, respectively, of expenses were attributable to employment compensation, including salaries, bonuses and stock option expense for the three months ended June 30, 2009 and 2008. For the three months ended June 30, 2009, other expenses included approximately $658,000 for professional fees, insurance, administrative and other. For the three months ended June 30, 2008, expenses included approximately $674,000 for professional fees, insurance, administrative and other. For the three months ended June 30, 2009 and 2008, administrative and other costs totaled approximately $268,000 and $306,000, respectively, and include occupancy expense, insurance, technology and other office expenses.

Total expenses for the six months ended June 30, 2009 and 2008 were approximately $6 million and $10 million, respectively. Interest expense and amortization on debt issuance costs for the period, which includes facility and program fees on the unused loan balance, was approximately $3 million and $6 million, on average debt outstanding of $246 million and $245 million, respectively. Approximately $2 million and $3 million, respectively, of expenses were attributable to employment compensation, including salaries, bonuses and stock option expense for the six months ended June 30, 2009 and 2008. For the six months ended June 30, 2009, other expenses included approximately $1 million for professional fees, insurance, administrative and other. For the six months ended June 30, 2008, expenses included approximately $2 million for professional fees, insurance, administrative and other. For the six months ended June 30, 2009 and 2008, administrative and other costs totaled approximately $530,000 and $651,000, respectively, and include occupancy expense, insurance, technology and other office expenses.

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

Net Unrealized Appreciation on Investments

During the three months ended June 30, 2009 and 2008, our total investments had a change in net unrealized depreciation of approximately $6 million and $466,000, respectively. For the three months ended June 30, 2009, Katonah Debt Advisors had unrealized depreciation of approximately $1 million and our middle market portfolio of debt securities, equity securities and CLO Fund securities had unrealized depreciation of approximately $5 million. For the three months ended June 30, 2008, Katonah Debt Advisors had unrealized appreciation of $824,000 offset by unrealized depreciation of approximately $1 million on debt securities, equity securities and CLO Fund securities in our investment portfolio.

During the six months ended June 30, 2009 and 2008, our total investments had a change in net unrealized depreciation of approximately $14 million and $8 million, respectively. Of this amount, Katonah Debt Advisors had unrealized appreciation of approximately $7,000 and $5 million, respectively, offset by unrealized losses of approximately $14 million and $13 million, respectively, on debt securities, equity securities and CLO Fund securities in our investment portfolio.

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

The net decrease in stockholders' equity resulting from operations for the three and six months ended June 30, 2009 was approximately $3 million and $5 million, respectively, or $0.15 and $0.25, respectively, per share. The net increase in stockholders' equity resulting from operations for both the three and six months ended June 30, 2008 was approximately $7 million, or $0.36 and $0.39, respectively, per share.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

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

In addition to the traditional sources of available funds (issuance of new equity, debt or undrawn warehouse facility capacity), we also have the ability to raise additional cash funds through the securitization of assets on our balance sheet through our wholly-owned asset manager, Katonah Debt Advisors. Such a securitization would provide cash for new investments on our balance sheet as well as additional management fee income and potentially increased value (as a result of increased assets under management) for Katonah Debt Advisors. No new securitizations by Katonah Debt Advisors have closed since January 2008.

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

As of June 30, 2009 and December 31, 2008 the fair value of investments and cash were as follows:

	Investments at Fair Value	
Security Type	**June 30, 2009**	**December 31, 2008**
Cash	$ 184,929	$ 251,412
Time Deposits	6,465,241	12,185,997
Money Market Accounts	3,876	10
Senior Secured Loan	180,663,414	218,342,528
Junior Secured Loan	125,041,289	126,498,918
Mezzanine Investment	27,860,046	32,557,165
Senior Subordinated Bond	2,287,500	2,287,500
Senior Unsecured Bond	3,120,000	4,800,000
CLO Fund Securities	56,453,236	56,635,236
Equity Securities	4,389,081	4,389,831
Affiliate Asset Managers	56,503,709	56,528,088
Total	$ 462,972,321	$ 514,476,685

On February 14, 2007, we entered into an arrangement under which we may obtain up to $200 million in financing (the "Facility"). On October 1, 2007, we amended the Facility to increase our borrowing capacity from $200 million to $275 million, extend the maturity date from February 12, 2012 to October 1, 2012 and increase the interest spread charged on outstanding borrowings by 15 basis points, to 0.85%. The interest rate is based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. Interest is payable monthly.

Advances under the Facility are used by us primarily to make additional investments. The Facility is secured by loans that it currently owns and the loans acquired by us with the advances under the Facility. We borrow under the Facility through our wholly-owned, special-purpose bankruptcy remote subsidiary, Kohlberg Capital Funding LLC I.

In connection with the Facility, we are party to a Loan Funding and Servicing Agreement, dated as of February 14, 2007 (as amended, the "LFSA"), by and among us as the borrower and the servicer, BMO Capital Markets Corp, as the agent (the "Agent"), U.S. Bank National Association, a national banking association, as the trustee (the "Trustee") and the other lender parties and other parties thereto. As of June 30, 2009 there were outstanding borrowings of approximately $234 million under the LFSA. In accordance with the terms of the LFSA, the financial assets acquired with the proceeds of borrowings under the LFSA are held in a securities account and are subject to a securities account control agreement granting the Agent certain rights in respect of such securities account and the financial assets held therein. As of June 30, 2009 there were financial assets held in the securities account with a market value of approximately $300 million. Borrowings under the Facility are secured only by these assets and amounts in respect of such assets on deposit in a concentration account that is subject to an intercreditor and concentration account administration agreement, and the Facility lenders do not have recourse to any other of our assets or the investment income associated with any such other assets. The assets securing the Facility represent approximately 63% of our total assets (at fair value) at June 30, 2009 and contributed approximately 56% of our investment income for the six months ended June 30, 2009.

In September 2008, we were notified by the lenders that the banks providing the underlying funding for the Facility did not intend to renew their liquidity facility to the lenders unless we agreed to certain revised terms for the Facility. As a result, the lenders proposed new terms to us in order to extend additional fundings under the Facility. We viewed such proposed terms as unfavorable and did not agree to them. Consequently, in accordance with the terms of the Facility, all principal and interest collected from the assets securing the Facility are used to amortize the Facility through a termination date of September 29, 2010 (the "amortization period"). At the end of the amortization period, we may be required to sell or transfer the remaining assets securing the Facility, potentially at a loss, to repay any remaining outstanding borrowings, or we may enter into a new agreement with the lenders providing for continued amortization of the Facility borrowings or into alternative financing arrangements with another lender.

Under the Facility, we must maintain a leverage ratio covenant of at least 1:1 based on the ratio of the Facility outstanding balance to our most recently reported GAAP stockholders' equity balance (determined quarterly in conjunction with our financial reporting filings with the SEC) as of the Facility outstanding balance determination date (such date being the last day of each month)**.** At June 30, 2009, we satisfied this leverage ratio covenant using the June 30, 2009 Facility balance and the latest filed quarterly stockholders' equity balance which, at that time, was as of March 31, 2009. We were in compliance with this covenant at June 30, 2009.

The weighted average daily debt balance for the three months ended June 30, 2009 and 2008 was approximately $237 million and $235 million, respectively. For the three months ended June 30, 2009 and 2008, the weighted average interest rate on weighted average outstanding borrowings was approximately 2% and 4% respectively, which excludes the amortization of deferred financing costs and facility and program fees on unfunded balances. We were in compliance with all our debt covenants as of June 30, 2009. As of June 30, 2009, we had restricted cash balances of approximately $1 million which we maintained in accordance with the terms of the Facility.

Since the fourth quarter of 2008, we and the Agent have been engaged in discussions regarding a potential extension of the LFSA in exchange for an increase in the interest rate payable pursuant to the LFSA. The parties have not reached agreement on the terms of such an amendment to the LFSA but discussions are continuing.

On June 9, 2009, notwithstanding the ongoing discussions between the Agent and us, we and the Trustee received a letter from the Agent stating that we were in breach of our obligations under the LFSA alleging our failure to properly determine ratings on certain pledged loans, resulting in multiple incorrect calculations, as required under the LFSA and the breach of certain covenants relating to us. As a result, the Agent has asserted that a Termination Event had occurred or would occur after the expiration of an applicable grace period, (but did not at such time, and has not to date, sought to accelerate repayment of amounts outstanding under the LFSA to cause the sale of the collateral). The Agent also stated in the letter that as a result of the existence of the Termination Event it would calculate the interest payable under the LFSA at the higher rate (equal to the prime rate plus 0.75%) applicable to periods during which a Termination Event has occurred and is continuing. We believe that the Agent's claim that breaches have occurred is without merit and responded to their letter (and in further correspondence with the Agent) denying any breach of the LFSA (and denying the existence of any Termination Event) and rejecting as invalid any basis for the Agent's actions seeking to increase the interest rate payable under the LFSA. We believe that we have sufficient cash and liquid assets which could be sold, potentially at a loss, to generate cash to fund normal operations and dividend distributions during the amortization period.

On June 25, 2009 we received further correspondence from the Agent maintaining its position under the LFSA but suggesting that the parties meet to discuss a mutually agreeable resolution to the matter. Since such time, we have participated in telephone conferences with the Agent for which the goal of the parties has been to finalize the terms of a mutually agreeable amendment. However, to date, no agreement has been reached on the terms of any such amendment, and there can be no assurance that such an agreement will be reached in the future.

In the case of a default under the LFSA relating to our Facility, the Agent may exercise its right under the securities account control agreement entered into in respect of the security interest granted to the Trustee, as agent, pursuant to the LFSA to take exclusive control of the financial assets in the securities accounts covered by the securities account control agreement. In such case, the Trustee will no longer accept instructions from us regarding management of such financial assets under the LFSA and the Trustee will act at the direction of the Agent in respect of all matters relating to such financial assets. The securities account control agreement provides that the Agent will not exercise its right to take exclusive control of the financial assets in the securities account covered by the securities account control agreement unless there has occurred a Termination Event (as defined in the LFSA). If we are prevented by the Agent from effecting transactions in the collateral securing the Facility, we may suffer losses (or greater losses than we otherwise would have suffered) in respect of the collateral, which could have a material adverse effect on our business, financial condition and results of operations. To date, the Agent did not provide us with any notice of such action to exercise such rights of control. However, there can be no assurance that we will be able to reach a resolution with the Agent regarding the alleged breach of our obligations under the LFSA on terms acceptable to us or at all. See Part II, “Item 1A. Risk Factors” below for further discussion of certain risks relating to our Facility and the LFSA.

COMMITMENTS

We are a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of our investment in portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on our balance sheet. Prior to extending such credit, we attempt to limit our credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of both June 30, 2009 and December 31, 2008, we had committed to make a total of approximately $3 million of investments in various revolving senior secured loans, of which approximately $855,000 had been funded as of June 30, 2009 and $1 million had been funded as of December 31, 2008. As of June 30, 2009 and December 31, 2008, we had no investments in delayed draw senior secured loans.

In October 2007, Katonah Debt Advisors entered into a letter agreement (the “Letter Agreement”) with Bear Stearns & Co. Inc. (“Bear Stearns”) in connection with a warehouse credit line established to fund the initial accumulation of assets for three CLO funds, pursuant to which agreement Katonah Debt Advisors undertook certain “first loss” commitments with respect to potential losses on assets purchased using the warehouse credit line. Such “first loss” commitments relate to (i) losses (if any) as a result of individual loan investments being ineligible for purchase by a new CLO Fund (typically due to a payment default on such loan) when such fund formation is completed or (ii) if a new CLO Fund has not been completed before the expiration of the related warehouse credit line, the loss (if any, and net of any accumulated interest income) on the resale of loans and debt securities funded by such warehouse credit line.

Under the Letter Agreement, Katonah Debt Advisors also engaged Bear Stearns to structure and raise three CLO funds to be managed by Katonah Debt Advisors (directly or indirectly through a services contract with an affiliate of Katonah Debt Advisors). While one of these funds, the Katonah 2007-1 CLO Fund, in which Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities, was completed, neither of the other 2008 CLO Funds were successfully raised.

As a result, pursuant to the Letter Agreement, both Katonah Debt Advisors and J.P. Morgan Securities Inc. ("JPMorgan") (f/k/a Bear Stearns & Co. Inc.) asserted claims against each other and defenses thereto with respect to potential “first loss” payments. Without admitting any liability or wrongdoing, Katonah Debt Advisors and JPMorgan agreed to compromise and settle all of the disputes, issues and claims between them relating to the agreements in exchange for an agreement to terminate all obligations and liabilities of Katonah Debt Advisors and of JPMorgan under the existing agreements relating to the 2008 CLO Funds, payment by Katonah Debt Advisors of an aggregate of $6 million in installments over a period of one year and the forfeiture by Katonah Debt Advisors of the net interest income earned through the settlement date on the warehoused assets. In December 2008, Katonah Debt Advisors entered into a settlement and termination agreement with JPMorgan reflecting the settlement terms described above.

As a result of this settlement, Katonah Debt Advisors recognized a $6 million settlement cost and write-off of previously accrued net interest income on warehoused assets of approximately $4 million for the year ended December 31, 2008. We recognized the impact of this settlement and forfeiture of warehouse income as a non-cash reduction to the unrealized appreciation of our value of its investment in Katonah Debt Advisors and contributed additional equity to Katonah Debt Advisors. Consequently, this settlement is not expected to have a material impact on Kohlberg Capital's net investment income or quarterly dividend.

RECENT DEVELOPMENTS

None, other than those noted above.

CRITICAL ACCOUNTING POLICIES

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

Basis of Presentation

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

Valuation of Portfolio Investments

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

Value, as defined in Section 2(a)(41) of 1940 Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Our valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio based on the nature of the security, the market for the security and other considerations including the financial performance and enterprise value of the portfolio company. Because of the inherent uncertainty of valuation, the Board of Directors' determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

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

Effective January 1, 2008 we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"), which among other things, requires enhanced disclosures about financial instruments carried at fair value. See Note 4 to the financial statements for the additional information about the level of market observability associated with investments carried at fair value.

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

Our investments in CLO Fund securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and the cash outflows for interest expense, debt paydown and other fund costs for the CLO Funds which are approaching or past the end of their reinvestment period and therefore begin to sell assets and/or use principal repayments to pay-down CLO Fund debt, and for which there continue to be net cash distributions to the class of we securities own, or (ii) the NAV of the CLO Fund for CLO Funds which are approaching or past the end of their reinvestment period and therefore begin to sell assets and/or use principal repayments to pay-down CLO Fund debt, and for which there are negligible net cash distributions to the class of securities we own, or (iii) a discounted cash flow model for more recent CLO Funds that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar securities or preferred shares to those in which the Company has invested. We recognize unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in NAVs or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool are updated and the revised cash flows are used in determining the fair value of the CLO Investment. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Our investment in Katonah Debt Advisors is carried at fair value and is based on multiple approaches to value which involve value drivers such as assets under management ("AUM"), cash flow, and earnings before income taxes, depreciation and amortization ("EBITDA"). These value drivers are analyzed in the context of both quantifiable historical experience and projected performance. AUM or earnings multiples from peer comparables are then applied to the value drivers to determine fair value.

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

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

After our adoption of SFAS 157, investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by SFAS 157, the Company does not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price.

- Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include illiquid corporate loans and bonds and less liquid, privately held or restricted equity securities for which some level of recent trading activity has been observed.

- Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable-market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation process.

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

Effective July 23, 2009, the Board established revised valuation procedures reflecting its determination that we had sufficient internal expertise and access to market information to carry out the quarterly valuation process in conformity with GAAP without the involvement of, or additional expense associated with, a third-party valuation provider, and terminated the engagement of Duff & Phelps, LLC. We expect that this termination will result in cost savings of approximately $360,000 per year.

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

Interest Income

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. We generally place a loan on non-accrual status and cease recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if we otherwise do not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of June 30, 2009, eight issuers representing 1% of our total investments were on non-accrual status. As of December 31, 2008, two issuers representing 0.2% of our total investments were on non-accrual status.

Dividend Income from CLO Fund Securities

We generate dividend income from our investments in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and selective investments in securities issued by funds managed by other asset management companies. Our CLO Fund securities are subordinated to senior bond holders who typically receive a fixed rate of return on their investment. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares. The level of excess spread from CLO Fund securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly. In addition, the failure of CLO Funds in which we invest to comply with certain financial covenants may lead to the temporary suspension or deferral of cash distributions to us. We make estimated interim accruals of such dividend income based on recent historical distributions and CLO Fund performance and adjust such accruals on a quarterly basis to reflect actual distributions.

For non-junior class CLO Fund securities, such as the Company's investment in the BB-rated bond tranche of the Katonah 2007-1 CLO, interest is earned at a fixed spread relative to the LIBOR index.

Dividends from Affiliate Asset Manager

The Company records dividend income from its affiliate asset manager on the declaration date, which represents the ex-dividend date.

Payment in Kind Interest

We may have loans in our portfolio that contain a payment-in-kind ("PIK") provision. PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our RIC status, this non-cash source of income must be paid out to stockholders in the form of dividends, even though 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 or restricted stock under the Kohlberg Capital Corporation 2006 Equity Incentive Plan as amended (our "Equity Incentive Plan") to officers and employees for services rendered to us. We follow Statement of Financial Accounting Standards No. 123R (revised 2004), *Accounting for Stock-Based Compensation* , a method by which the fair value of options or restricted stock is determined and expensed. We use a Binary Option Pricing Model (American, call option) as its valuation model to establish the expected value of all stock option grants.

We are internally managed and therefore do not incur management fees payable to third parties.

Recent Accounting Pronouncements

Standard on Subsequent Events. On May 28, 2009, the Financial Accounting Standards Board issued SFAS 165—*Subsequent Events* ("SFAS 165"). SFAS 165 provides guidance on management's assessment of subsequent events and requires additional disclosure about the timing of management's assessment of subsequent events. SFAS 165 does not significantly change the accounting requirements for the reporting of subsequent events. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. We adopted SFAS 165 as of June 30, 2009 and the adoption of this standard did not affect our financial position or results of operations.

FAIR VALUE MEASUREMENTS

On October 10, 2008, *FASB Staff Position No. FAS 157-3—Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (" FSP 157-3") was issued. FSP 157-3 provides an illustrative example of how to determine the fair value of a financial asset in an inactive market and did not change the fair value measurement principles set forth in SFAS 157. Since adopting SFAS 157 in January 2008, our practices for determining the fair value of its investment portfolio have been, and continue to be, consistent with the guidance provided in the example in FSP 157-3. As a result, our adoption of FSP 157-3 did not affect our practices for determining the fair value of our investment portfolio and did not have a material effect on our financial position or results of operations.

On April 9, 2009, the FASB issued FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"), to provide additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased as well as on identifying circumstances that indicate that a transaction is not orderly. FSP 157-4 provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities). FSP 157-4 further amends SFAS 157 to require the disclosure in interim and annual periods of the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. FSP No. 157-4 is effective for the interim and annual reporting periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a material effect on our financial position or results of operations.

On April 9, 2009, *FASB Staff Position No. FAS 107-1 and APB 28-1—Interim Disclosures about Fair Value of Financial Instruments*, or FSP 107-1, was issued. This FSP requires disclosures about financial instruments, including fair value, carrying amount, and method and significant assumptions used to estimate the fair value. We adopted this standard as of June 30, 2009 and the adoption of this standard did not affect our financial position or results of operations.

Two-Class Method of Presenting Earnings Per Share. In June 2008, *FASB Staff Position EITF 03-06-1—Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities* ("EITF 03-06-1") was issued. This standard requires companies to include unvested share-based payment awards that contain non-forfeitable rights to dividends in the computation of earnings per share pursuant to the two-class method. EITF 03-06-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. We adopted this standard beginning with our financial statements ended March 31, 2009 and, as required, applied this standard retroactively to all reported periods. The adoption of this standard did not have a material impact on our financial position or results of operations.

CODIFICATION OF ACCOUNTING STANDARDS

In June 2009, the Financial Accounting Standards Board issued SFAS No.168—*The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168"). When SFAS 168 is effective, the Codification will supersede all then-existing non-SEC literature and all reporting standards. It s not expected that SFAS 168 will change existing accounting standards, but rather changes the way that companies will refer to accounting standards. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. As a result, we will adopt SFAS 168 for its financial statements covering the period ending September 30, 2009. We not expect that the adoption of this standard will have a material impact on the Company's financial position or results of operations.

Dividends

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

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

Our investment income is affected by fluctuations in various interest rates, including LIBOR and prime rates. As of June 30, 2009, approximately 89% of our loans at fair value in our portfolio were at floating rates with a spread to an interest rate index such as LIBOR or the prime rate. We generally expect that future portfolio investments will predominately be floating rate investments. As of June 30, 2009, we had $234 million of borrowings outstanding at a floating rate tied to prevailing commercial paper rates plus a margin of 0.85%.

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

We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that our balance sheet at June 30, 2009 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical increase or decrease of a 1% change in interest rates would correspondingly affect net interest income proportionately by approximately $1.5 million over a one-year period. Correspondingly, a hypothetical increase or decrease of a 1% change in interest rates would correspondingly affect net interest expense proportionately by approximately $1.5 million over a one-year period. Because most of our investments at June 30, 2009 were floating rate with a spread to an index similar to our Facility, we would not expect a significant impact on our net interest spread. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect a net change in assets resulting from operations or net income. Accordingly, no assurances can be given that actual results would not materially differ from the potential outcome simulated by this estimate. In addition, we are currently required to pay interest on our borrowings under the Facility at the higher default rate equal to the prime rate plus 0.75% due to the alleged breach of our obligations under the Facility asserted by the Agent, which we believe to be without merit.

We did not hold any derivative financial instruments for hedging purposes as of June 30, 2009. In connection with the Facility established on February 14, 2007 and as amended on October 1, 2007, our special purpose subsidiary may be required under certain circumstances to enter into interest rate swap agreements or other interest rate hedging transactions.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly-traded securities, recent sales of or offers to buy comparable companies, and other relevant factors.

Item 4 ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures. The Company's management, under the supervision and with the participation of various members of management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO have concluded that our current disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting . The Company's management, under the supervision and with the participation of various members of management, including our CEO and our CFO, has evaluated any change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Management has concluded that there have been no changes in the Company's internal control over financial reporting identified in connection with this evaluation that occurred during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. *Legal Proceedings*

Neither we, nor any of our subsidiaries, are currently a party to any material legal proceedings, other than routine litigation and administrative proceedings arising in the ordinary course of business. Such proceedings are not expected to have a material adverse effect on the business, financial conditions, or results of our operations.

Item 1A. *Risk Factors*

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 contains important risk factors that could cause our actual results to differ materially from our historical experience or our present expectations and projections. If any of such risks (or other risks we face) occur, our business, financial condition and results of our operations could be materially adversely affected. In such a case, the NAV and the trading price of our common stock could decline, and you may lose all or part of your investment. Except as set forth below, there have been no material changes from the risk factors previously disclosed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The disclosure below should be read together with the other risk factors and information disclosed elsewhere in this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and our other reports filed with the SEC.

The agreements governing our Facility and the related funding and servicing agreement contain various covenants that limit our discretion in operating our business and also include certain financial covenants.

We have entered into a credit facility that is backed by a revolving pool of loans. Under the 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, limitations on delinquencies and charge-offs and a maximum leverage ratio, a violation of any 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 the 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 qualification 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.

In connection with the Facility, we are party to a Loan Funding and Servicing Agreement, dated as of February 14, 2007 (as amended, the "LFSA"), by and among us, BMO Capital Markets Corp, as the agent (the "Agent"), U.S. Bank National Association, a national banking association, as the trustee (the "Trustee") and the other lender parties and other parties thereto. As of June 30, 2009, there were outstanding borrowings of approximately $234 million under the LFSA. In accordance with the terms of the LFSA, the financial assets acquired with the proceeds of borrowings under the LFSA are held in a securities account and are subject to a securities account control agreement granting the Agent certain rights in respect of such securities account and the financial assets held therein. As of June 30, 2009 there were financial assets held in the securities account with a market value of approximately $300 million.

In September 2008, we were notified by the lenders that the banks providing the underlying funding for the Facility did not intend to renew their liquidity facility to the lenders unless we agreed to certain revised terms for the Facility. As a result, the lenders proposed new terms to us in order to extend additional fundings under the Facility. We viewed such proposed terms as unfavorable, did not accept them, and have opted to forego the revolving credit feature of the Facility and to amortize existing borrowings under the Facility. Consequently, in accordance with the terms of the Facility, all principal and interest collected from the assets securing the Facility are used to amortize the Facility through a termination date of September 29, 2010 (the "amortization period"). During the amortization period, the interest rate will continue to be based on prevailing commercial paper rates plus 0.85% or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread. Currently, we paying, under protest, interest on our borrowings under the Facility at the higher, default rate equal to the prime rate plus 0.75% due to the alleged default described under "—If we are not able to amend, refinance or renew our debt on terms acceptable to us, our operations could be adversely affected" below.

Because we are using net interest income earned on the assets securing the Facility to amortize the Facility during the amortization period, we may need to sell other assets not pledged to the Facility, potentially at a loss, in order to generate sufficient cash to make the required dividend distributions necessary to maintain our RIC status. In addition, at the end of the amortization period, we may be required to sell or transfer the remaining assets securing the Facility, potentially at a loss, to repay any remaining outstanding borrowings. Any such asset sale could adversely affect our business, financial condition and results of operations.

If we are not able to amend, refinance or renew our debt on terms acceptable to us, our operations could be adversely affected.

Since the fourth quarter of 2008, we have been engaged in discussions with the Agent under the LFSA regarding a potential extension of the LFSA in exchange for an increase in the interest rate payable pursuant to the LFSA. To date, no agreement has been reached on the terms of such an amendment to the LFSA.

On June 9, 2009, we and the Trustee received a letter from the Agent stating that we were in breach of our obligations under the LFSA alleging our failure to properly determine ratings on certain pledged loans, resulting in multiple incorrect calculations, as required under the LFSA and the breach of certain covenants relating to us. As a result, the Agent has asserted that a Termination Event had occurred or would occur after the expiration of an applicable grace period, but did not at such time, and has not to date, sought to accelerate repayment of amounts outstanding under the LFSA or to cause the sale of collateral. The Agent also stated in the letter that as a result of the existing Termination Event it would calculate the interest payable under the LFSA at the higher rate (equal to the prime rate plus 0.75%) applicable to periods during which a Termination Event has occurred and is continuing. While the Company believes that the Agent's claim that breaches have occurred is without merit and responded to its letter (and in further correspondence with the Agent) denying any breach of the LFSA (and denying the existence of any Termination Event) and rejecting as invalid any basis for the Agent's actions seeking to increase the interest rate payable under the LFSA, if we are required to pay this higher rate of interest for an extended period of time, it could have an adverse effect on our business, liquidity and financial condition. In addition, if the Agent seeks to accelerate the outstanding indebtedness under the LFSA, this would have a material adverse effect on our liquidity, financial condition and results of operations, as well as our ability to make additional investments.

Following a default under the funding and servicing agreement relating to our Facility, we may not have the ability to manage the assets securing the Facility, which may adversely impact our liquidity and operations.

In the case of a default under the LFSA relating to our Facility, the Agent may exercise its right under the securities account control agreement entered into in respect of the security interest granted to the Trustee, as agent, pursuant to the LFSA to take exclusive control of the financial assets in the securities accounts covered by the securities account control agreement. In such case, the Trustee will no longer accept instructions from us regarding management of such financial assets under the LFSA and the Trustee will act at the direction of the Agent in respect of all matters relating to such financial assets. The securities account control agreement provides that the Agent will not exercise its right to take exclusive control of the financial assets in the securities account covered by the securities account control agreement unless there has occurred a Termination Event (as defined in the LFSA). If we are prevented by the Agent from effecting transactions in the collateral securing the Facility, we may suffer losses (or greater losses than we otherwise would have suffered) in respect of the collateral, which could have a material adverse effect on our business, financial condition and results of operations. To date, the Agent did not provide the Company or the Borrower with any notice of such action to exercise such rights of control. However, there can be no assurance that we will be able to reach a resolution with the Agent regarding the alleged breach of our obligations under the LFSA on terms acceptable to us or at all.

If market constraints further prevent us from obtaining additional debt or equity capital, our liquidity could be adversely affected, our business prospects could be negatively impacted, we could lose key employees and our operating results could be negatively affected.

The current economic and capital market conditions in the U.S. have resulted in a severe reduction in the availability of debt and equity capital for the market as a whole, and financial services firms in particular. These conditions have constrained us and other companies in the financial services sector, limiting or completely preventing access to markets for debt and equity capital needed to maintain operations, continue investment originations and to grow. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers. This market turmoil and tightening of credit has led to increased market volatility and widespread reduction of business activity generally. If we are unable to renew or replace Facility and consummate new facilities, our liquidity will be significantly reduced. If these conditions continue for a prolonged period of time, or worsen in the future, we could lose key employees and our business prospects could be negatively impacted. Even if we are able to renew or refinance the Facility or consummate new borrowing facilities, we may not be able to do so on favorable terms. In addition, the debt capital that will be available, if at all, may be at a higher cost and/or on less favorable terms and conditions. Equity capital is, and may continue to be, difficult to raise because, subject to some limited exceptions, we are not generally able to issue and sell our common stock at a price below NAV per share. In addition, issuing equity at depressed stock prices can be dilutive to our stockholders. These events and our inability to raise capital have resulted in the suspension of new originations, curtailed our ability to grow and have had a negative impact on our liquidity and operating results. The continued inability to raise additional capital could further constrain our liquidity, negatively impact our business prospects, cause the departure of key employees and negatively impact our operating results.

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

On June 12, 2009, we held our annual meeting of shareholders. The following two matters were submitted to a vote of the shareholders:

1. To elect Christopher Lacovara and Dayl W. Pearson as directors, each for a term of three years; and

2. To ratify the selection of Deloitte & Touche LLP as our independent registered public accountant for the current year.

The results of the shares voted with regard to each of these matters are as follows:

1.Election of Directors

Director	For	Withheld
Christopher Lacovara	15,290,318	4,207,032
Dayl W. Pearson	16,585,723	2,911,627

The following directors have continued to serve as directors after the meeting: C. Turney Stevens, Gary Cademartori, Albert G. Pastino, C. Michael Jacobi and Samuel P. Frieder.

2.Ratification of the selection of Deloitte & Touche LLP

For	Against	Abstain	Broker Non-Votes
19,336,602	132,031	28,715	—

Item 5. ***Other Information***

Amendments to Employment Agreements with Certain Executives

On August 5, 2009, the Company and Katonah Debt Advisors agreed to amend the terms of the existing employment agreements with each of Dayl W. Pearson, the Company's President and Chief Executive Officer; Michael I. Wirth, the Company's Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary; R. Jon Corless, the Company's Chief Investment Officer; and E.A. Kratzman, a Vice President of the Company and the President of Katonah Debt Advisors. The amended and restated agreements are each effective as of August 5, 2009 and reflect cash compensation structures (i.e., base salary and minimum target bonus amounts) not in excess of those in effect in 2008 for each executive as well as amendments to the terms of the severance arrangements under the agreements. A description of the material amendments to the terms of these agreements is provided below. Such description is qualified by reference to these amended and restated agreements, which are filed as exhibits to this Quarterly Report on Form 10-Q and are incorporated herein by reference.

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

Each of the amended and restated employment agreements with Messrs. Pearson, Wirth and Corless provides for an initial term ending on December 31, 2010 (subject to automatic one-year renewals thereafter as provided in their previous agreements) unless either party provides prior written notice (not later than 30 days prior to the expiration of the term) of his or 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 $400,000, $325,000 and $250,000, respectively, which reflects their 2008 base salaries, and will be eligible to earn annual performance-based cash bonuses of no less than $450,000, 375,000 and $200,000, respectively, which reflects minimum target bonus amounts not in excess of those in effect for 2008, to be paid, in each case, on or about January 31 of the succeeding calendar year. As amended, the employment agreements provide that if the executive's employment is terminated by the Company without cause or by the executive for good reason (each as defined in the applicable employment agreement) or as a result of death or disability, the executive (or his designated beneficiary or estate) will be entitled to receive (i) his base salary and contributions toward health insurance premiums for the remaining term of the agreement (or, if greater, six months after such termination); provided, that if the remaining term of the agreement exceeds six months, the Company may elect to cease continuation of base salary and contributions toward health insurance premiums at any point following the six-month anniversary of such termination so long as the Company releases the executive from his remaining non-competition and non-solicitation obligations as of such date; (ii) any base salary earned but not paid through the date of termination; (iii) vacation time accrued but not used to that date; and (iv) any bonus compensation to which the executive is entitled in respect of the year of termination, prorated to the date of termination, all on the condition that the executive sign a release of claims. In addition to the benefits described above, the executive will be entitled to a further six months of base salary and contributions toward health insurance premiums (i.e., for a total of one year) if he is terminated by the Company within 90 days following a change in control involving the Company (defined to include the acquisition by any person (or group) of the beneficial ownership of 33% or more of the then outstanding shares of the Company's common stock or the voting power of the Company's then outstanding voting securities; the failure of the incumbent board of directors (or successors designated thereby) to constitute a majority of the Company's board of directors; the approval by shareholders of a merger, consolidation or other reorganization transaction in which the Company's shareholders do not, at closing, own more than 50% of the combined voting power of the surviving entity; and a liquidation or dissolution of the Company or a sale of all or substantially all of its assets).

Amended and Restated Employment Agreement with E.A. Kratzman

Mr. Kratzman's amended and restated agreement with Katonah Debt Advisors provides for an initial term ending on December 31, 2011 (subject to automatic one-year renewals thereafter as previously provided unless terminated in writing by either party prior to the expiration of the term). In addition to his base salary and annual bonus, Mr. Kratzman is entitled to receive up to three special bonuses of $150,000 each upon the receipt by Katonah Debt Advisors of all of the deferred subordinated fees from Katonah VII, VII and IX CLO Funds, respectively, each such special bonus to be paid as soon as practicable following the receipt of the applicable deferred fees. Mr. Kratzman must remain continuously employed by Katonah Debt Advisors through the date of the receipt of the applicable deferred fees to receive each special bonus. As amended, the employment agreement provides that if Mr. Kratzman's employment is terminated by Katonah Debt Advisors without cause, by him for good reason (each as defined in the employment agreement) or as a result of death or disability, he (or his designated beneficiary or estate) will be entitled to receive (i) his base salary and contributions toward health insurance premiums for the remaining term of the agreement; provided, that if the remaining term of the agreement exceeds one year, Katonah Debt Advisors may elect to cease continuation of base salary and contributions toward health insurance premiums at any point following the one-year anniversary of such termination so long as Katonah Debt Advisors releases Mr. Kratzman from his remaining non-competition and non-solicitation obligations as of such date; (ii) any base salary earned but not paid through the date of termination; (iii) vacation time accrued but not used to that date; and (iv) any bonus compensation to which Mr. Kratzman is entitled in respect of the year of termination, prorated to the date of termination (but in all cases based on an annual amount of no less than $650,000), all on the condition that he sign a release of claims. In addition to the benefits described above, Mr. Kratzman will be entitled to an extra six months of his base salary and contributions toward health insurance premiums (i.e., for a total of 18 months) if he is terminated by Katonah Debt Advisors within 90 days following a change in control involving the Company (defined to include the acquisition by any person (or group) of the beneficial ownership of 33% or more of the then outstanding shares of the Company's common stock or the voting power of the Company's then outstanding voting securities; the failure of the incumbent board of directors (or successors designated thereby) to constitute a majority of the Company's board of directors; the approval by shareholders of a merger, consolidation or other reorganization transaction in which the Company's shareholders do not, at closing, own more than 50% of the combined voting power of the surviving entity; and a liquidation or dissolution of the Company or a sale of all or substantially all of its assets).

Item 6. *Exhibits*

Exhibit Number	Description of Document
10.1*	Amended and Restated Employment Agreement, dated as of August 5, 2009, between Kohlberg Capital Corporation (the "Company") and Dayl W. Person
10.2*	Amended and Restated Employment Agreement, dated as of August 5, 2009, between the Company and Michael I. Wirth
10.3*	Amended and Restated Employment Agreement, dated as of August 5, 2009, between the Company and R. Jon Corless
10.4*	Amended and Restated Employment Agreement, dated as of August 5, 2009, between Katonah Debt Advisors, L.L.C. and E.A. Kratzman.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Submitted herewith.

SIGNATURES

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

		KOHLBERG CAPITAL CORPORATION
Date: August 10, 2009	By	/s/ Dayl W. Pearson
		Dayl W. Pearson *President and Chief Executive Officer* *(principal executive officer)*
Date: August 10, 2009	By	/s/ Michael I. Wirth
		Michael I. Wirth *Chief Financial Officer, Chief Compliance Officer,* *Secretary and Treasurer* *(principal financial and accounting officer)*

* * * * *

Exhibit Index

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* Submitted herewith.

KOHLBERG
CAPITAL CORPORATION

August 5, 2009

Mr. Dayl W. Pearson
133 Woods Road
Locust Valley, NY 11560

Dear Dayl:

This letter will confirm our offer to you of employment with Kohlberg Capital Corporation (the "Company"), under the terms and conditions that follow. This letter supersedes the letter agreement dated December 11, 2006 between you and the Company in its entirety effective as of the date hereof.

1. Term, Position and Duties.

(a) Subject to earlier termination as hereafter provided, your employment shall continue through December 31, 2010, and will be automatically extended for one year on January 1, 2011 and on each succeeding January 1 unless previously terminated in writing by you or an expressly authorized representative of the Company, in either case, on not less than thirty (30) days written notice. The term of this Agreement, as from time to time extended is hereafter referred to as "the term of this agreement" or "the term hereof". You will be employed by the Company as its President and Chief Executive Officer. You will report to the Board of Directors of the Company (the "Board").

(b) You agree to perform the duties of your position and such other duties as may reasonably be assigned to you from time to time including, but not limited to: investing in debt and equity securities of middle market companies, as directed by the Board; implementing and investing "warehouse" lines; negotiating, documenting, and selling debt and equity securities of the Company; and purchasing and trading non-investment grade loans, high yield bonds, and other permitted securities on behalf of the Company. You also agree that you will devote your full business time and your best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company.

295 Madison Avenue, 6th Floor ● New York, NY 10017
Telephone (212) 455-8300 ● Facsimile (212) 983-7654

2. Compensation and Benefits. During your employment, as compensation for all services performed by you for the Company and its Affiliates, the Company will provide you the following pay and benefits:

(a) Base Salary. The Company will pay you a base salary at the rate of Four Hundred Thousand Dollars ($400,000) per year, payable in accordance with the regular payroll practices of the Company and subject to increase from time to time by the Committee in its discretion.

(b) Bonus Compensation. During employment, you will be considered for an annual discretionary bonus of not less than Four Hundred Fifty Thousand Dollars ($450,000). Bonus awards will be determined by the Committee, based on your performance and that of the Company against goals established annually by the Board after consultation with you and will be paid on or about January 31 of each succeeding calendar year.

(c) Participation in Employee Benefit Plans. You will be entitled to participate in all employee benefit plans from time to time in effect for employees of the Company generally, except to the extent such plans are duplicative of benefits otherwise provided you under this agreement. Your participation will be subject to the terms of the applicable plan documents and generally applicable Company policies.

3. Confidential Information and Restricted Activities.

(a) Confidential Information. During the course of your employment with the Company, you will learn of Confidential Information, as defined below, and you may develop Confidential Information on behalf of the Company. You agree that you will not use or disclose to any Person (except as required by applicable law or for the proper performance of your regular duties and responsibilities for the Company) any Confidential Information obtained by you incident to your employment or any other association with the Company or any of its Affiliates. You understand that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination.

(b) Protection of Documents. All documents, records and files, in any media of whatever kind and description, relating to the business, present or otherwise, of the Company or any of its Affiliates, and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by you shall be the sole and exclusive property of the Company. You agree to safeguard all Documents and to surrender to the Company, at the time your employment terminates or at such earlier time or times as the Committee or its designee may specify, all Documents then in your possession or control.

(c) Non-Competition. You acknowledge that in your employment with the Company you will have access to Confidential Information which, if disclosed, would assist in competition against the Company and its Affiliates and that you will also generate goodwill for the Company and its Affiliates in the course of your employment. Therefore, you agree that the following restrictions on your activities during and after your employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

(i) While you are employed by the Company and for the greater of (x) the remaining term of this agreement or (y) six (6) months after your employment terminates (in the aggregate, the Non-Competition Period), you agree that you will not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance, or participate in the ownership, marketing, management, operation, control, fundraising or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant, or otherwise use or permit your name to be used in connection with any business or enterprise engaged in the United States in the business of structuring middle market lending vehicles, analyzing and acquiring loans and other assets to be held by such vehicles, arranging for the issuance of debt and preferred securities by such vehicles, acting as collateral managers for such securitizations, or performing similar functions.

(ii) You agree that during the Non-Competition Period, you will not, directly or through any other Person, (i) hire any employee of the Company or any of its Affiliates or seek to persuade any employee of the Company or any of its Affiliates to discontinue employment, (ii) solicit or encourage any customer or investor of the Company or any of its Affiliates or independent contractor providing services to the Company or any of its Affiliates to terminate or diminish its relationship with them or (iii) seek to persuade any customer or investor or prospective customer or investor of the Company or any of its Affiliates to conduct with anyone else any business or activity that such customer or investor or prospective customer or investor conducts or could conduct with the Company or any of its Affiliates.

(d) In signing this agreement, you give the Company assurance that you have carefully read and considered all the terms and conditions of this agreement, including the restraints imposed on you under this Section 3. You agree without reservation that these restraints are necessary for the reasonable and proper protection of the Company and its Affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. You further agree that, were you to breach any of the covenants contained in this Section 3, the damage to the Company and its Affiliates would be irreparable. You therefore agree that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by you of any of those covenants, without having to post bond. You and the Company further agree that, in the event that any provision of this Section 3 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Company's Affiliates shall have the right to enforce all of your obligations to that Affiliate under this agreement, including without limitation pursuant to this Section 3.

4. Termination of Employment. Your employment under this agreement may be terminated prior to the expiration of the term hereof pursuant to this Section 4.

(a) The Company may terminate your employment for Cause upon notice to you setting forth in reasonable detail the nature of the Cause. The following shall constitute Cause for termination: (i) your repeated material failure to perform (other than by reason of disability), or material gross negligence in the performance of, your duties and responsibilities to the Company or any of its Affiliates which failure is not cured within thirty (30) days after written notice of such failure or negligence is delivered to you; (ii) your material breach of this agreement or any other agreement between you and the Company or any of its Affiliates which breach is not cured within thirty (30) days after written notice of such breach is delivered to you; or (iii) commission by you of a felony involving moral turpitude or fraud with respect to the Company or any of its Affiliates. The Company also may terminate your employment at any time without Cause upon notice to you.

(b) This agreement shall automatically terminate in the event of your death during employment, and you shall be entitled to the severance payments set forth under 5 (a) below. In the event of your death, any amounts owed to you under this agreement will be paid to your estate, or designated successor or assigns. In the event you become disabled during employment and, as a result, are unable to continue to perform substantially all of your duties and responsibilities under this agreement, the Company will continue to pay you your base salary and to provide you benefits in accordance with Section 2(a) above, to the extent permitted by plan terms, for up to twelve (12) weeks of disability during any period of three hundred and sixty-five (365) consecutive calendar days. If you are unable to return to work after twelve (12) weeks of disability, the Company may terminate your employment, upon written notice to you, and you shall be entitled to the severance payments set forth under 5(a) below. If any question shall arise as to whether you are disabled to the extent that you are unable to perform substantially all of your duties and responsibilities for the Company and its Affiliates, you shall, at the Company's request, submit to a medical examination by a physician selected by the Company to whom you or your guardian, if any, has no reasonable objection to determine whether you are so disabled and such determination shall for the purposes of this agreement be conclusive of the issue. If such a question arises and you fail to submit to the requested medical examination, the Company's determination of the issue shall be binding on you.

(c) You may terminate your employment hereunder for “Good Reason” by providing written notice to the Company of the condition giving rise to the Good Reason no later than thirty (30) days following the occurrence of the condition; by giving the Company thirty (30) days to remedy the condition; and, if the Company fails to remedy the condition, by terminating your employment within ten (10) days following the expiration of such thirty (30) day period. For purposes of this letter agreement, the term “Good Reason” means, without your consent, the occurrence of one or more of the following events: (i) material diminution in the nature or scope of your responsibilities, duties or authority as contemplated by this letter agreement; (ii) failure by the Company to pay the minimum Bonus Compensation set forth in 2(b) above in any year under this letter agreement if you have achieved the annual financial target referenced therein; or (iii) your being required to relocate to a principal place of employment outside of the New York metropolitan area. For purposes of this paragraph 4(c) a change in reporting relationships resulting from a Change in Control will constitute Good Reason. In addition, a termination of your employment by you for any reason during the 90-day period immediately following a Change in Control shall be deemed to be a termination for Good Reason for all purposes of this letter agreement.

5. Severance Payments and Other Matters Related to Termination.

(a) In the event of termination of your employment by the Company without Cause, by death, or disability, or a termination by you for Good Reason, for the remaining term of this agreement, the Company will continue to pay you your base salary (“severance payments”) and will continue to contribute to the premium cost of your health insurance on the same terms and conditions as it contributes for active employees provided that you make a timely election under the federal law known as “COBRA”. The Company may, in its sole discretion, elect to cease the continuation of base salary and contributions toward health insurance premiums at any point after you have received six (6) months of base salary continuation and health insurance contributions (or one (1) year if you are terminated by the Company within ninety (90) days of the completion of a Change in Control.) provided that it also releases you from your remaining obligation under Section 3(c)(i) above. The Company will also pay you on the date of termination any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay you any bonus compensation and profit sharing payment to which you are entitled in accordance with Sections 2(b) and 2(c) above, prorated to the date of termination and payable at the time such monies are payable to Company executives generally. Any obligation of the Company to provide you severance payments or other payments or benefits under this Section 5(a) is conditioned, however, upon your signing a release of claims in the form provided by the Company (the "Employee Release") substantially in the form of the attached Exhibit A and upon your not revoking the Employee Release thereafter. All severance payments will be in the form of salary continuation, payable in accordance with the normal payroll practices of the Company, and will begin at the Company's next regular payroll period following the effective date of the Employee Release, but shall be retroactive to the date of termination. Notwithstanding anything else contained in this agreement, no bonus or severance payments or other payments or benefits will be due and payable under any provision of this Section 5(a) until the next regular Company payday following the effective date of the Employee Release.

(b) In the event of termination of your employment by the Company for Cause or by you for any reason, the Company will pay you any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. The Company shall have no obligation to you for any bonus or other incentive compensation, benefits continuation or severance payments.

(c) In the event of termination of your employment by expiration of the term hereof or non-renewal of this agreement, the Company will pay you any base salary earned but not paid through the date of termination, pay for any vacation time accrued but not used to that date, and any bonus or other incentive compensation to which you are entitled in accordance with Sections 2(b) and 2(c) above, prorated to the date of termination and payable at the time such bonuses are payable to Company executives generally. The Company shall have no obligation to you for any severance payments or benefits continuation.

(d) Except for any rights you may have under Section 5(a) above or under the federal law known as "COBRA" to continue participation in the Company's group health and dental plans at your cost, benefits shall terminate in accordance with the terms of the applicable benefit plans based on the date of termination of your employment, without regard to any continuation of base salary or other payment to you following termination. Your Option Agreement will govern your exercise, if any, of your option following termination of employment.

(e) Provisions of this agreement shall survive any termination if so provided in this agreement or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation your obligations under Section 3 of this agreement. The obligation of the Company to make payments to you under this Section 5 is expressly conditioned upon your continued full performance of obligations under Section 3 hereof. Upon termination by either you or the Company, all rights, duties and obligations of you and the Company to each other shall cease, except as otherwise expressly provided in this agreement.

6. Definitions. For purposes of this agreement, the following definitions apply:

"Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise.

"Change in Control" means:

(i) The acquisition by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, (excluding, for this purpose, the Company or its Affiliates) of beneficial ownership of 33% or more of either the then outstanding shares of the Company's common stock or the combined voting power of the Corporation's then outstanding voting securities entitled to vote generally in the election of directors.

(ii) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person who first becomes a director subsequent to the date hereof whose recommendation, election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company as described in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for the purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization share exchange, merger or consolidation with respect to which, in any such case, the persons who were the stockholders of the Company immediately prior to such reorganization, share exchange, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company; or

(iv) Liquidation or dissolution of the Company or a sale of all or substantially all of the assets of the Company.

"Confidential Information" means any and all information of the Company and its Affiliates that is not generally available to the public. Confidential Information also includes any information received by the Company or any of its Affiliates from any Person with any understanding, express or implied, that it will not be disclosed. Confidential Information does not include information that enters the public domain, other than through your breach of your obligations under this agreement.

"Person" means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust or any other entity or organization, other than the Company or any of its Affiliates.

7. Conflicting Agreements. You hereby represent and warrant that your signing of this agreement and the performance of your obligations under it will not breach or be in conflict with any other agreement to which you are a party or are bound and that you are not now subject to any covenants against competition or similar covenants or any court order that could affect the performance of your obligations under this agreement. You agree that you will not disclose to or use on behalf of the Company any proprietary information of a third party without that party's consent.

8. Withholding. All payments made by the Company under this agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Assignment. Neither you nor the Company may make any assignment of this agreement or any interest in it, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this agreement without your consent to one of its Affiliates or to any Person with whom the Company shall hereafter affect a reorganization, consolidate with, or merge into or to whom it transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon you and the Company, and each of our respective successors, executors, administrators, heirs and permitted assigns.

10. Severability. If any portion or provision of this agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this agreement shall be valid and enforceable to the fullest extent permitted by law.

11. Miscellaneous. This agreement sets forth the entire agreement between you and the Company and replaces all prior and contemporaneous communications, agreements and understandings, written or oral, with respect to the terms and conditions of your employment. This agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and an expressly authorized representative of the Board. The headings and captions in this agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement. This agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument. This is a Delaware contract and shall be governed and construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

12. Notices. Any notices provided for in this agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, and addressed to you at your last known address on the books of the Company or, in the case of the Company, to it at its principal place of business, attention of the Committee, or to such other address as either party may specify by notice to the other actually received.

If the foregoing is acceptable to you, please sign this letter in the space provided and return it to me. We will provide a countersigned copy for your records.

Sincerely yours,

/s/ Christopher Lacovara
Christopher Lacovara
Vice President

Accepted and Agreed:

/s/ Dayl W. Pearson
Dayl W. Pearson

____
Date

cc: Michael Wirth

KOHLBERG
CAPITAL CORPORATION

August 5, 2009

Mr. Michael Wirth
17 Colvin Road
Scarsdale, NY 10583

Dear Mike:

This letter will confirm our offer to you of employment with Kohlberg Capital, LLC (the "Company"), under the terms and conditions that follow. This letter supersedes the letter agreement dated November 6, 2006 between you and the Company in its entirety effective as of the date hereof.

1. Term, Position and Duties.

(a) Subject to earlier termination as hereafter provided, your employment shall continue through December 31, 2010, and will be automatically extended for one year on January 1, 2011 and on each succeeding January 1 unless previously terminated in writing by you or an expressly authorized representative of the Company, in either case, on not less than thirty (30) days written notice. The term of this Agreement, as from time to time extended is hereafter referred to as “the term of this agreement” or “the term hereof”. You will be employed by the Company as its Executive Vice President and Chief Financial Officer. You will report to the Chief Executive Officer of the Company under the supervision of the Board of Directors (the “Board”).

(b) You agree to perform the duties of your position and such other duties as may reasonably be assigned to you from time to time including, but not limited to: implementation and maintenance of financial control, budgeting and reporting systems; supervision of treasury, tax, insurance, investor relations, human resources, compliance, and internal audit functions; and participation in investment decision-making and strategic planning processes, as directed by the Chief Executive Officer and the Board. You also agree that you will devote your full business time and your best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company.

2. Compensation and Benefits. During your employment, as compensation for all services performed by you for the Company and its Affiliates, the Company will provide you the following pay and benefits:

(a) Base Salary. The Company will pay you a base salary at the rate of Three Hundred Twenty Five Thousand Dollars ($325,000) per year, payable in accordance with the regular payroll practices of the Company and subject to increase from time to time by the Committee in its discretion.

(b) Bonus Compensation. During employment, you will be considered for a discretionary bonus of not less than Three Hundred Seventy Five Thousand Dollars ($375,000) for each calendar year. Bonus awards will be determined by the Committee, based on your performance and that of the Company against goals established annually by the Board after consultation with you and will be paid on or about January 31 of each succeeding calendar year.

(c) Participation in Employee Benefit Plans. You will be entitled to participate in all employee benefit plans from time to time in effect for employees of the Company generally, except to the extent such plans are duplicative of benefits otherwise provided you under this agreement. Your participation will be subject to the terms of the applicable plan documents and generally applicable Company policies. You will be entitled to four (4) weeks paid vacation each calendar year.

3. Confidential Information and Restricted Activities.

(a) Confidential Information. During the course of your employment with the Company, you will learn of Confidential Information, as defined below, and you may develop Confidential Information on behalf of the Company. You agree that you will not use or disclose to any Person (except as required by applicable law or for the proper performance of your regular duties and responsibilities for the Company) any Confidential Information obtained by you incident to your employment or any other association with the Company or any of its Affiliates. You understand that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination.

(b) Protection of Documents. All documents, records and files, in any media of whatever kind and description, relating to the business, present or otherwise, of the Company or any of its Affiliates, and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by you shall be the sole and exclusive property of the Company. You agree to safeguard all Documents and to surrender to the Company, at the time your employment terminates or at such earlier time or times as the Committee or its designee may specify, all Documents then in your possession or control.

(c) Non-Competition. You acknowledge that in your employment with the Company you will have access to Confidential Information which, if disclosed, would assist in competition against the Company and its Affiliates and that you will also generate goodwill for the Company and its Affiliates in the course of your employment. Therefore, you agree that the following restrictions on your activities during and after your employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

(i) While you are employed by the Company and for the greater of (x) the remaining term of this agreement or (y) six (6) months after your employment terminates (in the aggregate, the Non-Competition Period), you agree that you will not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance, or participate in the ownership, marketing, management, operation, control, fundraising or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant, or otherwise use or permit your name to be used in connection with any business or enterprise engaged in the United States in the business of structuring middle market lending vehicles, analyzing and acquiring loans and other assets to be held by such vehicles, arranging for the issuance of debt and preferred securities by such vehicles, acting as collateral managers for such securitizations, or performing similar functions.

(ii) You agree that during the Non-Competition Period, you will not, directly or through any other Person, (i) hire any employee of the Company or any of its Affiliates or seek to persuade any employee of the Company or any of its Affiliates to discontinue employment, (ii) solicit or encourage any customer or investor of the Company or any of its Affiliates or independent contractor providing services to the Company or any of its Affiliates to terminate or diminish its relationship with them or (iii) seek to persuade any customer or investor or prospective customer or investor of the Company or any of its Affiliates to conduct with anyone else any business or activity that such customer or investor or prospective customer or investor conducts or could conduct with the Company or any of its Affiliates.

(d) In signing this agreement, you give the Company assurance that you have carefully read and considered all the terms and conditions of this agreement, including the restraints imposed on you under this Section 3. You agree without reservation that these restraints are necessary for the reasonable and proper protection of the Company and its Affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. You further agree that, were you to breach any of the covenants contained in this Section 3, the damage to the Company and its Affiliates would be irreparable. You therefore agree that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by you of any of those covenants, without having to post bond. You and the Company further agree that, in the event that any provision of this Section 3 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Company's Affiliates shall have the right to enforce all of your obligations to that Affiliate under this agreement, including without limitation pursuant to this Section 3.

4. Termination of Employment. Your employment under this agreement may be terminated prior to the expiration of the term hereof pursuant to this Section 4.

(a) The Company may terminate your employment for Cause upon notice to you setting forth in reasonable detail the nature of the Cause. The following shall constitute Cause for termination: (i) your repeated material failure to perform (other than by reason of disability), or gross negligence in the performance of, your duties and responsibilities to the Company or any of its Affiliates which failure is not cured within thirty (30) days after written notice of such failure or negligence is delivered to you; (ii) your material breach of this agreement or any other agreement between you and the Company or any of its Affiliates which breach is not cured within thirty (30) days after written notice of such breach is delivered to you; or (iii) commission by you of a felony involving moral turpitude or fraud with respect to the Company or any of its Affiliates. The Company also may terminate your employment at any time without Cause upon notice to you.

(b) This agreement shall automatically terminate in the event of your death during employment, and you shall be entitled to the severance payments set forth under 5 (a) below. In the event of your death, any amounts owed to you under this agreement will be paid to the beneficiary designated in writing by you or, if no beneficiary has been so designated by you, to your estate. In the event you become disabled during employment and, as a result, are unable to continue to perform substantially all of your duties and responsibilities under this agreement, the Company will continue to pay you your base salary and to provide you benefits in accordance with Section 2(a) above, to the extent permitted by plan terms, for up to twelve (12) weeks of disability during any period of three hundred and sixty-five (365) consecutive calendar days. If you are unable to return to work after twelve (12) weeks of disability, the Company may terminate your employment, upon written notice to you, and you shall be entitled to the severance payments set forth under 5(a) below. If any question shall arise as to whether you are disabled to the extent that you are unable to perform substantially all of your duties and responsibilities for the Company and its Affiliates, you shall, at the Company's request, submit to a medical examination by a physician selected by the Company to whom you or your guardian, if any, has no reasonable objection to determine whether you are so disabled and such determination shall for the purposes of this agreement be conclusive of the issue. If such a question arises and you fail to submit to the requested medical examination, the Company's determination of the issue shall be binding on you.

(c) You may terminate your employment hereunder for "Good Reason" by providing written notice to the Company of the condition giving rise to the Good Reason no later than thirty (30) days following the occurrence of the condition; by giving the Company thirty (30) days to remedy the condition; and, if the Company fails to remedy the condition, by terminating your employment within ten (10) days following the expiration of such thirty (30) day period. For purposes of this letter agreement, the term "Good Reason" means, without your consent, the occurrence of one or more of the following events: (i) material diminution in the nature or scope of your responsibilities, duties or authority as contemplated by this letter agreement; (ii) failure by the Company to pay the minimum Bonus Compensation set forth in 2(b) above in any year under this letter agreement if you have achieved the annual financial target referenced therein; or (iii) your being required to relocate to a principal place of employment outside of the New York metropolitan area. For purposes of this paragraph 4(c) a change in reporting relationships resulting from a Change in Control will constitute Good Reason. In addition, a termination of your employment by you for any reason during the 90-day period immediately following a Change in Control shall be deemed to be a termination for Good Reason for all purposes of this letter agreement.

5. Severance Payments and Other Matters Related to Termination.

(a) In the event of termination of your employment by the Company without Cause, by death or disability, or a termination by you for Good Reason, for the remaining term of this agreement, the Company will continue to pay you your base salary ("severance payments") and will continue to contribute to the premium cost of your health insurance on the same terms and conditions as it contributes for active employees provided that you make a timely election under the federal law known as "COBRA". The Company may, in its sole discretion, elect to cease the continuation of base salary and contributions toward health insurance premiums at any point after you have received six (6) months of base salary continuation and health insurance contributions (or one (1) year if you are terminated by the Company within ninety (90) days of the completion of a Change in Control) provided that it also releases you from your remaining obligation under Section 3(c)(i) above. The Company will also pay you on the date of termination any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay you any bonus compensation and profit sharing payment to which you are entitled in accordance with Sections 2(b) and 2(c) above, prorated to the date of termination and payable at the time such monies are payable to Company executives generally. Any obligation of the Company to provide you severance payments or other payments or benefits under this Section 5(a) is conditioned, however, upon your signing a release of claims in the form provided by the Company (the "Employee Release") substantially in the form of the attached Exhibit A and upon your not revoking the Employee Release thereafter. All severance payments will be in the form of salary continuation, payable in accordance with the normal payroll practices of the Company, and will begin at the Company's next regular payroll period following the effective date of the Employee Release, but shall be retroactive to the date of termination. Notwithstanding anything else contained in this agreement, no bonus or severance payments or other payments or benefits will be due and payable under any provision of this Section 5(a) until the next regular Company payday following the effective date of the Employee Release.

(b) In the event of termination of your employment by the Company for Cause or by you for any reason, the Company will pay you any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. The Company shall have no obligation to you for any bonus or other incentive compensation, benefits continuation or severance payments.

(c) In the event of termination of your employment by expiration of the term hereof or non-renewal of this agreement, the Company will pay you any base salary earned but not paid through the date of termination, pay for any vacation time accrued but not used to that date, and any bonus or other incentive compensation to which you are entitled in accordance with Sections 2(b) and 2(c) above, prorated to the date of termination and payable at the time such bonuses are payable to Company executives generally. The Company shall have no obligation to you for any severance payments or benefits continuation.

(d) In the event of a change of control or sale of the Company, you will also be eligible to receive a “sale bonus” of up to the amount of your annual discretionary bonus referred to in section 2 (b) above.

(e) Except for any rights you may have under Section 5(a) above or under the federal law known as "COBRA" to continue participation in the Company's group health and dental plans at your cost, benefits shall terminate in accordance with the terms of the applicable benefit plans based on the date of termination of your employment, without regard to any continuation of base salary or other payment to you following termination. Your Option Agreement will govern your exercise, if any, of your option following termination of employment.

(f) Provisions of this agreement shall survive any termination if so provided in this agreement or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation your obligations under Section 3 of this agreement. The obligation of the Company to make payments to you under this Section 5 is expressly conditioned upon your continued full performance of obligations under Section 3 hereof. Upon termination by either you or the Company, all rights, duties and obligations of you and the Company to each other shall cease, except as otherwise expressly provided in this agreement.

6. Definitions. For purposes of this agreement, the following definitions apply:

"Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise.

“Change in Control” means:

(i) The acquisition by any person, entity or “group”, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, (excluding, for this purpose, the Company or its Affiliates) of beneficial ownership of 33% or more of either the then outstanding shares of the Company’s common stock or the combined voting power of the Corporation’s then outstanding voting securities entitled to vote generally in the election of directors.

(ii) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any person who first becomes a director subsequent to the date hereof whose recommendation, election or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company as described in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for the purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization share exchange, merger or consolidation with respect to which, in any such case, the persons who were the stockholders of the Company immediately prior to such reorganization, share exchange, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company; or

(iv) Liquidation or dissolution of the Company or a sale of all or substantially all of the assets of the Company.

"Confidential Information" means any and all information of the Company and its Affiliates that is not generally available to the public. Confidential Information also includes any information received by the Company or any of its Affiliates from any Person with any understanding, express or implied, that it will not be disclosed. Confidential Information does not include information that enters the public domain, other than through your breach of your obligations under this agreement.

"Person" means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust or any other entity or organization, other than the Company or any of its Affiliates.

7. Conflicting Agreements. You hereby represent and warrant that your signing of this agreement and the performance of your obligations under it will not breach or be in conflict with any other agreement to which you are a party or are bound and that you are not now subject to any covenants against competition or similar covenants or any court order that could affect the performance of your obligations under this agreement. You agree that you will not disclose to or use on behalf of the Company any proprietary information of a third party without that party's consent.

8. Withholding. All payments made by the Company under this agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Assignment. Neither you nor the Company may make any assignment of this agreement or any interest in it, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this agreement without your consent to one of its Affiliates or to any Person with whom the Company shall hereafter affect a reorganization, consolidate with, or merge into or to whom it transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon you and the Company, and each of our respective successors, executors, administrators, heirs and permitted assigns.

10. Severability. If any portion or provision of this agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this agreement shall be valid and enforceable to the fullest extent permitted by law.

11. Miscellaneous. This agreement sets forth the entire agreement between you and the Company and replaces all prior and contemporaneous communications, agreements and understandings, written or oral, with respect to the terms and conditions of your employment. This agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and an expressly authorized representative of the Board. The headings and captions in this agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement. This agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument. This is a Delaware contract and shall be governed and construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

12. Notices. Any notices provided for in this agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, and addressed to you at your last known address on the books of the Company or, in the case of the Company, to it at its principal place of business, attention of the Committee, or to such other address as either party may specify by notice to the other actually received.

If the foregoing is acceptable to you, please sign this letter in the space provided and return it to me at your earliest convenience. We will provide a countersigned copy for your records.

Sincerely yours,

/s/ Dayl Pearson
Dayl Pearson
President and Chief Executive Officer

Accepted and Agreed:

/s/ Michael Wirth
Michael Wirth

____
Date

cc: Christopher Lacovara

August 5, 2009

Mr. R. Jon Corless
P.O. Box 580
5 Court Road
Bedford, NY 10506

Dear Jon:

This letter will confirm our offer to you of employment with Kohlberg Capital Corporation (the "Company"), under the terms and conditions that follow. This letter supersedes the letter agreement dated November 6, 2006 between you and the Company in its entirety effective as of the date hereof.

1. Term, Position and Duties.

(a) Subject to earlier termination as hereafter provided, your employment shall continue through December 31, 2010, and will be automatically extended for one year on January 1, 2011 and on each succeeding January 1 unless previously terminated in writing by you or an expressly authorized representative of the Company, in either case, on not less than thirty (30) days written notice. The term of this Agreement, as from time to time extended is hereafter referred to as “the term of this agreement” or “the term hereof”. You will be employed by the Company as its Vice President and Chief Investment Officer. You will report to the Company’s Chief Executive Officer, under the supervision of the Board of Directors (the “Board”).

(b) You agree to perform the duties of your position and such other duties as may reasonably be assigned to you from time to time including, but not limited to: sourcing, analyzing investments and investing in debt securities as directed by the Board; implementing and investing “warehouse” lines; negotiating, documenting, and purchasing and trading non-investment grade loans, high yield bonds, and other permitted securities on behalf of Funds. You also agree that you will devote your full business time and your best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company.

2. Compensation and Benefits. During your employment, as compensation for all services performed by you for the Company and its Affiliates, the Company will provide you the following pay and benefits:

(a) Base Salary. The Company will pay you a base salary at the rate of Two Hundred Fifty Thousand Dollars ($250,000) per year, payable in accordance with the regular payroll practices of the Company and subject to increase from time to time by the Committee in its discretion.

(b) Bonus Compensation. During employment, you will be considered for a discretionary bonus of no less than Two Hundred Thousand Dollars ($200,000) for each calendar year. You will be considered for an increase in the annual bonus amount, solely at the discretion of the Committee, based on the future growth and performance of the Company. Bonus awards will be determined by the Committee, based on your performance and that of the Company against goals, relating to the credit quality and performance of debt securities in funds for which you are responsible, established annually by the Committee after consultation with you. The bonus will be paid on or about January 31 of each succeeding calendar year.

(c) Participation in Employee Benefit Plans. You will be entitled to participate in all employee benefit plans from time to time in effect for employees of the Company generally, except to the extent such plans are duplicative of benefits otherwise provided you under this agreement. Your participation will be subject to the terms of the applicable plan documents and generally applicable Company policies.

3. Confidential Information and Restricted Activities.

(a) Confidential Information. During the course of your employment with the Company, you will learn of Confidential Information, as defined below, and you may develop Confidential Information on behalf of the Company. You agree that you will not use or disclose to any Person (except as required by applicable law or for the proper performance of your regular duties and responsibilities for the Company) any Confidential Information obtained by you incident to your employment or any other association with the Company or any of its Affiliates. You understand that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination.

(b) Protection of Documents. All documents, records and files, in any media of whatever kind and description, relating to the business, present or otherwise, of the Company or any of its Affiliates, and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by you shall be the sole and exclusive property of the Company. You agree to safeguard all Documents and to surrender to the Company, at the time your employment terminates or at such earlier time or times as the Committee or its designee may specify, all Documents then in your possession or control.

(c) Non-Competition. You acknowledge that in your employment with the Company you will have access to Confidential Information which, if disclosed, would assist in competition against the Company and its Affiliates and that you will also generate goodwill for the Company and its Affiliates in the course of your employment. Therefore, you agree that the following restrictions on your activities during and after your employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

(i) While you are employed by the Company and for the greater of (x) the remaining term of this agreement or (y) six (6) months after your employment terminates (in the aggregate, the Non-Competition Period), you agree that you will not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance, or participate in the ownership, marketing, management, operation, control, fundraising or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant, or otherwise use or permit your name to be used in connection with any business or enterprise engaged in the United States in the business of structuring middle market lending vehicles, analyzing and acquiring loans and other assets to be held by such vehicles, arranging for the issuance of debt and preferred securities by such vehicles, acting as collateral managers for such securitizations, or performing similar functions.

(ii) You agree that during the Non-Competition Period, you will not, directly or through any other Person, (i) hire any employee of the Company or any of its Affiliates or seek to persuade any employee of the Company or any of its Affiliates to discontinue employment, (ii) solicit or encourage any customer or investor of the Company or any of its Affiliates or independent contractor providing services to the Company or any of its Affiliates to terminate or diminish its relationship with them or (iii) seek to persuade any customer or investor or prospective customer or investor of the Company or any of its Affiliates to conduct with anyone else any business or activity that such customer or investor or prospective customer or investor conducts or could conduct with the Company or any of its Affiliates.

(d) In signing this agreement, you give the Company assurance that you have carefully read and considered all the terms and conditions of this agreement, including the restraints imposed on you under this Section 3. You agree without reservation that these restraints are necessary for the reasonable and proper protection of the Company and its Affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. You further agree that, were you to breach any of the covenants contained in this Section 3, the damage to the Company and its Affiliates would be irreparable. You therefore agree that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by you of any of those covenants, without having to post bond. You and the Company further agree that, in the event that any provision of this Section 3 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Company's Affiliates shall have the right to enforce all of your obligations to that Affiliate under this agreement, including without limitation pursuant to this Section 3.

4. Termination of Employment. Your employment under this agreement may be terminated prior to the expiration of the term hereof pursuant to this Section 4.

(a) The Company may terminate your employment for cause upon notice to you setting forth in reasonable detail the nature of the cause. The following shall constitute cause for termination: (i) your repeated material failure to perform (other than by reason of disability), or gross negligence in the performance of, your duties and responsibilities to the Company or any of its Affiliates which failure is not cured within thirty (30) days after written notice of such failure or negligence is delivered to you; (ii) your material breach of this agreement or any other agreement between you and the Company or any of its Affiliates which breach is not cured within thirty (30) days after written notice of such breach is delivered to you; or (iii) commission by you of a felony involving moral turpitude or fraud with respect tothe Company or any of its Affiliates. The Company also may terminate your employment at any time without cause upon notice to you.

(b) This agreement shall automatically terminate in the event of your death during employment, and you shall be entitled to the severance payments set forth under 5 (a) below. In the event of your death, any amounts owed to you under this agreement will be paid to the beneficiary designated in writing by you or, if no beneficiary has been so designated by you, to your estate. In the event you become disabled during employment and, as a result, are unable to continue to perform substantially all of your duties and responsibilities under this agreement, the Company will continue to pay you your base salary and to provide you benefits in accordance with Section 2(a) above, to the extent permitted by plan terms, for up to twelve (12) weeks of disability during any period of three hundred and sixty-five (365) consecutive calendar days. If you are unable to return to work after twelve (12) weeks of disability, the Company may terminate your employment, upon written notice to you, and you shall be entitled to the severance payments set forth under 5(a) below. If any question shall arise as to whether you are disabled to the extent that you are unable to perform substantially all of your duties and responsibilities for the Company and its Affiliates, you shall, at the Company's request, submit to a medical examination by a physician selected by the Company to whom you or your guardian, if any, has no reasonable objection to determine whether you are so disabled and such determination shall for the purposes of this agreement be conclusive of the issue. If such a question arises and you fail to submit to the requested medical examination, the Company's determination of the issue shall be binding on you.

(c) You may terminate your employment hereunder for “Good Reason” by providing written notice to the Company of the condition giving rise to the Good Reason no later than thirty (30) days following the occurrence of the condition; by giving the Company thirty (30) days to remedy the condition; and, if the Company fails to remedy the condition, by terminating your employment within ten (10) days following the expiration of such thirty (30) day period. For purposes of this letter agreement, the term “Good Reason” means, without your consent, the occurrence of one or more of the following events: (i) material diminution in the nature or scope of your responsibilities, duties or authority as contemplated by this letter agreement; (ii) failure by the Company to pay the minimum Bonus Compensation set forth in 2(b) above in any year under this letter agreement if you have achieved the annual financial target referenced therein; or (iii) your being required to relocate to a principal place of employment outside of the New York metropolitan area. For purposes of this paragraph 4(c) a change in reporting relationships resulting from a Change in Control will constitute Good Reason. In addition, a termination of your employment by you for any reason during the 90-day period immediately following a Change in Control shall be deemed to be a termination for Good Reason for all purposes of this letter agreement.

5. Severance Payments and Other Matters Related to Termination.

(a) In the event of termination of your employment by the Company without cause, by death or disability, or a termination by you for Good Reason, for the remaining term of this agreement, the Company will continue to pay you your base salary (“severance payments”) and will continue to contribute to the premium cost of your health insurance on the same terms and conditions as it contributes for active employees provided that you make a timely election under the federal law known as “COBRA”. The Company may, in its sole discretion, elect to cease the continuation of base salary and contributions toward health insurance premiums at any point after you have received six (6) months of base salary continuation and health insurance contributions (or one (1) year if you are terminated by the Company within ninety (90) days of the completion of a Change in Control) provided that it also releases you from your remaining obligation under Section 3(c)(i) above. The Company will also pay you on the date of termination any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay you any bonus compensation and profit sharing payment to which you are entitled in accordance with Sections 2(b) and 2(c) above, prorated to the date of termination and payable at the time such monies are payable to Company executives generally. Any obligation of the Company to provide you severance payments or other payments or benefits under this Section 5(a) is conditioned, however, upon your signing a release of claims in the form provided by the Company (the "Employee Release") substantially in the form of the attached Exhibit A and upon your not revoking the Employee Release thereafter. All severance payments will be in the form of salary continuation, payable in accordance with the normal payroll practices of the Company, and will begin at the Company's next regular payroll period following the effective date of the Employee Release, but shall be retroactive to the date of termination. Notwithstanding anything else contained in this agreement, no bonus or severance payments or other payments or benefits will be due and payable under any provision of this Section 5(a) until the next regular Company payday following the effective date of the Employee Release.

(b) In the event of termination of your employment by the Company for cause or by you for any reason, the Company will pay you any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. The Company shall have no obligation to you for any bonus or other incentive compensation, benefits continuation or severance payments.

(c) In the event of termination of your employment by expiration of the term hereof or non-renewal of this agreement, the Company will pay you any base salary earned but not paid through the date of termination, pay for any vacation time accrued but not used to that date, and any bonus or other incentive compensation to which you are entitled in accordance with Sections 2(b) and 2(c) above, prorated to the date of termination and payable at the time such bonuses are payable to Company executives generally. The Company shall have no obligation to you for any severance payments or benefits continuation.

(d) Except for any rights you may have under Section 5(a) above or under the federal law known as "COBRA" to continue participation in the Company's group health and dental plans at your cost, benefits shall terminate in accordance with the terms of the applicable benefit plans based on the date of termination of your employment, without regard to any continuation of base salary or other payment to you following termination. Your Option Agreement will govern your exercise, if any, of your option following termination of employment.

(e) Provisions of this agreement shall survive any termination if so provided in this agreement or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation your obligations under Section 3 of this agreement. The obligation of the Company to make payments to you under this Section 5 is expressly conditioned upon your continued full performance of obligations under Section 3 hereof. Upon termination by either you or the Company, all rights, duties and obligations of you and the Company to each other shall cease, except as otherwise expressly provided in this agreement.

6. Definitions. For purposes of this agreement, the following definitions apply:

"Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise.

"Change in Control" means:

(i) The acquisition by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, (excluding, for this purpose, the Company or its Affiliates) of beneficial ownership of 33% or more of either the then outstanding shares of the Company's common stock or the combined voting power of the Corporation's then outstanding voting securities entitled to vote generally in the election of directors.

(ii) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person who first becomes a director subsequent to the date hereof whose recommendation, election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company as described in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for the purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization share exchange, merger or consolidation with respect to which, in any such case, the persons who were the stockholders of the Company immediately prior to such reorganization, share exchange, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company; or

(iv) Liquidation or dissolution of the Company or a sale of all or substantially all of the assets of the Company.

"Confidential Information" means any and all information of the Company and its Affiliates that is not generally available to the public. Confidential Information also includes any information received by the Company or any of its Affiliates from any Person with any understanding, express or implied, that it will not be disclosed. Confidential Information does not include information that enters the public domain, other than through your breach of your obligations under this agreement.

"Person" means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust or any other entity or organization, other than the Company or any of its Affiliates.

7. Conflicting Agreements. You hereby represent and warrant that your signing of this agreement and the performance of your obligations under it will not breach or be in conflict with any other agreement to which you are a party or are bound and that you are not now subject to any covenants against competition or similar covenants or any court order that could affect the performance of your obligations under this agreement. You agree that you will not disclose to or use on behalf of the Company any proprietary information of a third party without that party's consent.

8. Withholding. All payments made by the Company under this agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Assignment. Neither you nor the Company may make any assignment of this agreement or any interest in it, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this agreement without your consent to one of its Affiliates or to any Person with whom the Company shall hereafter affect a reorganization, consolidate with, or merge into or to whom it transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon you and the Company, and each of our respective successors, executors, administrators, heirs and permitted assigns.

10. Severability. If any portion or provision of this agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this agreement shall be valid and enforceable to the fullest extent permitted by law.

11. Miscellaneous. This agreement sets forth the entire agreement between you and the Company and replaces all prior and contemporaneous communications, agreements and understandings, written or oral, with respect to the terms and conditions of your employment. This agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and an expressly authorized representative of the Committee. The headings and captions in this agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement. This agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument. This is a Delaware contract and shall be governed and construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

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12. Notices. Any notices provided for in this agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, and addressed to you at your last known address on the books of the Company or, in the case of the Company, to it at its principal place of business, attention of the Committee, or to such other address as either party may specify by notice to the other actually received.

If the foregoing is acceptable to you, please sign this letter in the space provided and return it to me at your earliest convenience. We will provide a countersigned copy for your records.

Sincerely yours,

/s/ Dayl Pearson
Dayl Pearson
President and Chief Executive Officer

Accepted and Agreed:

/s/ Jon Corless
Jon Corless

____
Date

cc: Christopher Lacovara

KATONAH
Debt Advisors

August 5, 2009

Mr. E.A. Kratzman, III
544 North Street
Greenwich, CT 06830

Dear Mr. Kratzman:

This letter will confirm the terms of your continuing employment with Katonah Debt Advisors, L.L.C. ("the "Company"), under the terms and conditions that follow. This letter supersedes the letter agreement dated February 26, 2008 between you and the Company in its entirety and is effective as of August 5, 2009. This letter agreement is also intended to be read in conjunction with the terms of a letter agreement dated August 5, 2009 (the "Kohlberg Agreement") between you and Kohlberg Capital Corporation ("Kohlberg Capital"), which shall supplement these terms. Any conflict between this letter agreement and the Kohlberg Agreement shall be controlled by the terms herein.

1. Term, Position and Duties.

(a) Subject to earlier termination as hereafter provided, your employment shall continue through December 31, 2011, and will be automatically extended for one year on January 1, 2012 and on each succeeding January 1 unless previously terminated in writing by you or an expressly authorized representative of the Company. The term of this agreement, as from time to time extended is hereafter referred to as "the term of this agreement" or "the term hereof". You will be employed by the Company as its President. You will report to the Management Committee of the Company (the "Committee"). You will continue to serve as Vice President of Kohlberg Capital as those duties, responsibilities and compensation are outlined in the Kohlberg Agreement.

(b) You agree to perform the duties of your position and such other duties as may reasonably be assigned to you from time to time including, but not limited to: management of the entire KDA platform, structuring various types of collateralized loan obligation ("CLO") funds, synthetic collateralized debt obligation ("CDO") funds, and other credit-based funds (collectively "Funds") as directed by the Committee; implementing and investing "warehouse" lines; negotiating, documenting, and selling debt and equity securities of Funds; and purchasing and trading non-investment grade loans, high yield bonds, and other permitted securities on behalf of Funds. Additionally, you will be responsible for overseeing, but not the day-to-day management, of the Katonah Scott's Cove business. You will also be responsible for increasing assets under management for all of the KDA platforms which may entail initiating and structuring strategic acquisitions and other initiatives. You also agree that you will devote your full business time and your best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and its Affiliates.

(c) From time to time, you may be employed by one or more Affiliates of the Company in a similar capacity to your employment with the Company. The terms and conditions of your employment by such Affiliates will be the same as the terms and conditions of your employment with the Company, except that your aggregate compensation and benefits will not exceed the amounts set forth in Section 2 of this agreement. In that regard, that portion of the compensation and benefits that are allocable to your services to an Affiliate shall be the responsibility of the Affiliate, though we note the Company intends to provide benefits provided to employees generally on a centralized basis among its Affiliates. To the extent that you are employed by an Affiliate, references in this agreement to the Company shall mean the Affiliate, where appropriate. To effectuate such employment with any Affiliate, the Affiliate will provide to you a letter confirming your employment status. The allocation of your working time between duties for the Company and any of the Affiliates may be adjusted from time to time by the Company as it determines appropriate. As a condition to your employment with the Company and the Affiliates, it is required that you keep complete and accurate records of the time you spend performing your duties under this agreement and the nature thereof.

2. Compensation and Benefits. During your employment, as compensation for all services performed by you for the Company and its Affiliates, the Company will provide you the following pay and benefits:

(a) Base Salary. The Company will pay you a base salary at the rate of Four Hundred Thousand Dollars ($400,000) per year, payable in accordance with the regular payroll practices of the Company and subject to increase from time to time by the Committee in its discretion.

(b) Bonus Compensation. During employment, you will be considered for a discretionary bonus in the amount of not less than Six Hundred Fifty Thousand Dollars ($650,000) and not more than One Million Dollars ($1,000,000) for the 2009 fiscal year, subject to increase in subsequent fiscal years during the term of this agreement in the sole discretion of the Committee. Bonus awards will be determined by the Committee, based on your achievement of a financial target established annually by the Committee after consultation with you (and consistent with those set forth in the Company's annual budget and/or strategic plan) and will be paid not later than March 15 of the calendar year following the year for which the bonus was earned. Payment of your bonus for the 2009 fiscal year will be subject to the terms set forth in Exhibit A. Except as otherwise provided in Section 5 hereof, you must remain continuously employed by the Company through the end of the calendar year in order to be eligible for a bonus for that calendar year. In addition to your discretionary bonus described above, you will be entitled to receive up to three special bonuses of One Hundred Fifty Thousand Dollars ($150,000) each, paid individually upon the receipt in cash by the Company of all of the deferred subordinated fees of each of the Katonah VII, VIII, and IX CLO Funds, respectively to be paid as soon as practicable following the receipt of such deferred fees; and provided further that you remain continuously employed by the Company through the date of the receipt of such deferred fees.

(c) Purchased Equity. Subject to all policies (including any policies implemented by the Company which restrict the ability of officers, directors and other Affiliates to invest in the Funds), agreements, plans and conditions that are generally applicable to such investments, as determined by the Company, you will have the right, but not the obligation, to purchase equity of Funds on terms equivalent to those received by other investors.

(d) Participation in Employee Benefit Plans. You will be entitled to participate in all employee benefit plans from time to time in effect for employees of the Company generally, except to the extent such plans are duplicative of benefits otherwise provided you under this agreement. Your participation will be subject to the terms of the applicable plan documents and generally applicable Company policies.

3. Confidential Information and Restricted Activities.

(a) Confidential Information. During the course of your employment with the Company or its Affiliates, you have learned and will learn of Confidential Information, as defined below, and you may develop Confidential Information on behalf of the Company or its Affiliates. You agree that you will not use or disclose to any Person (except as required by applicable law or for the proper performance of your regular duties and responsibilities for the Company) any Confidential Information obtained by you incident to your employment or any other association with the Company or any of its Affiliates, whether prior or subsequent to effective date of this agreement. You understand that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination.

(b) Protection of Documents. All documents, records and files, in any media of whatever kind and description, relating to the business, present or otherwise, of the Company or any of its Affiliates, and any copies, in whole or in part, thereof (the “Documents”), whether or not prepared by you shall be the sole and exclusive property of the Company. You agree to safeguard all Documents and to surrender to the Company, at the time your employment terminates or at such earlier time or times as the Committee or its designee may specify, all Documents then in your possession or control.

(c) Non-Competition. You acknowledge that in your employment with the Company you have had access and will have access to Confidential Information which, if disclosed, would assist in competition against the Company and its Affiliates and that you also have generated and will generate goodwill for the Company and its Affiliates in the course of your employment. Therefore, you agree that the following restrictions on your activities during and after your employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

(i) While you are employed by the Company or its Affiliates and for the greater of (x) the remaining term of this agreement or (y) one (1) year after your employment (or service with an Affiliate, if later) terminates (in the aggregate, the "Non-Competition Period"), you agree that you will not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance, or participate in the ownership, marketing, management, operation, control, fundraising or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant, or otherwise use or permit your name to be used in connection with any business or enterprise engaged in the United States in the business of structuring CDO or CLO securitization vehicles or hedge funds or other funds which invest in corporate debt instruments (such vehicles and funds, collectively, "Investment Vehicles"), analyzing and acquiring loans and other assets to be held by any Investment Vehicles, arranging for the issuance of debt and preferred securities by any Investment Vehicles, acting as collateral managers for such securitizations or funds, or performing similar functions.

(ii) You agree that during the Non-Competition Period, you will not, directly or through any other Person, (i) hire any employee of the Company or any of its Affiliates or seek to persuade any employee of the Company or any of its Affiliates to discontinue employment, (ii) solicit or encourage any customer or investor of the Company or any of its Affiliates or independent contractor providing services to the Company or any of its Affiliates to terminate or diminish its relationship with them or (iii) seek to persuade any customer or investor or prospective customer or investor of the Company or any of its Affiliates to conduct with anyone else any business or activity that such customer or investor or prospective customer or investor conducts or could conduct with the Company or any of its Affiliates.

(d) In signing this agreement, you give the Company assurance that you have carefully read and considered all the terms and conditions of this agreement, including the restraints imposed on you under this Section 3. You agree without reservation that these restraints are necessary for the reasonable and proper protection of the Company and its Affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. You further agree that, were you to breach any of the covenants contained in this Section 3, the damage to the Company and its Affiliates would be irreparable. You therefore agree that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by you of any of those covenants, without having to post bond. You and the Company further agree that, in the event that any provision of this Section 3 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Company's Affiliates shall have the right to enforce all of your obligations to that Affiliate under this agreement, including without limitation pursuant to this Section 3.

4. Termination of Employment. Your employment under this agreement may be terminated prior to the expiration of the term hereof pursuant to this Section 4.

(a) The Company may terminate your employment for Cause upon notice to you setting forth in reasonable detail the nature of the cause. The following shall constitute Cause for termination: (i) your repeated material failure to perform (other than by reason of disability), or gross negligence in the performance of, your duties and responsibilities to the Company or any of its Affiliates which failure is not cured within thirty (30) days after written notice of such failure or negligence is delivered to you; (ii) your material breach of this agreement or any other agreement between you and the Company or any of its Affiliates which breach is not cured within thirty (30) days after written notice of such breach is delivered to you; or (iii) commission by you of a felony involving moral turpitude or fraud with respect to the Company or any of its Affiliates. The Company also may terminate your employment at any time without cause upon notice to you.

(b) This agreement shall automatically terminate in the event of your death during employment, and you shall be entitled to the severance payments set forth under 5 (a) below. In the event of your death, any amounts owed to you under this agreement will be paid to the beneficiary designated in writing by you or, if no beneficiary has been so designated by you, to your estate. In the event you become disabled during employment and, as a result, are unable to continue to perform substantially all of your duties and responsibilities under this agreement, the Company will continue to pay you your base salary and to provide you benefits in accordance with Section 2(a) above, to the extent permitted by plan terms, for up to twelve (12) weeks of disability during any period of three hundred and sixty-five (365) consecutive calendar days. If you are unable to return to work after twelve (12) weeks of disability, the Company may terminate your employment, upon written notice to you, and you shall be entitled to the severance payments set forth under 5 (a) below. If any question shall arise as to whether you are disabled to the extent that you are unable to perform substantially all of your duties and responsibilities for the Company and its Affiliates, you shall, at the Company's request, submit to a medical examination by a physician selected by the Company to whom you or your guardian, if any, has no reasonable objection to determine whether you are so disabled and such determination shall for the purposes of this agreement be conclusive of the issue. If such a question arises and you fail to submit to the requested medical examination, the Company's determination of the issue shall be binding on you.

(c) You may terminate your employment hereunder for "Good Reason" by providing written notice to the Company of the condition giving rise to the Good Reason no later than thirty (30) days following the occurrence of the condition; by giving the Company thirty (30) days to remedy the condition; and, if the Company fails to remedy the condition, by terminating your employment within ten (10) days following the expiration of such thirty (30) day period. For purposes of this letter agreement, the term "Good Reason" means, without your consent, the occurrence of one or more of the following events: (i) material diminution in the nature or scope of your responsibilities, duties or authority as contemplated by this letter agreement; (ii) failure by the Company to pay the minimum Bonus Compensation set forth in 2(b) above in any year under this letter agreement if you have achieved the annual financial target referenced therein; or (iii) your being required to relocate to a principal place of employment outside of the New York metropolitan area. For purposes of this paragraph 4(c) a change in reporting relationships resulting from a Change in Control will constitute Good Reason. In addition, a termination of your employment by you for any reason during the 90-day period immediately following a Change in Control shall be deemed to be a termination for Good Reason for all purposes of this letter agreement.

5. Severance Payments and Other Matters Related to Termination.

(a) In the event of termination of your employment by the Company without Cause, by death or disability, or a termination by you for Good Reason, for the remainder of the then current term of this agreement, the Company will continue to pay you your base salary ("severance payments") and will continue to contribute to the premium cost of your health insurance on the same terms and conditions as it contributes for active employees provided that you make a timely election under the federal law known as "COBRA" and provided further that you are entitled to continue participation in the Company's group health plan under applicable law and plan terms. The Company may, in its sole discretion, elect to cease the continuation of base salary and contributions toward health insurance premiums at any point after you have received one (1) year of base salary continuation and health insurance contributions (or eighteen (18) months if you are terminated by the Company within ninety (90) days of the completion of a Change in Control) provided that it also releases you from your remaining obligation under Section 3(c)(i) above. The Company will also pay you on the date of termination any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay you any discretionary bonus compensation to which you are entitled in accordance with Section 2(b) above, but in no case less than $650,000, prorated to the date of termination and payable at the time such monies are payable to Company executives generally. Any obligation of the Company to provide you severance payments or other payments or benefits under this Section 5(a) is conditioned, however, upon your signing and not revoking a release of claims in the form provided by the Company (the "Employee Release"), which shall be delivered to you not later than ten (10) business days following the date of termination and you shall be required to execute the Employee Release and return it to the Company, if at all, not later than the date determined by the Company to be the last day of the period it must provide to you by law to consider the Employee Release. All severance payments will be in the form of salary continuation, payable in accordance with the normal payroll practices of the Company, and will begin at the Company's next regular payroll period following the effective date of the Employee Release (as specified in the Employee Release), but shall be retroactive to the date of termination. Notwithstanding anything else contained in this agreement, no bonus or severance payments or other payments or benefits will be due and payable under any provision of this Section 5(a) until the next regular Company payday following the effective date of the Employee Release.

(b) In the event of termination of your employment by the Company for Cause or by you for any reason, the Company will pay you any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. The Company shall have no obligation to you for any bonus compensation, benefits continuation or severance payments.

(c) In the event of termination of your employment by expiration of the term hereof or non-renewal of this agreement, the Company will pay you any base salary earned but not paid through the date of termination, pay for any vacation time accrued but not used to that date, and any discretionary bonus compensation to which you are entitled in accordance with Section 2(b) above, prorated to the date of termination and payable at the time such bonuses are payable to Company executives generally. The Company shall have no obligation to you for any severance payments or benefits continuation.

(d) Except for any rights you may have under Section 5(a) above or under the federal law known as “COBRA” to continue participation in the Company’s group health and dental plans at your cost, benefits shall terminate in accordance with the terms of the applicable benefit plans based on the date of termination of your employment, without regard to any continuation of base salary or other payment to you following termination.

(e) Provisions of this agreement shall survive any termination if so provided in this agreement or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation your obligations under Section 3 of this agreement. The obligation of the Company to make payments to you under this Section 5 is expressly conditioned upon your continued full performance of obligations under Section 3 hereof. Upon termination by either you or the Company, all rights, duties and obligations of you and the Company to each other shall cease, except as otherwise expressly provided in this agreement.

6. Definitions. For purposes of this agreement, the following definitions apply:

“Affiliates” means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company or Kohlberg Capital (as applicable), where control may be by management authority, equity interest or otherwise.

“Change in Control” means:

(i) The acquisition by any person, entity or “group”, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, Kohlberg Capital or its Affiliates) of beneficial ownership of 33% or more of either the then outstanding shares of Kohlberg Capital’s common stock or the combined voting power of the Kohlberg Capital’s then outstanding voting securities entitled to vote generally in the election of directors.

(ii) Individuals who, as of the date hereof, constitute the Board of Directors of Kohlberg Capital (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Kohlberg Capital, provided that any person who first becomes a director subsequent to the date hereof whose recommendation, election or nomination for election by Kohlberg Capital's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Kohlberg Capital as described in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for the purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of Kohlberg Capital of a reorganization, share exchange, merger or consolidation with respect to which, in any such case, the persons who were the stockholders of Kohlberg Capital immediately prior to such reorganization, share exchange, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company; or

(iv) Liquidation or dissolution of Kohlberg Capital or a sale of all or substantially all of the assets of Kohlberg Capital.

"Confidential Information" means any and all information of the Company and its Affiliates that is not generally available to the public. Confidential Information also includes any information received by the Company or any of its Affiliates from any Person with any understanding, express or implied, that it will not be disclosed. Confidential Information does not include information that enters the public domain, other than through your breach of your obligations under this agreement.

"Person" means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust or any other entity or organization, other than the Company or any of its Affiliates.

7. Conflicting Agreements. You hereby represent and warrant that your signing of this agreement and the performance of your obligations under it will not breach or be in conflict with any other agreement to which you are a party or are bound and that you are not now subject to any covenants against competition or similar covenants or any court order that could affect the performance of your obligations under this agreement. You agree that you will not disclose to or use on behalf of the Company any proprietary information of a third party without that party's consent.

8. Withholding. All payments made by the Company under this agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Applicability of Section 409A. If at the time of your separation from service, you are a "specified employee," as hereinafter defined, any and all amounts payable under this agreement in connection with such separation from service that constitute deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), including without limitation by reason of the safe harbor set forth in Treasury Regulations 1.409A-1(b)(9)(iii) and 1.409A-1(b)(4), as determined by the Company in its sole discretion, and that would (but for this sentence) be payable within six months following such separation from service, shall instead be paid on the date that follows the date of such separation from service by six (6) months. For purposes of the preceding sentence, "separation from service" shall be determined in a manner consistent with subsection (a)(2)(A)(i) of Section 409A and the term "specified employee" shall mean an individual determined by the Company to be a specified employee as defined in subsection (a)(2)(B)(i) of Section 409A. For the avoidance of doubt, the payments and benefits described in this agreement are intended either to comply with Section 409A (to the extent they are subject to such section) or to be exempt from the requirements of such section (where an exemption is available), and shall be construed accordingly.

10. Assignment. Neither you nor the Company may make any assignment of this agreement or any interest in it, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this agreement without your consent to one of its Affiliates or to any Person with whom the Company shall hereafter affect a reorganization, consolidate with, or merge into or to whom it transfers all or substantially all of its properties or assets. This agreement shall inure to the benefit of and be binding upon you and the Company, and each of your and its respective successors, executors, administrators, heirs and permitted assigns.

11. Severability. If any portion or provision of this agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this agreement shall be valid and enforceable to the fullest extent permitted by law.

12. Miscellaneous. This agreement sets forth the entire agreement between you and the Company and replaces all prior and contemporaneous communications, agreements and understandings, written or oral, with respect to the terms and conditions of your employment; provided, however, that this agreement shall not shall not constitute a waiver by the Company or any of its Affiliates of any existing right any of them now has or might now have under any agreement imposing obligations on you with respect to confidentiality, non-competition, non-solicitation or similar obligations with respect to conduct or events prior to the effective date of this agreement. This agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and an expressly authorized representative of the Committee. The headings and captions in this agreement are for convenience only and in no way define or describe the scope or content of any provision of this agreement. This agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument. This is a Delaware contract and shall be governed and construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

13. Notices. Any notices provided for in this agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, and addressed to you at your last known address on the books of the Company or, in the case of the Company, to it at its principal place of business, attention of the Committee, or to such other address as either party may specify by notice to the other actually received.

If the foregoing is acceptable to you, please sign this letter in the space provided and return it to me. We will provide a countersigned copy for your records.

Sincerely yours,

/s/ Christopher Lacovara
Christopher Lacovara
Vice President

Accepted and Agreed:

/s/ E.A. Kratzman, III
E.A. Kratzman, III

____
Date

cc: Michael I. Wirth, Kohlberg Capital Corporation

Exhibit 31.1

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

I, Dayl W. Pearson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2009 of Kohlberg Capital Corporation (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: August 10, 2009

By: / S / DAYL W. PEARSON

Dayl W. Pearson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Michael I. Wirth, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2009 of Kohlberg Capital Corporation (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: August 10, 2009 By: / S / MICHAEL I. WIRTH

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

Exhibit 32.1

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

In connection with the accompanying Quarterly Report of Kohlberg Capital Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2009 (the “Report”), I, Dayl W. Pearson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2009

By: / S / DAYL W. PEARSON

Dayl W. Pearson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the accompanying Quarterly Report of Kohlberg Capital Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2009 (the "Report"), I, Michael I. Wirth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2009

By: / S / MICHAEL I. WIRTH

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